

28<sup>th</sup> February 2005

Mr JP Cox  
CEO Full Time Member  
Independent Pricing and Regulatory Tribunal  
Level 2  
44 Margret Street  
Sydney NSW 2000

Email: gaspricing@ipart.nsw.gov.au

Dear CEO Full Time Member

**Re: Orica's comment to IPART Draft Decision AGLGN Access Arrangement and to AGLGN response to Draft Decision.**

Orica is pleased to provide its views and comments to IPART on the Tribunal Draft Decision on the Revised Access Arrangement for AGL gas Networks and the AGLGN response to IPART's Draft Decision.

Orica's comments are based on information at hand which may not be complete or accurate.

Detailed below are Orica comments,

**1. IPART Draft Decision - Section 4.4.3 New Reference service – gas swap service.**

Orica strongly supports IPART's draft decision in the establishment of a gas swap service as part of a reference service in the service policy. The removal of the proposed creation of a trading hub (in proposed trunk zone A) make the New Gas Swap reference service an unworkable option in the day to day operation of a gas network. Orica suggest IPART investigate possible changes to make the system more workable without a trading hub.

The current requirements for a five-day notification to Gas Market Company and the requirement for transport arrangements make the conception of a short term and short notice gas swap arrangement unworkable in practical terms.

## **2. IPART Draft Decision - Section 7.6.3 Tribunal's analysis and considerations.**

Orica supports the Tribunal's findings on the redundant capital component on the Wilton to Wollongong pipeline. The application of the redundant capital concept ensures customers only support the capital base appropriate to the operational needs of the customers.

## **3. IPART Draft Decision - Section 8 Rate of Return.**

Orica would agree with the Tribunal's findings but would also strongly recommend that the EMRF's<sup>1</sup> conclusions of a maximum 6.9% Rate of Return be explored.

Orica believes a rate of 6.9 per cent is a fair and reasonable return on the capital base for a regulated monopoly with a captive customer base having the ability to very accurately projected sale forecast.

## **4. IPART Draft Decision - Section 9.4.1 Operations and maintenance expenditure.**

Orica strongly disagrees with the Tribunal's recommendation of a real efficiency saving of 1.5% in comparison with the 3% target set by the Tribunal at the last access arrangement.

Orica supports the arguments of Energy Australia<sup>2</sup> and the EMRF<sup>3</sup> for additional efficiency gains given the following:

- the offsetting of OPEX that should result from the dramatic increase in CAPEX allocations represents no structural or systematic operating prudence on the part of AGLGN;
- such reductions are expected and monitored in any commercially managed organisation; and
- comments made by ECG<sup>4</sup> that, "AGLGN's proposed capital expenditure on system reinforcement, renewal and replacement should result in a higher proportion of the remaining ferrous network being rehabilitated during the proposed access arrangement period..."<sup>5</sup>

---

<sup>1</sup> EMRF submission, May 2004.

<sup>2</sup> Energy Australia submission, 20 April 2004.

<sup>3</sup> EMRF submission, May 2004.

<sup>4</sup> ECG Review of AGLGN Gas Access Arrangement, August 2004, p 102.

<sup>5</sup> Revised Access Arrangement for AGL Gas Networks, December 2004, IPART p 95.

## **5. IPART Draft Decision – Section 9.4.3 Market operations.**

Orica cannot support the Tribunal's finding that AGLGN should receive an additional \$3.5 m (real 2005) per year for undertaking so called "market operation" which is one to the essential functions of the network operator as defined by the Gas Retail Market Business Rules to Support Retail Competition in Gas.

Despite noting this objection, if the Tribunal proceeds to endorse the inclusion of any funds to AGLGN for said services, Orica would expect to see a reduction of similar amounts from 'Non-Capital Costs' where such costs have settled in the prior period. Orica's contention therefore is that the net effect of the Tribunal's decision should be to reduce Non-Capital Costs by the same amount awarded to AGLGN for the provision of Market Operations not previously articulated.

## **6. IPART Draft Decision – Section 9.4.7 UAG**

Orica supports the Tribunal's findings that the costs of UAG should be based on a gas price of \$4.20 GJ (real 2005). Orica also support the proposed reduction of UAG levels of 2.2 per cent for 2005/06 to 2.1 per cent for 2006/07 to 2009/10 as a result of reduced leakage due to the capital replacement program.

## **7. IPART Draft Decision – Section 10.1 Tribunal's findings.**

Orica strongly disagrees with the Tribunal's decision not to amalgamate three gas zones in Sydney into one zone to allow for a short term and short notice spot gas market. The development of a short term and short notice gas market cannot be progressed under the current proposed arrangement.

## **8. IPART Draft Decision – Section 13.4.11**

Orica request the Tribunal to review Orica's request to change the wording for the "short term additional capacity". In the Tribunal own words the customer right to request short-term additional capacity should be limited to customers with "intended circumstances (i.e. exceptional circumstance beyond a user or customers' control)"<sup>6</sup>.

Orica agrees that the Tribunal definition is more robust than the existing wordings of the access arrangement.

Therefore Orica request for the Tribunal's own words to used to revised the Section 1.1 Capacity Reservation Service – Terms and Conditions, Short term Capacity for Users Supplying Customers above 30 TJ per annum at a Delivery Point.<sup>7</sup>

---

<sup>6</sup> Clause 13.4.11 Revised Access Arrangement for AGL Gas networks Dec04 Draft Decision

<sup>7</sup> Section 1.1 Capacity Reservation Service, Access Arrangement for NSW Networks Sep 2000.

“Users supplying a Customer at a single Delivery Point which is reasonably expected to withdraw an amount in excess of 30 TJ per Contract Year may obtain Short Term Capacity for such Delivery Points on the terms set out below:

- A User may increase the MDQ to cover the Customer's reasonable requirements during periods of ~~equipment failure, commissioning or additional production following equipment failure, and events such as the re-firing of furnaces after re-builds or at start-ups after non-scheduled plant maintenance,~~ **exceptional circumstances beyond a user or customer's control**<sup>8</sup> where such activity occurs less frequently than once every year.”

This proposed revision provides a more general statement regarding the exceptional circumstances and random nature of the user's requirements.

Orica also request the Tribunal to examine the number of occurrences where AGLGN have approved request for “additional capacity” in the current access arrangement and the total MDQ this represent. Orica believes this reference service is not being used by customers because of AGLGN's narrow interpretation the Access Arrangement.

#### **9. AGLGN response to the Draft Decision on the Revised Access Arrangement for AGLGN – 2.1 Rate of Return.**

Orica believes the short time frame for comment allowed by IPART on the very complex nature of the Rate of Return puts customer at a distinct disadvantage. At this late stage of the Access Arrangement Review AGLGN has introduced a very complex statistical based document. Orica cannot comment on this document without the reliance on outside experts therefore Orica will rely on the Tribunal's experts to meticulously investigate the validity of the case put forward by AGLGN.

#### **10. AGLGN response to the Draft Decision on the Revised Access Arrangement for AGLGN – 2.2.1 Redundancy of the Wilton/Wollongong Pipeline, Security of Supply.**

Orica disputes the Security of Supply argument used by AGLGN, the security of supply function of the Wilton/Wollongong pipeline can still be undertaken by a pipeline with a 20% reduction in capital base. Inherently every pipeline with its line pack provisions makes a contribution to the security of supply for the network.

---

<sup>8</sup> Revised Access arrangement for AGL Gas Networks December 2004 para 3 13.4.11.

## **11. AGLGN response to the Draft Decision on the Revised Access Arrangement for AGLGN – 2.2.2 Redundancy of the Wilton/Wollongong Pipeline, Balancing Services.**

Orica also disputes the Balancing gas argument used by AGLGN. The function of Balancing Gas is clearly details in the Access Arrangements:<sup>9</sup>

“Wilton-Newcastle and Wilton-Wollongong Network Sections whose withdrawals on the Day exceeds their Inputs adjusted for any Participant Balance Amount for the Day, in proportion to the amounts of those differences for the quantity of gas purchased by AGLGN will be sold by it to those Users of the that Receipt Point at the Operating Balancing Cost, Such Users are obliged to purchase the quantities so nominated by AGLGN.”

The function of the Wilton/Wollongong pipeline is no different to other pipelines within the AGL Gas network. The function of the Wilton/Wollongong pipeline from Balancing Gas viewpoint would not be effected by a 20% reduction in capital base.

AGLGN have implied in their submission the MSP is paid additional tariffs to provide the Balancing Gas service, this implication is not true. The MSP is paid only to transport gas to Wilton.

- Balancing Gas is injected at Wilton (it is own by a Retailer who has paid for the gas to be transport to Wilton via the MSP).
- This balancing gas is purchased by AGLGN on days when there is a short fall of gas, i.e. when actual withdrawals is greater than nominations for the complete network on a specific gas day.
- For the gas a days with a short fall AGLGN then distribute the Balance Gas to specific users who withdrawals were greater than their nominations.
- The customers for Balancing Gas can be in Newcastle or Wollongong, the customer pays for the balancing gas to be injected into the AGL gas network.
- The customer has already paid for the transport component within the AGL Gas Network (part of the nomination progress).

---

<sup>9</sup> Schedule 2E,D:16. AGLGN Access Arrangement for NSW Gas Networks.

**12. AGLGN response to the Draft Decision on the Revised Access Arrangement for AGLGN – 3.2 The Pass Through of the Cost of Ameliorating the Probable Damage to the Wilton to Newcastle Trunk Pipeline caused by Mine Subsidence.**

Orica strongly disagree with AGLGN proposal for the introduction of an amendment to the Access Arrangement Section 3.11(c) allowing for “Cost Pass through Event” to allow for “Mine Subsidence events”. Orica objections are based on the following arguments,

- At the Public Forum for AGLGN to present its response to Draft Decision on the 11<sup>th</sup> February 2005, AGLGN confirmed the Mine Subsidence was a local problem restricted to the Appins area. Therefore only a very small section of the Wilton/Newcastle pipeline should be effected by the reported mine subsidence problem.
- Any Mine Subsidence damage to the AGLGN pipeline should be able to be recouped from the Mine Subsidence Board or from third parties through the legal system.
- AGLGN should explore the possibility of recouping the costs to repair the Mine Subsidence damage through insurance held.
- If the costs could not be recouped via the above two avenues then such costs could be assumed to form of a prudent operator’s planned maintenance costs.

Should you require any clarification regarding this submission please contact me on 02 49395167.

Yours sincerely



George Leong

Contracts Manger  
Orica Mining Services