

6 May 2004

Acting Chairman  
Independent Pricing and Regulatory Tribunal  
GPO Box Q290  
QVB Post Office NSW 1230

**Attention:** Mr James Cox

Dear Mr Cox

#### **REVIEW OF DEMAND FORECASTS FOR THE AGL GAS NETWORK (AGLGN)**

Origin is pleased to provide its response to your invitation of Tuesday 20, April 2004 for submissions on McLennan Magasanik Associates' (MMA) draft report of demand forecasts supplied by AGL Gas Networks' as part of the proposed revision of the Access Arrangement.

Origin is concerned with several parts of MMA's review of demand forecasts document have been blanked out, in particular those relating to customer growth (pages 7 & 8) which are critical to assessing the underlying network tariffs and price-path.

These deletions are surprising since this review is intended to be from an overall distribution network perspective. In our view, the information is at a sufficiently high level of aggregation and does not contain commercially confidential information with respect to specific customers. As a general principle, and in the spirit of transparency in regulatory decision making, we therefore urge IPART to make public all information on distributor historical and forecast demand unless it reveals specific data at an individual customer level.

We also note that AGLGN's demand forecasts for new residential customers predict a significant decline for average consumption from 24 GJ/annum to 15.5 GJ/annum on average (page 17), based largely on the impact of the Basix programme in new homes. Origin believes that such a decline, if it were to be realised, has the potential to undermine the commercial viability (based on Reference Tariffs alone) of providing gas networks to new housing developments. We note, however, that this reduction is disputed by MMA. Nor is it included in the forecasts prepared by CEG.

We also note that any significant decline in average consumption in new homes raises many questions regarding the calculation of the network charges and price-path. To the extent average consumption is reduced over time (relative to the benchmark), the network charges per GJ will have to be increased over time (as the capital cost of new connections will not decrease proportionately to the decline in average consumption). Should this be rolled into the network tariffs for the existing customer base?

On the other hand, if the Distributor seeks to address this under-recovery by requiring capital contributions to connect new properties, it is important to ensure that Reference

Tariffs are kept to appropriate levels by ensuring customers' contributions are reported accurately by the Distributor and not double counted as part of the Distributor's Capex.

Given the importance of this matter to the long-term health of the residential gas market in NSW, and to the network tariff outcomes, Origin believes that the very different views of AGL and MMA on the impact of Basix should be explored in greater detail before the Final Report is issued.

Please don't hesitate to contact me if you need more information.

Yours sincerely

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