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Independent Pricing and Regulatory Tribunal
Attention: Ruth Lavery
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**Response to proposed trigger mechanism
AGLGN Access Arrangement**

Please find attached a Submission in response to the Trigger Mechanism that has been proposed during the review of AGLGN's Demand Forecast.

This Submission specifically addresses the inconsistency of the proposal with the objectives of the Gas Code. Other issues such as the improbability of mechanism being activated, the relatively small impact of the proposed trigger on total distribution revenue and the practical issues with defining and activating the trigger have been and will be addressed through other submissions and representations throughout the review process.

The information in this submission is not confidential.

Yours faithfully

D A Pringle
Manager Regulatory Affairs, Gas Networks



Response to IPART re proposed trigger mechanism AGLGN Access Arrangement

Issue

Orica have proposed that the AGLGN Access Arrangement should allow for a revision of the proposed Reference Tariffs throughout the Regulatory Period subject to significant increases to MDQ in the contract market..

IPART has asked AGL to provide views on the approach suggested by Orica.

AGLGN's comments

AGLGN does not believe that a trigger mechanism, leading to the revision of Reference Tariffs based on a significant increase in the MDQ of the contract market, is an appropriate approach. Such an approach would significantly reduce the incentive on AGLGN to grow the market and increase efficiency. AGL makes the following points:

- Under the Gas Code it is an objective of Reference Tariffs that they provide “an incentive to the Service Provider to reduce costs and to develop the market for Reference and other Services.” (section 8.1(f)). The introduction of a trigger reduces the incentive built into the mechanism of a price path through the ability to retain any profits that result from exceeding the forecasts used to derive prices in the Access Arrangement. Similarly a trigger mechanism reduces the incentive built into the mechanism of a price path through the incurrence of losses that result from failing to meet the forecasts used to derive prices in the Access Arrangement
- The Gas Code specifically provides for the use of incentive mechanisms, recognising that it is important to provide incentives to improve efficiency **and** promote efficient growth.
- Importantly, the Code requires an incentive mechanism to be designed to provide the Service Provider with an incentive to increase the volume of sales of all services. It also requires that the incentive mechanism should be designed to ensure that Users and Prospective Users gain from increased efficiency, innovation and volume of sales, but not necessarily in the current regulatory period.
- The inclusion of a trigger mechanism such as suggested by Orica will significantly reduce the incentive for AGLGN to grow the market. Therefore, as a matter of policy, AGLGN does not support the trigger mechanism suggested by Orica.
- The effect of a trigger mechanism in the AA is a full review of the AA notwithstanding that the trigger is designed to address one specific outcome. This would be undesirable if the AA were opened up early in terms of regulatory cost, certainty and the reduced effect of the incentive mechanism.