

CMS GAS TRANSMISSION of AUSTRALIA

PUBLIC SUBMISSION No. 1

ALINTAGAS ACCESS ARRANGEMENT

Submitted to OffGAR on 23 July 1999

INTRODUCTION

CMS Gas Transmission of Australia (CMS) makes this public submission in response to the notice of 2 July 1999 published by the Office of Gas Access Regulation (OffGAR) which invites submissions on the proposed Access Arrangement submitted by AlintaGas for its Mid-West and South-West Gas Distribution Systems.

The intended purpose of this brief submission is to identify and discuss several particularly salient aspects of the proposed AlintaGas Access Arrangement.

This submission does not seek to provide commentary on the entire AlintaGas submission. CMS intends to perform more comprehensive analysis of the AlintaGas documentation before making any further public submissions.

INTERCONNECTION WITH OTHER PIPELINES

AlintaGas offers an Interconnection Service in its proposed Access Arrangement. This service addresses the interconnection of the AlintaGas Distribution Systems and other pipeline systems.

The proposed Access Arrangement states (Chapter 2 - Services Policy, Division 2):

The terms and conditions and prices upon which an *Interconnection Service* will be made available are to be negotiated by *AlintaGas* and the person to whom that *service* is provided.

This means that there are no benchmark terms and conditions for the proposed Interconnection Service.

One of the stated objectives of the National Third Party Access Code For Natural Gas Pipeline Systems (the Code) is to:

establish a framework for third party access to gas pipelines that:

...

provides rights of access to natural gas pipelines on conditions that are fair and reasonable for both Service Providers and Users;

Interconnection to the AlintaGas Mid-West and South-West Distribution Systems constitutes access to a gas pipeline system.

CMS is currently seeking access to the South-West Distribution System through a proposed interconnection with the Parmelia Pipeline.

The fact that CMS has been in negotiation with AlintaGas regarding interconnection for over 12 months is indication that an Interconnection Service is genuinely sought.

It is therefore apparent that the Interconnection Service proposed by AlintaGas should be treated as, or at very minimum viewed in the context of, a Reference Service.

A Reference Service is required to include a set of terms and conditions (Code section 3.6).

CMS therefore respectfully suggests that AlintaGas supplements its proposed Access Arrangement to include a set of benchmark terms and conditions for its Interconnection Service as soon as reasonably practical, so that it may be considered as part of the public consultation process.

CMS recognises that the provision of a benchmark set of terms and conditions should in no way preclude negotiations between AlintaGas and parties (such as CMS) wishing to interconnect with the Distribution Systems. Indeed, CMS is a strong advocate of negotiated access to pipeline systems.

However, the absence of benchmark terms and conditions for an Interconnection Service is, in CMS' opinion, a significant omission in AlintaGas' proposed Access Arrangement.

To not provide a benchmark for a fundamental objective of open access is, in CMS' opinion, contrary to the intent of the Code.

REFERENCE SERVICE A: DETERMINATION OF INTERCONNECTION DISTANCE

The tariff for the proposed Reference Service A is calculated, inter alia, on the basis of *interconnection distance*.

Interconnection distance is defined (Chapter 10 - Interpretation) as:

a distance measured along the straight line which represents the shortest distance between the *delivery point* and the nearest *pipeline* or storage system from which *gas* is (or would be if an *Interconnection Contract* were entered into and necessary *physical gate points* and associated facilities were constructed) supplied into the *AlintaGas Network*;

This means that Reference Tariff A is to be calculated on the basis of the straight line distance from a customer's gas receipt point to either the Parmelia Pipeline or the Dampier to Bunbury Natural Gas Pipeline (DBNGP), whichever is closer.

This approach is justified in the AlintaGas Access Arrangement Information (section 2.2.1) on the basis that:

Use of distance to the nearest transmission pipeline as the measure of distance in the demand charge of *Reference Tariff A* is intended to mitigate the risk of inefficient by-pass of the *AlintaGas Network*.

It is clear that the proposed pricing structure has the stated intent of preserving the effective monopoly currently held by AlintaGas.

Given that any bypass of the AlintaGas Distribution System would be made under conditions of strong competition, it is difficult to see how such bypass would be inefficient.

Given that the Parmelia Pipeline and South-West Distribution System are not interconnected and benchmark terms and conditions to provide for such an interconnection under the proposed Access Arrangement do not exist, a pricing mechanism which has the effect of holding out competitors is clearly predatory.

If the Parmelia Pipeline and Distribution Systems were interconnected, the opportunity for predation would be reduced. However, under any circumstances, the proposed Reference Tariff A is not cost reflective.

If Reference Tariff A was cost reflective, the cost of using existing infrastructure would be the same as the connection assumed under Reference Tariff A. This means that the cost of constructing and operating a new take off point from the transmission pipeline and the construction and operation of new distribution infrastructure along the straight line between the customer and the transmission pipeline would be equal to the cost of using the Distribution System as it currently exists with actual, rather than nominal, interconnection points with transmission pipelines.

Even cursory consideration of this proposition required for cost equality shows it to be beyond the bounds of simplification which are acceptable for regulatory purposes.

The preamble to section 8 (Reference Tariff Principles) of the Code states (in part):

The overarching requirement is that when Reference Tariffs are determined and reviewed, they should be based on the efficient cost (or anticipated efficient cost) of providing the Reference Services.

It is apparent that the use of Interconnection Distance as defined in the proposed Access Arrangement for the determination of Reference Tariff A is contrary to one of the fundamental principles of the Code.

CMS therefore respectfully suggests that AlintaGas issues a variation to its proposed Access Arrangement which withdraws the currently proposed

method of determining the tariff for Reference Service A and puts in its place a method which is fair and in accordance with the intent of the Code.

GAS QUALITY SPECIFICATION

The gas quality specification appearing in Chapter 2 Division 5 of the proposed Access Arrangement is more stringent than the requirements laid down in the Gas Standards (Natural Gas) Regulations 1999 issued under the Gas Standards Act 1972. The latter currently defines gas quality requirements for the Distribution System.

This proposed narrowing of the gas specification directly discriminates in favour of gas supplied from the DBNGP and against gas from the Parmelia Pipeline. This is because the DBNGP has a more onerous gas quality specification, and the proposed AlintaGas specification accommodates the DBNGP specification but not the Parmelia Pipeline specification.

An argument which has been advanced in the past to justify the differences between the DBNGP and Parmelia Pipeline gas quality specification is that of public safety. Proponents of the DBNGP gas quality specification have argued that its narrow definition is required to ensure the safe operations of "old appliances" in the residential segment of the market.

This argument warrants further consideration.

Gas supplies from the Carnarvon Basin, transported by the DBNGP, currently supply the residential gas market. However, this has not always been the case. From 1971 to 1984 (i.e. prior to the development of the North West Shelf project), all natural gas supplied to the Perth region was produced in the Perth Basin.

In 1971, all gas burning appliances supplied from the Distribution System were converted to accommodate the change from manufactured gas to natural gas. This was necessitated by the gross differences in the combustion characteristics between manufactured gas and natural gas.

The natural gas which displaced the manufactured gas was produced from initially the Dongara, Yardarino, Mondarra, Gingin, and Walyering fields, and later the fields in the Dongara area and the Woodada field. The gas was transported to Perth by the Parmelia Pipeline, and delivered to residential customers by the Distribution System.

The Gas Standards Act 1972 defined the gas specification for gas supplied into the Distribution System for the time (1971 to 1984) prior to any gas production from the North West Shelf and transport via the DBNGP. Demonstrably, this gas specification (and the Perth Basin gas it covered) more than adequately accommodated the public interest.

The current Parmelia Pipeline gas quality specification is more stringent than that laid down by the Gas Standards Act 1972.

Thus, the argument that "old appliances" cannot safely burn gas supplied from the Parmelia Pipeline and therefore must burn only DBNGP specification gas is open to question.

One of the stated objectives of the National Third Party Access Code For Natural Gas Pipeline Systems (the Code) is to:

establish a framework for third party access to gas pipelines that:

...

promotes a competitive market for natural gas in which customers may choose suppliers, including producers, retailers and traders;

If applied, the gas quality specification as proposed by AlintaGas could exclude Perth Basin producers from the Distribution System. This would have the effect of lessening competition in a market which is expressly the subject of national competition policy. Consumers, and society, could therefore be denied the benefits which flow from the operation of fully competitive markets.

CMS therefore respectfully suggests that AlintaGas issues a variation to its proposed Access Arrangement which substitutes the proposed gas specification with one which will accommodate the full range of transmission pipeline gas supply available.

APPLICATION FOR ACCESS TO SERVICES

In Chapter 2 Division 5 of the proposed Access Arrangement, AlintaGas states:

A prospective user wishing to obtain access to a service must submit an application in accordance with the "AlintaGas Applications Procedure" available as part of the Information Package described in section 5.1 of the Code.

{Note: The "AlintaGas Applications Procedure" will, among other things, require a *prospective user* to provide certain information to *AlintaGas* about itself and the *service* requested and will detail the processes by which access offers will be made and *service agreements* will be entered into.}

The AlintaGas Applications Procedure is not contained in the proposed Access Arrangement or the Access Arrangement Information as submitted.

CMS believes this to be a significant omission. The means by which a Reference Service is obtained is fundamental to the terms and conditions of that Service. Further, the nature of any information regarding a prospective User which is to be provided to AlintaGas as a prerequisite for obtaining access to a Reference Service is of vital interest to all prospective Users of the Distribution Systems at this stage of public consultation.

CMS therefore respectfully suggests that AlintaGas issues the AlintaGas Applications Procedure as soon as reasonably practical, so that it may be considered as part of the public consultation process.