CMS GAS TRANSMISSION of AUSTRALIA

PUBLIC SUBMISSION No. 2

ALINTAGAS ACCESS ARRANGEMENT

Submitted to OffGAR on 17 August 1999

INTRODUCTION

CMS Gas Transmission of Australia (CMS) makes this second 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 a small number of 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 further public submissions.

REFERENCE SERVICE A: INTERCONNECTION DISTANCE USED IN REVENUE CALCULATION

The tariff for the proposed Reference Service A is stated to be 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*;

For example, this means that in the Perth area Reference Tariff A is stated 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.

Analysis by CMS of the relevant calculations performed by AlintaGas in its Access Arrangement Information (AAI) document indicates that AlintaGas has used the distances to the nearest DBNGP gate station, and not the distance to the nearest pipeline, in its determination of projected future revenues from Reference Service A as described in its AAI.

CMS agrees with AlintaGas using distances to relevant gate stations for the purposes of tariff charge calculations for the reasons detailed in CMS' Public Submission No. 1.

The pricing described in the text of the proposed Access Arrangement yields outcomes which do not generate a level competitive playing field for AlintaGas and CMS. The practicality of the AlintaGas tariff calculation is more reasonable.

However, the inconsistency between the textual description of the nature of Reference Tariff A and the means of calculating projected future revenues for Reference Service A for the purposes of tariff determination presents a potential problem for AlintaGas and for possible future owners of the AlintaGas Distribution Networks. If future tariff calculations performed for billing purposes are different from those set out in the Access Arrangement, then a customer in receipt of Reference Service A will not be obtaining a Reference Service as specified. Conversely, if future tariff calculations for billing purposes follow the text description in the Access Arrangement, the assumptions made for the purposes of tariff determination are flawed.

Either discontinuity would represent a substantial cause for concern for both AlintaGas and any future owner of the Distribution Networks, and for OffGAR.

CMS respectfully suggests that AlintaGas provides clarification and commentary on the distances used for the purposes of determining projected future revenues for the purposes of tariff determination.

REFERENCE SERVICE A: COMPARISON WITH EXISTING (GAS DISTRIBUTION REGULATIONS 1996) TARIFFS

The Gas Distribution Regulations 1996 identify tariffs for third party use of the Distribution Networks.

The tariffs for Reference Service A proposed in the AlintaGas Access Arrangement are generally substantially higher than those currently prevailing under the Gas Distribution Regulations. The following tables and associated graph provide a number of illustrative examples.

COMPARISON:
GAS DISTRIBUTION REGULATIONS (GDR) and
ACCESS ARRANGEMENT REFERENCE SERVICE A TARIFFS (AA)

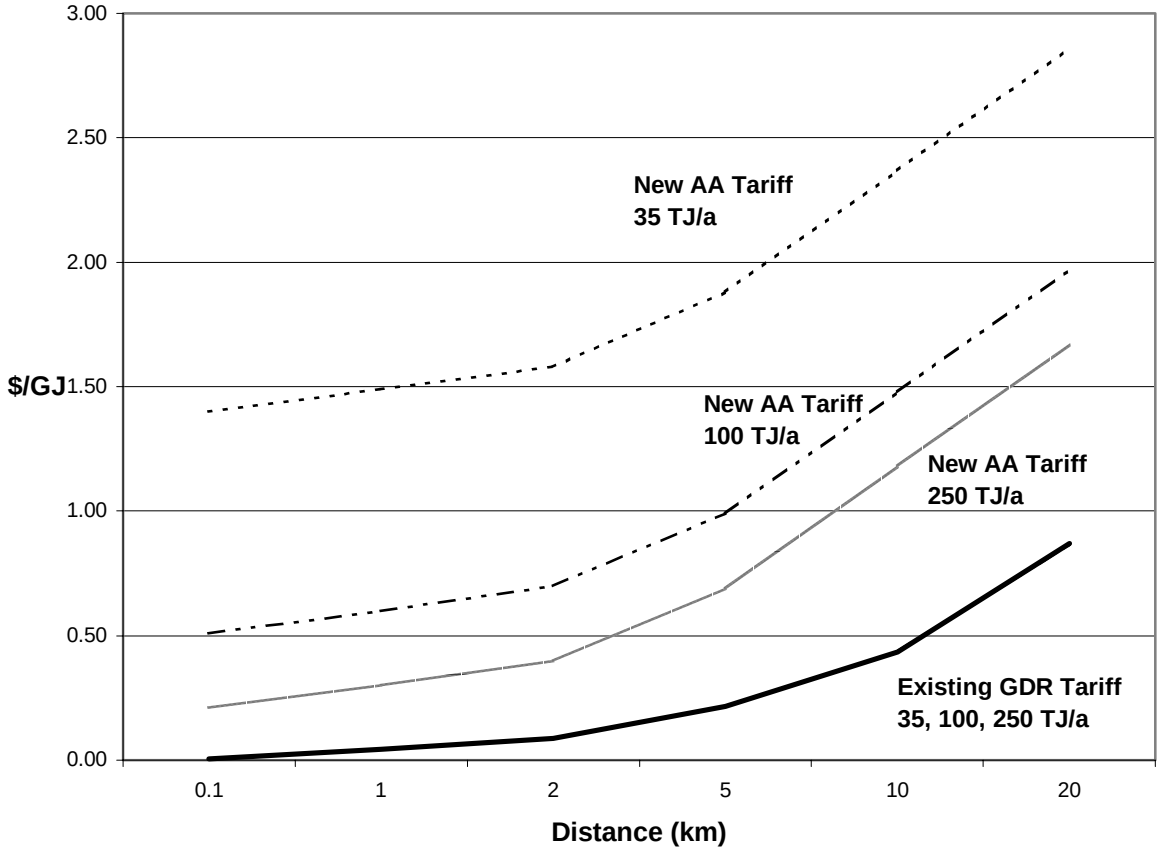
TARIFFS

		Distance (km) from nearest gate station					
Annual Quantity TJ/year	**Tariff regime**	**0.1**	**1**	**2**	**5**	**10**	**20**
35	GDR (old)	0.0043	0.0434	0.0869	0.2172	0.4344	0.8688
	AA (new)	1.4000	1.4900	1.5800	1.8800	2.3700	2.8600
100	GDR (old)	0.0043	0.0434	0.0869	0.2172	0.4344	0.8688
	AA (new)	0.5100	0.6000	0.7000	0.9900	1.4800	1.9700
250	GDR (old)	0.0043	0.0434	0.0869	0.2172	0.4344	0.8688
	AA (new)	0.2100	0.3000	0.4000	0.6900	1.1800	1.6700

PERCENTAGE INCREASE:
ACCESS ARRANGEMENT REFERENCE SERVICE A (AA)
OVER GAS DISTRIBUTION REGULATIONS (GDR)

	Distance (km) from nearest gate station					
Annual Quantity TJ/year	**0.1**	**1**	**2**	**5**	**10**	**20**
35	32228%	3430%	1819%	866%	546%	329%
100	11740%	1381%	806%	456%	341%	227%
250	4834%	691%	460%	318%	272%	192%

COMPARISON:
GAS DISTRIBUTION REGULATIONS (GDR) and
ACCESS ARRANGEMENT REFERENCE SERVICE A TARIFFS



It is apparent that Reference Service A as proposed in the AlintaGas Access Arrangement would, if approved, impose substantial cost increases upon potential future third party users of the Distribution Networks.

It may be noted that the greatest transport tariff increases apply to the smaller gas loads, and hence to the smaller gas consumer.

The $ 50,000 per annum standing charge proposed by AlintaGas for Reference Service A is to a large extent responsible for the increase in tariffs over those currently prevailing under the Gas Distribution Regulations.

As a case in point, the transport charge for an end user whose consumption is 100 terajoules per year and who becomes contestable on 1 January 2000 includes an $ 0.50 per gigajoule fixed charge component, irrespective of distance from the nearest gate station.

This fixed charge component is in addition to the demand charge of approximately $ 0.49 per gigajoule and the usage charge of approximately $ 0.05 per gigajoule, and the consequential use of other infrastructure.

In round figures, the standing charge of $ 50,000 per year for a 100 terajoule per year customer comprises just under half of the total transport charge which would be levied under the proposed Access Arrangement.

To place the $ 50,000 per year fixed charge for a 100 terajoule per year customer in another context, fifty cents per gigajoule represents 50 percent of the full haul charge expected to apply on the DBNGP in the year 2000, and 60 percent of the Reference Tariff for the Firm Extended service proposed in the Parmelia Pipeline Access Arrangement.

The imposition of a $50,000 per year standing charge constitutes a substantial barrier to entry for third party producers, retailers and traders alike. For an AlintaGas competitor to secure gas supply to a 100 terajoule per year customer who becomes contestable on 1 January 2000, just under half of the transport tariff paid by that AlintaGas competitor could be attributed to simply gaining access to the market.

One of the stated objectives of the National Third Party Access Code for Natural Gas Pipeline Systems (the Code) is the promotion of a competitive market for natural gas in which customers may choose suppliers, including producers, retailers and traders.

Any barriers to entry to any market mitigate against competition, and the ability of end consumers of gas to exercise choice over gas supplier, retailer, or trader.

The fixed charge incorporated in Reference Tariff A constitutes a barrier to entry for competitors to AlintaGas.

Therefore, it may be seen that the tariff structure applicable to Reference Service A as currently proposed does not comply with the intent of the Code.

CMS respectfully suggests that AlintaGas issues a variation to its proposed Access Arrangement which withdraws the currently proposed tariff structure for Reference Service A and puts in its place a structure which is fair and reasonable, and is in accordance with the intent of the Code.

ANALYSIS OF THE ALINTAGAS ACCESS ARRANGEMENT

CMS has found the AlintaGas Access Arrangement difficult to analyse because of the sparse nature of the data provided in the AAI.

Further, CMS has found that the manner in which information is presented in the AAI does not facilitate ready analysis and interpretation.

Public Submissions 1 and 2 made by CMS have identified several issues of major importance regarding the Access Arrangement submitted by AlintaGas.

However, CMS has yet to complete its analysis of the AlintaGas Access Arrangement because of the problems identified above. Therefore, CMS can not be confident that it has made comment on all salient aspects of the Access Arrangement submitted by AlintaGas.

It is reasonable to surmise that other organisations may be experiencing similar difficulties to CMS in their analysis and interpretation of the AlintaGas Access Arrangement. If this is the case, then other organisations may not have had full opportunity to make public their views and the results of their own analyses.

Therefore, it is reasonable that further time be allocated to the public submission process to permit more complete analysis of an Access Arrangement which will have substantial impact on current and potential future stakeholders in Western Australia.