

CMS GAS TRANSMISSION of AUSTRALIA

PUBLIC SUBMISSION No. 2

DRAFT DECISION: ALINTAGAS ACCESS ARRANGEMENT

Submitted to OffGAR 5 May 2000

INTRODUCTION

CMS Gas Transmission of Australia (CMS) makes this second public submission in response to the notice of 14 March 2000 published by the Office of Gas Access Regulation (OffGAR). This notice invited submissions by AlintaGas and other interested parties on OffGAR's Draft Decision on the proposed Access Arrangement submitted by AlintaGas for its Mid-West and South-West Gas Distribution Systems.

This submission provides further analysis of key aspects of the Draft Decision on AlintaGas Access Arrangement for the Mid-West and South-West Gas Distribution Systems (Access Arrangement) that were not covered in CMS' previous Public Submission No. 1.

CMS has identified a further three issues that it believes require either amendment by OffGAR or action by AlintaGas. These issues are:

1. Application for Access to Services
2. Initial Capital Base
3. Equity Beta

Each issue is discussed separately below.

1. APPLICATION FOR ACCESS TO SERVICES

CMS is disappointed that OffGAR has supported an Access Arrangement where the procedure for prospective users wishing to obtain access to a Reference Service has not been available for public scrutiny.

CMS questions why AlintaGas is not prepared to submit this procedure for review by the public. The means by which a Reference Service is obtained is fundamental to the terms and conditions of that Service.

CMS contends that it is in the public interest for AlintaGas to make the Applications Procedure available for public comment before OffGAR passes its final decision on the Access Arrangement. The Chamber of Minerals and Energy and the Office of Energy have previously also asked for this procedure to be made available to public scrutiny.

Furthermore, the nature of the information required of a prospective User that is to be provided to AlintaGas as a prerequisite for obtaining access to a Reference Service is of vital interest to all potential Users of the AlintaGas Gas Distribution Systems at this stage of public consultation.

CMS Proposal:	AlintaGas issues the AlintaGas Applications Procedure as soon as reasonably practical, so that it may be considered as part of the public consultation process prior to OffGAR passing its final decision on the Access Arrangement.
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2. INITIAL CAPITAL BASE

AlintaGas has proposed that an acceptable Initial Capital Base would be one that is based nominally on the DORC values of different asset categories. AlintaGas has allocated these DORC values and scaled them such that the resulting Reference Tariffs would be consistent with retail gas prices expected to prevail in the market during the Access Arrangement Period.

CMS questions the validity of AlintaGas' disproportionate reallocation of the asset base that results in a cross-subsidy from large customers to smaller customers. CMS views this calculation as an attempt by AlintaGas to artificially protect its customer base by keeping large contestable customers' distribution tariffs high whilst lowering tariffs to smaller customers that are not yet contestable.

CMS also questions the appropriateness of AlintaGas' methodology to calculate the Initial Capital Base. In the Draft Decision, OffGAR have treated it as if it were an application of Optimised Deprival Value. However, it is neither a Deprival Value Methodology nor has it been adequately justified in the AlintaGas Access Arrangement Information in any other acceptable manner.

Consistently throughout the Draft Decision OffGAR detail their concern about the methodology used by AlintaGas to calculate the Initial Capital Base but despite highlighting the lack of valid argument, inexplicably support it.

In any event, the argument for deprival value as a valuation of the Initial Capital Base breaks down in application to this situation of regulated tariffs. If the deprival value is determined as the net present value of expected future returns, then there is a circular argument in an industry where tariffs are regulated. This arises where regulated tariffs provide for a reasonable rate of return to an Initial Capital Base valued as a net present value of future returns, but the net present value of future returns depends upon the regulated tariffs.

CMS Proposal:	OffGAR direct AlintaGas to provide a more detailed explanation of how the Initial Capital Base was calculated so that the public can determine whether the deprival value approach taken by AlintaGas is reasonable.
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3. EQUITY BETA

CMS disputes the validity of OffGAR's decision in regard to AlintaGas having an equity beta of 1.05 based on OffGAR's opinion that AlintaGas faces greater risks to what the Victorian distribution businesses encounter.

It is difficult to understand OffGAR's treatment of the AlintaGas equity beta given OffGAR's own evaluation of the riskiness of AlintaGas compared to other distribution systems. OffGAR states that AlintaGas faces a higher risk than other gas distribution businesses. However, OffGAR mandated a value of an equity beta for AlintaGas that was lower than that prescribed for the Victorian distribution systems and inconsistent with other pipeline equity betas.

CMS believes that this inconsistency contravenes the requirements of section 8.1(b) of the National Third Party Access Code for Natural Gas Pipeline Systems (Code).

CMS Proposal:	OffGAR should amend the equity beta to be consistent with those set by the Office of Regulator General for the Victorian Distribution Businesses.
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