CMS GAS TRANSMISSION of AUSTRALIA

PUBLIC SUBMISSION No. 3

DRAFT DECISION: ALINTAGAS ACCESS ARRANGEMENT

Submitted to OffGAR 5 May 2000

INTRODUCTION

CMS Gas Transmission of Australia (CMS) makes this third 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.

The intended purpose of this submission is to highlight some very serious issues that have significant financial implications that Gas Retailers will face in trying to compete under the proposed Reference Tariffs. CMS contend that these tariffs do not promote competition, in fact, they block competition.

A result of competition being blocked is that contestable customers will not be able to take advantage of the deregulation process and therefore will face higher delivered gas costs.

CMS can demonstrate that these provisions will allow AlintaGas to maintain its monopoly and hold out competitors for at least five years (i.e., Access Arrangement Period).

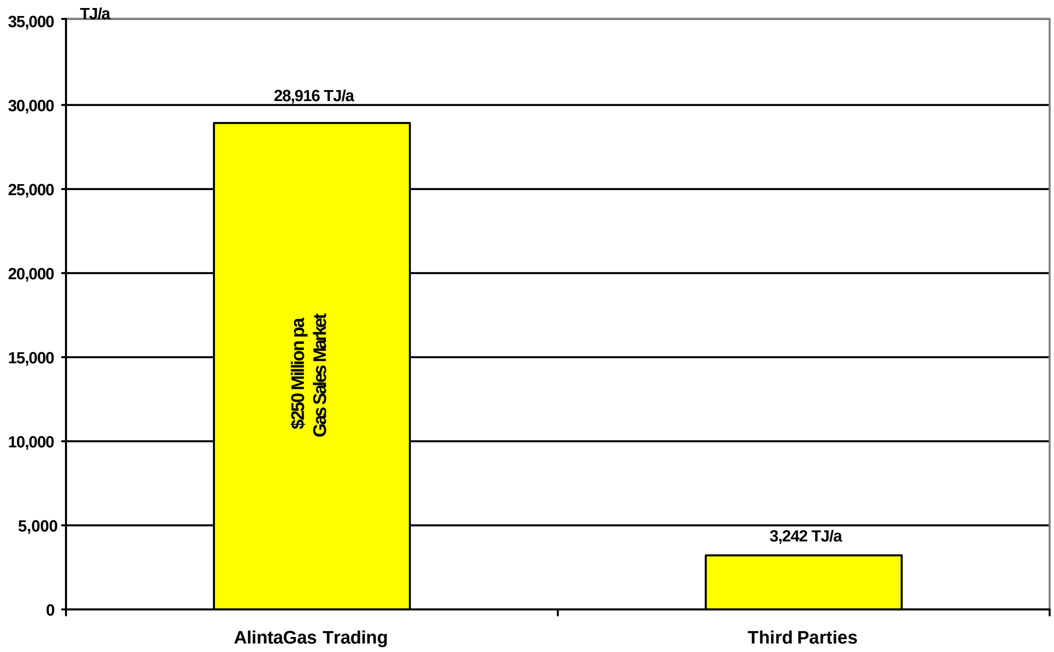
The following discussion highlights the problems CMS and other parties face in trying to compete with AlintaGas.

DISCUSSION

Under the current Gas Distribution Regulations 1996 (GDR) regulatory regime, Gas Retailers have to a limited extent been able to compete against AlintaGas in the competitive gas market and this has established a market delivered gas price for contestable customers.

Chart 1 shows the throughputs of AlintaGas[1] and Third Parties in gas retailing to the Mid-West and South-West Gas Markets. AlintaGas Trading's sales equate to a market share of 90% compared to third parties market share of 10%. CMS share of the retail market is 0.3%.

Chart 1: Comparison: Gas Retailers 1999 Sales in Mid-West and South-West Gas Markets



The proposed Reference Tariffs will make competition near on impossible as it has raised the cost to a level above the current market delivered gas price which would require competitors to AlintaGas to be left with negative margins. Chart 2 compares gas costs for the Gas Distribution Regulations versus AlintaGas Access Arrangement (AA). It is apparent that under the proposed Access Arrangement:

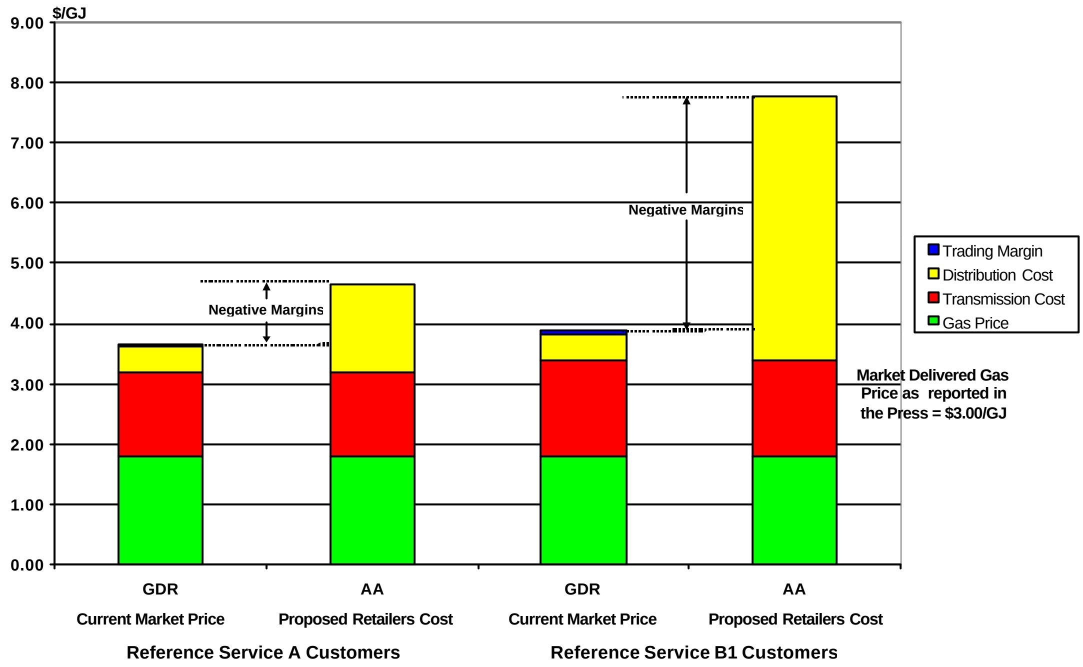
i). the distribution costs as a proportion of the total delivered gas price would be increased substantially; and

ii) the delivered gas price would substantially exceed the market delivered gas price of $3.00/GJ that has been reported in the press.

[1] Source: AlintaGas Access Arrangement Information

This provides AlintaGas with the opportunity to use arbitrary internal transfer pricing which can keep competition out but have no effect on AlintaGas' consolidated distribution and trading revenue.

Chart 2: Comparison: Gas Distribution Regulations and Access Arrangement Reference Service A and B1 Tariffs



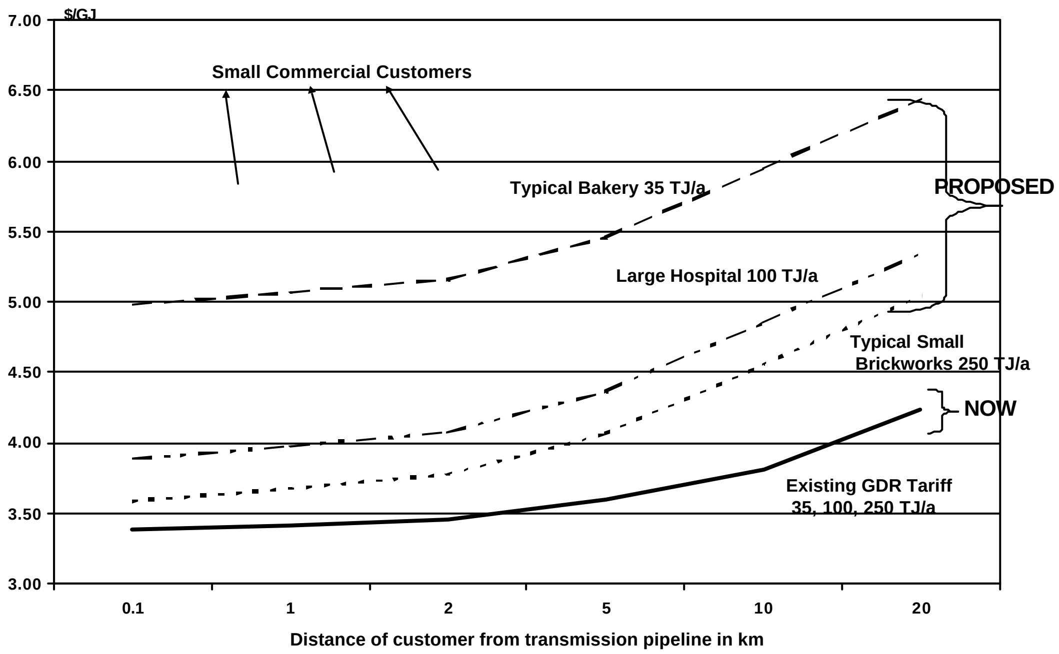
Reference Service A Customers:	Customers who consume 35 TJ/a or more; in terms of businesses they could be a small bakery up to a large mineral processing operation or large manufacturing plant. Chart 2 is based on a Reference Service A customer who consumes 100 TJ/a and is located 10 kms from the nearest pipeline.
Reference Service B1 Customers:	Customers who consume less than 35 TJ/a; in terms of businesses they could be a hotel up to a small manufacturing operation. Chart 2 is based on a Reference Service B1 customer[2] who consumes 30 TJ/a and is located 10 kms from the nearest pipeline.

[2] Reference Service B1 customers' tariff under the proposed Access Arrangement is not distance related.

Further proof that Gas Retailers will not be able to compete against AlintaGas in the competitive gas market for customers consuming 35 TJ/a or more is highlighted in Chart 3. Chart 3 shows that 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.

How can a Gas Retailer compete if its costs under the proposed Access Arrangement will be higher than the market price established under the existing Gas Distribution Regulations which have been in operation since deregulation of the AlintaGas Distribution System started in 1997?

Chart 3: Comparison: Gas Distribution Regulations and Access Arrangement Reference Service A Customers Typical Delivered Gas Cost



CONCLUSION

CMS considers that these proposed tariff structures would deny competitors access to a gas market, which amounts to gas sales revenue of about $250 million[3]. This revenue equates to the total market that Gas Retailers will be able to compete for[4].

These proposed AlintaGas Access Arrangement provisions would allow AlintaGas to maintain its monopoly and hold out CMS and other competitors for at least five years (i.e., Access Arrangement Period). Furthermore, the proposed tariff structures would stifle any Gas Retailer competition and this has the potential to reduce revenue on the Parmelia Pipeline and for Perth Basin Gas Producers.

Finally, if these tariff structures are approved then the benefits that would arise from increased competition will not be realised.

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3 Source: AlintaGas Annual Report 1999 and CMS Estimate

4 i.e., it excludes all long term gas supply contracts supplied directly off DBNGP such as Alcoa, Worsley, CSBP, etc