



**DEPUTY PREMIER**

**TREASURER; MINISTER FOR ENERGY**

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Our ref: E001390

OffGAS  
30 JUL 2002

Dr Ken Michael  
Acting Gas Pipelines Access Regulator  
Office of Gas Access Regulation  
197 St Georges Terrace  
PERTH WA 6000

Dear Ken

**INVITATION FOR PUBLIC SUBMISSIONS - FULL RETAIL CONTESTABILITY COSTS  
ALINTAGAS NETWORKS PTY LTD**

I am pleased to provide the following comments, in response to your invitation, on the costs of developing systems associated with the introduction of gas full retail contestability ("FRC") in Western Australia.

As a party to the 1997 Council of Australian Governments' Natural Gas Pipelines Access Agreement, the State is committed to a uniform national framework applying to access to natural gas transmission and distribution pipelines. The *Gas Pipeline Access (Western Australia) Act 1998* implements the uniform National Third Party Access Code for Natural Gas Pipeline Systems ("Code") in this State. The Code and the Transitional Arrangements and Derogations on the distribution system, which expired on 1 July 2002, are intended to provide a competitive market for natural gas in which customers may choose suppliers, including producers, retailers and traders. The proposal by AlintaGas Networks Pty Ltd ("AGN") to provide the necessary systems on the ring-fenced distribution system is an essential element of achieving this outcome.

The Western Australian Government is committed to the above objective, which forms part of the Government's ongoing energy industry reform process.

Competition between producers and retailers is intended to improve service delivery and reduce energy prices. To facilitate this at the smaller end of the market (less than 1 TJ per annum), the Government formed the Gas Retail Deregulation Steering Group ("Steering Group") as a committee, established under Section 25 of the *Energy Coordination Act 1994* and reporting to the Minister for Energy. The Steering Group comprises gas retailers, gas distributors, gas transmission pipeline operators, a producer, customer and business representative groups.

The Government, through the Steering Group, is working closely with gas industry stakeholders to develop the rules and processes required to procure and implement the systems necessary for customers to be able to change retailers. I note the Office of Gas Access Regulation's presence as an observer on the Steering Group.

The indicative costs in the AGN proposal indicate that the network costs to provide the necessary network systems to enable implementation of FRC are substantial. As the costs proposed will be passed on to end users, it requires a thorough investigation so you may satisfy yourself that the costs or costing principles represent prudent, efficient incremental cost of implementing the necessary FRC systems. As the required processes are yet to be finalised and systems purchased, precision on the magnitude of costs presents a challenge. It may be useful if you were to advise how differences in final expenditure to that currently indicated in the proposal may be handled.

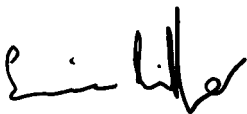
It is quite possible that some of the services provided by the proposed new Network Management Information System ("NMIS") may fall outside the scope of FRC costs. Such non-FRC enhancements are likely to be a consequence of an updated NMIS. Presumably costs attributable to non-FRC related enhancements or related operational costs will be presented and considered separately upon review of the Approved Access Arrangement in March 2004, which is due to come into effect on 1 January 2005. It may be useful if you provided guidance on how such differentiation may be dealt with.

The estimated capital and operational costs of the NMIS have been presented to the Steering Group, however, it is not in a position to pass comment on the costs proposed. As the Independent Regulator, who has responsibility under the Code, the Steering Group will look to you to make the necessary enquiries to ensure the interests of all users of the proposed systems are fairly balanced.

The Government supports the principle of AGN's proposal to recover FRC related costs through its Access Arrangement. The Government considers third party access charges should reflect prudent and efficient FRC related costs of the network operator. The Government has every confidence that you will examine this matter with as much rigor as necessary and looks forward to an early decision on this issue. A speedy resolution will assist in progressing the implementation of practical, rather than just legal, gas FRC in Western Australia.

I invite you to contact Dr Les Farrant, Coordinator of Energy, as the Chair of the Gas Retail Deregulation Project Steering Group, to discuss and clarify matters being dealt with by the project that might be of relevance to AGN's proposal on recovery of FRC costs.

Yours sincerely



**ERIC RIPPER MLA  
DEPUTY PREMIER; TREASURER;  
MINISTER FOR ENERGY**

27 JUL 2002