JOINT PUBLIC SUBMISSION

made to the

ECONOMIC REGULATORY AUTHORITY

by

CMS Gas Transmission of Australia
(owner & operator of the Parmelia Pipeline, owner & operator of Mondarra Gas Storage & gas retailer)

Western Power Corporation
(gas retailer)

Origin Energy
(gas retailer)

AGL Gas Trading
(gas retailer)

("New Gas Retailers")

in relation to the

ALINTAGAS NETWORKS PTY LTD REVISED ACCESS ARRANGEMENT

14 May 2004

INTRODUCTION

CMS Gas Transmission of Australia as owner and operator of the Parmelia gas transmission pipeline and gas retailer, Western Power Corporation as gas retailer, Origin Energy as gas retailer and AGL as gas retailer (New Gas Retailers), make this joint public submission in response to the notice of 7 April 2004 published by the Economic Regulatory Authority (ERA) which invited submissions on the proposed revised Access Arrangement (AA) submitted by AlintaGas Networks Pty Ltd (AGN) for its Mid-West and South-West Gas Distribution Systems (GDS).

This submission intends to identify an important omission in the AA in relation to the interconnection of other pipelines and convey to the ERA a New Gas Retailer requirement to have a level playing field recovery of costs and to request the ERA to direct AGN to make appropriate amendments to the AA.

INTERCONNECTION WITH OTHER PIPELINES

AGN offers an Interconnection Service in its proposed revised AA, but fails to state the terms. This service addresses the interconnection of the AGN GDS with pipeline operators other than the Dampier to Bunbury Natural Gas Pipeline (DBNGP). The proposed revised AA states (Part A, Clause 21(2)): "*The Interconnection Service provides a right to interconnect with the AGN GDS. Subject to Part A, clause 22, the terms and conditions and prices upon which an Interconnection Service will be made available are to be negotiated by AGN and the person to whom that Service is provided"*. This means that there are no benchmark reference terms and conditions for the proposed Interconnection Service.

Interconnection to the GDS is covered under the National Third Party Access Code For Natural Gas Pipeline Systems (Code). Stated objectives of the Code are: "*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; and*
- *... promotes a competitive market for natural gas in which customers may choose suppliers, including producers, retailers and traders".*

The Minister for Energy outlined the State Government's position on gas market reform in his comments: *"The establishment of a competitive gas market in Western Australia remains a high priority for the State Government. Allowing consumers to choose their preferred natural gas retailer is an outcome of the Government's energy industry reform initiatives, and is in line with the National Competition Principles agreement by which all States, Territories and the Federal Government are bound." (Energy Western Australia, Office of Energy, February 2003, page 4).*

The establishment of a competitive gas market in the areas serviced by the GDS involves more than simply facilitating access for retailers competing in the market "downstream" of the GDS, especially when the FRC process and the new Retail Market Rules specifically provide for multiple pipeline gas supplies into the GDS. Real and significant competition and associated benefits will only be realisable when end user consumers are able to viably choose between gas retailers, who in turn are able to choose and bring to bear their upstream wholesale supply arrangements encompassing production and delivery efficiencies. Consequently, "upstream" access to the GDS must be given important consideration and be adequately addressed within the AA.

The Parmelia Pipeline ships gas on behalf of its shippers to Perth, gas which has been sourced from the:

- Perth Basin gas fields including: Dongara (the biggest onshore gas field in WA), Beharra Springs, and Woodada;
- North West Shelf, including: North West Shelf Gas, East Spar & Harriet, and
- Mondarra Gas Storage facilities.

Gas, which is then supplied to the New Gas Retailers, who supply the end users.

CMS Gas Transmission of Australia (CMS) has been trying to negotiate access, with fair and reasonable terms and conditions, from the Parmelia Pipeline to the AGN GDS for over 5 years. Despite all reasonable endeavours, CMS has to date only managed to secure temporary interim interconnection arrangements with AGN. These arrangements were entered into by CMS, as a precursor to negotiating a full and non-temporary Interconnection Agreement and therefore are for a limited term and contain provisions that CMS would not normally accept. Until a permanent interconnection arrangement containing fair and reasonable terms and conditions is established, there is no commercial certainty for New Gas Retailers wanting to use the Parmelia Pipeline to ship gas through the GDS to end user customers.

Parmelia Pipeline interconnection to the GDS on fair and reasonable non-temporary terms and conditions will help to firmly establish a competitive gas market in Western Australia. It is therefore imperative that the Interconnection Service proposed by AGN should be provided as a Reference Service. A Reference Service is required to include a set of terms and conditions (Code section 3.6). To not provide a benchmark for a fundamental objective of open access is contrary to the intent of the Code.

Absence of benchmark terms and conditions for an Interconnection Service is, for New Gas Retailers, a barrier to entry and therefore a significant omission in the AA.

COST RECOVERY FOR INTERCONNECTION

In regard to the payment of costs associated specifically with interconnection of different sources of supply to the distribution network (section 3.6 of the AGN GDS Access Arrangement Information (AAI)), AGN states: "*As the benefits are not available to all Users and all Sub-networks, it is not equitable for the costs to be allocated across the whole AGN GDS. Therefore these costs could not be recovered via the Reference Tariffs." (AAI, page 25).* This statement appears to ignore the intent of FRC to create a fully open market, available to all, and the very desire for New Gas Retailers to enter the market and to be able to continue to source gas and supply gas through the Pipeline of their choice.

AGN has included new provisions on cost recovery of interconnection costs, as stated in Part A, Clause 62: *"(1) AGN may recover the reasonable capital and Non-Capital Costs it incurs as a result of a Pipeline being interconnected with the AGN GDS from* *the owner or operator of the Interconnected Pipeline. (2) Without limiting Part A, clause 62(1), if AGN is required or agrees to implement, or is required or agrees to assist in the implementation of, a heating value blending management plan under the Gas Standards Regulations in respect of an Interconnected Pipeline, the owner or Pipeline Operator of the Interconnected Pipeline will be required to reimburse AGN's reasonable capital costs and Non-Capital Costs associated with the measurement, recording, auditing, facilitation or otherwise related to the development, implementation and administration of the heating value blending management plan. (3) If the costs referred to in Part A, clause 62(2) cannot be recovered from the owner or Pipeline Operator of the Interconnected Pipeline, then AGN may suspend the provision of the Interconnection Service to the owner or Pipeline Operator of the Interconnected Pipeline.* New Gas Retailers see these provisions as discriminatory, and that they would create barriers to entry and thereby hold back competition, the FRC process and the realisation of the Government's objectives to establish a competitive gas market.

In contrast, if competitive supply is facilitated through more equitable terms of upstream interconnection to the GDS, the New Gas Retailers believe that AGN will reap additional industry wide benefits through additional market growth and security of supply. Consequently, New Gas Retailers contend that the nature of the capital and non-capital costs that AGN refers to in its AA as incurring due to the interconnection of the GDS by another pipeline operator, should properly be considered part of the system wide cost of pursuing the system wide benefits of FRC, which AGN proposes to pass onto all customers.

The estimated costs of facilitating interconnection as defined by AGN (AAI, page 25) in relation to "*operating, monitoring and otherwise managing heating value management plans to comply with Declared Heating Value Regulations*" should be considered in the context of relative cost impacts. The relevant capital and ongoing non-capital costs cited by AGN represent insignificant increments to the ongoing expansion and maintenance of the GDS. The resulting impact on Reference Tariffs would be inconsequential. In contrast however, for new entrants to have to solely bear the costs of system modifications required in order to facilitate competition, the burden is likely to be onerous. The cost apportionment proposed represents a further barrier to competitive new entrance into the current essentially monopoly market.

CONCLUSION

The New Gas Retailers request that AGN be required to revise its proposed AA to:

1. include a set of reference terms & conditions for its Interconnection Service; and
2. treat the capital and non-capital costs that AGN refers to in its AA as incurring due to the interconnection of the GDS by another pipeline operator, as a system wide cost of pursuing the system wide benefits of FRC, which AGN proposes to pass onto all customers,

and that these matters be properly considered by the industry through the ERA review process, including the public consultation process to determine whether they are fair and reasonable for all parties.