

## OFFICE OF ENERGY – WESTERN AUSTRALIA

### FURTHER SUBMISSION ON THE ALINTAGAS NETWORKS ACCESS ARRANGEMENT FOR THE MID-WEST AND SOUTH-WEST DISTRIBUTION NETWORK

The Office of Energy has reviewed the following submissions to the Economic Regulation Authority (the Authority) regarding AlintaGas Networks Pty Ltd's (AGN) Revised Access Arrangement for the Mid-West and South-West Gas Distribution System (GDS):

1. AGN's submission of 31 March 2004;
2. CMS Gas Transmission of Australia (CMS) submission of 14 May 2004;
3. the "New Gas Retailers" submission of 14 May 2004, where the New Gas retailers are CMS, Western Power Corporation, Origin Energy, and AGL Gas Trading; and
4. AGN's submission of 22 June 2004.

The Office of Energy has observed two issues in these submissions on which it would like to comment:

1. government policy on network interconnection; and
2. allocation of costs from heating value management plans.

#### **Government Policy on Network Interconnection**

The Office of Energy notes that page 3 of AGN's 22 June 2004 submission contains the following statement:

*"...neither the Government nor the Authority has identified a specific objective in relation to 'greater network interconnection'."*

This statement by AGN is incorrect.

In September 2002, as part of the Gas Retail Deregulation Project (GRDP), the Office of Energy undertook consultation on the issue of dual supply of gas in the GDS. This consultation discussed the issues that arise from introducing gas into a distribution system from different sources and the options for dealing with those issues. This consultation is documented on the GRDP web site at <http://www.energy.wa.gov.au/grdp/dualsupply.htm>.

During this consultation, the Office of Energy made a clear statement supporting greater network interconnection. Mr Richard Harris (Director, State Requirements Division, Office of Energy) submitted a letter to this consultation process, which included the following statement:

*"Since 1998 the Office of Energy has supported and has been involved in facilitating the development of a methodology to enable the interconnection of the Parmelia Pipeline and AlintaGas' coastal distribution network. The Office of Energy sees the development of an equitable arrangement for the interconnection as an important step towards the establishment of a competitive gas market in our State."*

The Western Australian Government continues to support greater network interconnection, as this is consistent with establishment of a competitive gas market in our State, and with the recent implementation of gas full retail contestability.

The Western Australian Government is committed to establishing a framework supportive of a competitive gas market in our State. Allowing customers to choose their preferred gas retailer is an outcome of the Government's energy reform process, and is in line with the Competition Principles Agreement by which all the States, Territories and the Federal Government are bound. Greater network interconnection is consistent with this policy. The benefits of greater network interconnection include:

1. increased pipeline-on-pipeline competition;
2. increased market access, and therefore increased retail competition; and
3. increased inter-basin competition, and therefore increased security of supply.

### **Allocation of Costs from Heating Value Management Plans**

The Office of Energy has noted that one of the key points of disagreement between the submissions made by AGN vs. CMS and the New Gas Retailers is the allocation of costs from heating value management plans, which arise from interconnection of pipelines carrying gas of different heating values.

The regulations requiring the implementation of heating value management plans is one of the outcomes of the consultation on the dual supply of gas in the GDS. These regulations are currently under development by the Energy Safety Division of the Department of Consumer and Employment Protection and Parliamentary Counsel. Under these regulations, AGN and the operators of the interconnecting pipelines would each be required to submit such plans to the Director of Energy Safety for approval. The use of heating value management plans was generally supported by industry as the most cost effective way to allow for the interconnections of the Dampier to Bunbury Natural Gas Pipeline and the Parmelia Pipeline to the GDS.

As noted above, interconnection of a pipeline with the GDS will create benefits for all gas consumers on the GDS, not just for customers of the interconnecting pipeline. Therefore, the Office of Energy's view is that the appropriate policy is that the costs of enabling interconnection, and therefore competition, should be spread across all users of the distribution system.

However, it should be noted that these benefits are not shared equally across all gas consumers on the GDS, with larger consumers benefiting more than smaller consumers. The Office of Energy believes that the ERA should consider this factor when making a determination on the allocation of costs from heating value management plans.

OFFICE OF ENERGY

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