

**CMS ENERGY
GAS TRANSMISSION AUSTRALIA**

SUBMISSION

in response to the

**SUBMISSION ON FULL RETAIL
CONTESTABILITY COSTS BY ALINTAGAS
NETWORKS PTY LTD**

2 August 2002

Purpose of Document

This document is a submission by CMS Energy Gas Transmission Australia (CMS) in response to the notice of 4 July 2002 published by the Office of Gas Access Regulation (OffGAR). This notice invited submissions by interested parties on a proposal (Proposal) by AlintaGas Networks Pty Ltd (AGN) that seeks a binding approval, under section 8.21 of the National Third Party Access Code for Natural Gas Pipeline Systems (Code), to the costs of developing systems associated with the introduction of "full retail contestability" (FRC) in Western Australia.

The intended purpose of this submission is to highlight the Proposal lacks any quantifiable substantiation on the quantum of new facilities investment that AGN has indicated it will incur.

Discussion

CMS highlights the fact that AGN's Proposal has been submitted whilst no agreed market rules for FRC are in place.

CMS has no argument that funds spent on FRC should be recovered in AGN's reference tariffs. However, AGN's estimated FRC Capital Costs must be based on a more detailed requirements analysis, which at the time of AGN's Proposal has not occurred.

AGN have advised that it is currently undertaking a detailed requirements study to further confirm its FRC Capital Cost estimate. CMS contends that once this study is completed then a more accurate assessment of FRC Capital Costs can be determined. CMS does not have confidence in the level of FRC Capital Costs quoted in AGN's Proposal given the lack of detail to support this estimate.

CMS considers that FRC Capital Cost estimated in the Proposal have not been determined using good industry practice, as at the time of submission insufficient analyses of requirements and therefore cost has taken place, which a prudent service provider should undertake to achieve the lowest sustainable cost of delivering services.

CMS contends that the Proposal does not contain an argument or detail that proves that AGN's proposed level of FRC Capital Costs will deliver system wide benefits. CMS suggests that more detail should be provided in regard to how the introduction and operation of the proposed Network Management Information System will provide system wide benefits.

On page 8 of the Proposal, AGN advises *"AGN does not expect to be able to provide firm estimates of FRC Non Capital Costs until FRC is full implemented or close to implementation."*

In NSW, the Independent Pricing and Regulatory Tribunal (IPART) carried out a thorough review of FRC costs to allow it to make determinations in relation to the recovery of these costs by distribution businesses. CMS submits that the Regulator should undertake an audit of AGN's Non Capital Costs after twelve (12) months of FRC and prior to AGN submitting revisions to the Access Arrangement to ensure that the FRC Non Capital Costs it proposes to recover under the Access Arrangement revisions is at a level that a prudent service provider would incur.

CMS would also like to highlight that AGN's Proposal is deficient in not detailing how FRC Costs will be allocated across the reference services and what will be the quantum of tariff increases for each reference service.

Conclusion

CMS considers that AGN's Proposal does not contain sufficient detail such that the Regulator can make an informed decision on whether the quantum of these costs are those that a prudent service provider would expend in accordance with good industry practice to achieve the lowest sustainable cost of delivering services.