

EnergyAustralia

2006 Review of Envestra's Gas Distribution Access Arrangement

	Issue	EnergyAustralia comment
1	Are there any important issues arising from experience with the current Access Arrangement that are overlooked by the particular issues raised by the Commission throughout the remainder of this Issues Paper?	
2	Are there any issues of Envestra's approved access arrangements in Victoria and Queensland (or in other access arrangements approved elsewhere) that should be considered for inclusion in Envestra's South Australian Access Arrangement?	EnergyAustralia supports greater uniformity across jurisdictions, as an aid to commercial decision making and processes when the services offered are similar.
3	Are reference services as defined in the current Access Arrangement comprehensive of the sorts of services required by most network users and potential users? Is there scope to unbundle haulage services into their connection and use of system components, especially for demand customers? To what extent should reference services and service obligations be aligned with those applying in other jurisdictions?	EnergyAustralia suggests that services should be unbundled, and supports uniformity and price transparency across jurisdictions.
4	Should the Services Policy be approved only if it includes a specification by Envestra, additional to that set out in licences and other regulatory instruments, of the levels of service (eg. reliability, quality) to be delivered as well as the broad nature (type) of services in question?	EnergyAustralia supports detailed specification of the levels of service required in respect of the reference services.
5	How, in practice, might application of the section 8.1(a) criterion differ from that of the Commonwealth's final amendments to the pricing principles provision in Part IIIA of the <i>Trade Practices Act</i> ? Are such differences considered significant?	The practical effect of the change could be that the service provider would seek a greater level of regulated return, given that recovery of efficient costs is the "least" result that the regulated prices should generate. In practice the risk is higher costs which will be passed through to consumers. Hence a mechanism should be devised to incentivise the distributor to minimise the costs rather than a cost-recovery approach, of which their costs can simply pass on to customers.
6	What features of "workable competition" are of most relevance to the gas distribution industry in South Australia when the market outcomes of an access arrangement are being assessed in terms of the section 8.1(b) criterion?	On page 39 of the <i>Epic</i> case it is stated: "How best to determine the efficient level of costs or the outcome of a competitive market are matters of economic theory and practice which, on the evidence, are in the course of constant revision, development and refinement." EnergyAustralia is not able to suggest a definition of "workable competition" or the features thereof for the purposes of this review.
7	If tariffs – or tariff-determining parameters – proposed by Envestra fall within a range of plausible values, should the	

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	Commission give consideration to not approving those tariffs (or parameters) if it believes that the underlying estimate or parameter values expose either the service provider or network users to an asymmetric risk? Are there any circumstances where the midpoint of the plausible range may not necessarily contribute to the avoidance of asymmetric risk?	
8	To what extent should capital expenditure not forecast or approved as part of the first Access Arrangement be rolled into the capital base at the commencement of the second Access Arrangement Period? How should the Commission go about assessing the (section 8.16(a)(i)) prudence of any variations between actual and forecast/approved capital expenditure?	Unforecast or unanticipated capital expenditure should be rolled into the capital base for the second Access Arrangement subject to the usual tests of prudent investment.
9	How should assets which may have ceased to contribute in any way to the delivery of the network services be identified?	Redundant assets must be identified and excluded from the asset base. There should be a registry detailing all assets and their utilisation rate so that potential stranded assets can be identified.
10	Should the real versus nominal choice for measuring the WACC (and the pre-tax versus post-tax choice) be left to Envestra to decide?	The WACC should be benchmarked against that of the industry. Otherwise, Envestra may choose a higher WACC to allow higher costs to pass on to customers.
11	Should the method used in calculating the WACC – and the parameters used in applying the CAPM approach – be proposed in the first instance by Envestra? If there is no single correct method to determine the WACC, how might the range of plausible estimates consistent with section 8.1 criteria be determined? Should the Commission detail in advance its analytical framework for assessing the reasonableness of estimates proposed by Envestra?	Envestra's first instance proposal of the method of calculation of the WACC and the publication of ESCOSA's analytical framework will greatly assist the transparency of the process. Benchmarking of WACC against the industry is important.
12	Should the Commission provide guidance on the circumstances in which alternatives to straight-line depreciation may satisfy the requirements of the Code?	Not necessary – Envestra's use of straight-line depreciation on the asset lives in the DORC asset valuation is non-controversial. Duration of depreciation should also be considered.
13	Should the Commission provide guidance on the extent to which Envestra's marketing costs will be allowed for the purpose of calculating Total Revenue?	To the extent that guidance will encourage greater levels of disclosure of information and assumptions and a greater degree of transparency throughout the AA approval process, then EnergyAustralia supports it.
14	Should the Commission provide guidance as to the basis upon which it will assess the prudence and reasonableness of (forward-looking) non-capital costs? To what extent should such an assessment rely upon the benchmarking of Envestra's unit costs in the SA gas distribution system relative to unit	To the extent that guidance will encourage greater levels of disclosure of information and assumptions and a greater degree of transparency throughout the AA approval process, then EnergyAustralia supports it.

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	costs observed in other systems?	Unit costs observed in other systems may not necessarily be relevant in the SA system, but will be useful for benchmarking purposes.
15	To what extent should the Commission provide guidance as to the desired features of a regulatory framework for assessing New Facilities Investment that provides clear incentives for economic efficiency and reduces regulatory uncertainty?	To the extent that such guidance will facilitate a regulatory framework that will provide appropriate incentives and reduce regulatory uncertainty.
16	Should the Commission give advance consideration as to what additional assessments and consultation may be necessary to assess the prudence and reasonableness of the FRC capital expenditure actually incurred by Envestra to 1 July 2006 and forecast to be incurred from 1 July 2006?	EnergyAustralia supports this proposal.
17	In the absence of any relevant Ministerial notice or direction, should the Commission provide guidance as to how the benefit of the ex-gratia FRC payment that is not required by Envestra in the first two years of FRC is to be allocated to consumers in future years?	To the extent that such guidance will encourage transparency in decision making in the AA approval process, EnergyAustralia supports it.
18	Are there aspects of Envestra's existing tariff structure that warrant – or do relevant features of likely changes to the Code's pricing principles warrant – the Commission clarifying its intended approach to assessing Envestra's Reference Tariff and Reference Tariff Policy for compliance with the Code's requirements for allocating costs between different reference services and between (classes of) users of a reference service?	EnergyAustralia supports clarification of ESCOSA's intended approach in the interests of transparency in cost allocation.
19	Should the Commission encourage Envestra to base its proposed price path on the weighted average of reference tariffs, and so rely on such an approach to provide the incentives necessary for Envestra to adopt efficient price structures?	EnergyAustralia supports the price path being based on weighted average of reference tariffs, to enable Envestra to adopt more efficient pricing strategies.
20	What are the key requirements to be met by Envestra's proposed method for setting the value of X in a CPI-X price path in terms of the section 8.1 general principles for reference tariffs?	EnergyAustralia supports the use of a productivity based method of setting the price path.
21	Should the Commission provide guidance as to the requirements to be met by any off-ramps proposed by Envestra to ensure that trigger event adjustments are symmetrical in nature?	EnergyAustralia agrees that it is important to ensure that trigger event adjustments are symmetrical in nature.
22	Should the Commission consider giving some broad guidance as to how it intends to go about assessing whether forecasts made by Envestra of unit sales and input prices, either for the	EnergyAustralia supports ESCOSA providing early guidance as to the assessment of forecasts.

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	current Access Arrangements or for the next Access Arrangement, are best estimates arrived at on a reasonable basis? Or should such matters be addressed only if it is apparent that any actual decreases in input prices during the first Access Arrangement Period relative to levels forecast by Envestra seem "significant" or any under-estimations of sales during the first Access Arrangement Period relative to levels forecast seem "excessive". If so, should the Commission provide some advance indication as to how it intends to assess the "significant" and "excessive" characteristics?	
23	To what extent should benefit sharing be based on realised rather than forecast levels of return and efficiencies?	EnergyAustralia does not support an approach that would reduce the incentive properties of the current approach.
24	Does the Commission need to provide guidance regarding its views on the relative incentive merits of alternative gain-sharing ratios and periods?	EnergyAustralia suggests that ESCOSA express its commitment to limiting efficiency gains to the subject access arrangement period and to the sharing of gains in greater proportion to the network users. This will align South Australia with other jurisdictions and in itself provide the certainty it is suggested the service provider requires.
25	Is it appropriate for the Commission to provide guidance regarding the sharing of downside as well as upside returns?	In light of the different views that have been expressed in other jurisdictions it is appropriate for ESCOSA to provide early guidance regarding the sharing of downside as well as upside returns.
26	Should the Commission state clearly its information requirements prior to Envestra finalising its proposed Access Arrangements Revisions? To what extent may these requirements need to differ from the Access Arrangement Information documentation approved by SAIPAR?	EnergyAustralia suggests that the test of confidentiality that was used by SAIPAR should be reviewed to ensure that it both maximises the information available in the AA review process, and protects information that is truly commercially sensitive.
27	Should the Commission provide guidance as to its general tests for the reasonableness of terms and conditions? In particular, does Envestra's current Credit Policy meet the Code's reasonableness requirements? Is this a matter on which the Commission should provide further guidance?	EnergyAustralia supports the issue of guidance. The current terms and conditions are not necessarily reasonable nor realistically commercial, and are not consistent with terms in other jurisdictions. The terms should be reviewed to eliminate any mismatch between the obligations upon retailers in their licences and the Retail Code, and the willingness of Envestra to provide services accordingly.
28	Should the Commission give consideration to approving use-it-or-lose-it rules for contracted capacity? For the SA gas distribution system, might the benefits of introducing use-it-or-	EnergyAustralia considers that the ability to contract but not use capacity is at the commercial discretion of the User as the User

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	lose-it rules be outweighed by the costs?	fully funds the capacity rights. However for the uncontracted capacity on the distribution network, the distributor should have the right to auction the spare capacity to the market to improve the utilisation of the network.
29	Does the currently approved Queuing Policy require any reconsideration by the Commission, particularly in view of experience with that policy during the first Access Arrangement Period?	EnergyAustralia is not aware of any adverse experiences and does not require the queuing policy to be reconsidered.
30	Should any distinction be made between the coverage of "extensions" versus "expansions" to the network? Should an access arrangement be approved if it involves the coverage of an "extension" being at Envestra's discretion?	Coverage of an extension or an expansion should not be at Envestra's option. The expansion or extension of a covered pipeline should be covered because the market power of the "old" and "expanded" pipeline will be the same.
31	To what extent does the Commission need to give consideration to ensuring that customers receive gas distribution services where such customers are prepared to meet the net incremental costs of receiving those services?	EnergyAustralia considers that ESCOSA needs to ensure that the Expansions/Extension Policy will ensure customers will receive gas distribution services whenever they are prepared to meet the net incremental costs of receiving those services.
32	Should the Commission give advance consideration to an extended (longer-than-five-years) access arrangement period? What weight should be given to leaving maximum discretion to ESCOSA's successor (the AER)?	An extended term of the Access Arrangement is not required. The timing of establishment and powers of the successor are not ascertainable at this time, and should not be a part of ESCOSA's consideration of the Access Arrangements.
33	Should the Commission provide guidance regarding the requirements to be met by any proposals made by Envestra for Fixed Principles?	EnergyAustralia considers that fixed principles should be avoided, to allow maximum flexibility to deal with changes as the gas market and access needs evolve.