
Access Arrangement
for the
South Australian Distribution System

RESPONSE TO
SUBMISSIONS TO ESCOSA ISSUES PAPER

ENVESTRA LIMITED



18 April 2005

1. Issues raised by ENGINEERING EMPLOYERS ASSOCIATION, SOUTH AUSTRALIA (EEASA)

Issue 1

EEASA describes Envestra as "the primary wholesaler of gas in South Australia" (p2)

Envestra is not a wholesaler of gas but a transporter of gas. This is an important distinction since Envestra is not permitted to sell natural gas.

Issue 2

The main issue raised by EEASA is that described as "take or pay" conditions – EEASA contends that Envestra's take or pay tariff structure is inappropriate and that it discourages customers from minimising gas consumption and environmental emissions.

EEASA appears to have mistaken Envestra's MDQ (Maximum Daily Quantity) tariff mechanism used in the Demand market as a "take or pay" mechanism. "Take or pay" is a term associated with the sale of gas, and Envestra does not sell gas.

In relation to the MDQ pricing mechanism, it is standard practice throughout Australia and overseas for gas haulage charges for large users to be based on "capacity" reservation (both in regulated and unregulated networks and transmission pipelines). MDQ-based pricing is cost reflective in terms of allocating network usage, and such a mechanism is therefore consistent with the underlying principles of the Access Code. Envestra therefore rejects the EEASA assertion (p4) that such a mechanism is "unfair".

It should be noted that while MDQ pricing is used by Envestra in its charges to retailers, it is not necessary for retailers to duplicate such mechanisms in their contracts with consumers, meaning that retailers and consumers are able to negotiate arrangements that mitigate MDQ risk.

Contracts between retailers and consumers will usually contain a charge for the actual usage of gas. EEASA is therefore incorrect in asserting that, because of the MDQ charging mechanism, consumers have no incentive to reduce energy consumption and therefore emissions to the environment (p4).

It is also incorrectly stated (p2) that Envestra requires users to specify an Annual Contract Quantity – it should be noted that Envestra does not have such a requirement in relation to billing.

2. Issues raised by TXU

Issue 1

TXU suggests that ESCOSA should provide guidance on the "apportionment of liability. The compelling logic is that risk (and liabilities) sit where it is best managed, but there are some inconsistencies (especially in the linear relationship) between this principle and the Access Arrangement." (p1)

TXU is incorrect to suggest that ESCOSA should provide guidance on the apportionment of liability. The role of the regulator is only to assess whether Envestra's terms in relation to liability are reasonable.

In relation to management of risk, Envestra believes that its terms and conditions will provide for appropriate apportionment of liability. Importantly, the cost associated with that apportionment will be the cost that is incorporated in the proposed reference tariffs. Consequently users must recognise that there will always be a trade-off between cost and liability, and if users seek for Envestra to bear a higher risk, then that will need to be reflected in higher reference tariffs.

TXU suggests that there are inconsistencies relating to risk and the linear relationship under which the gas regime in South Australia operates. Envestra is not aware of any such inconsistencies, and TXU has not provided any examples.

Issue 2

FRC telemetry - TXU's "recollection is that only some 40 of the 170 sites had in fact been upgraded to Interval Metering/Telemetry by FRC and market start in 2004", and seeks clarification of when all required interval meters would be installed and how they are to be paid for. (p2)

All Demand sites have telemetry installed and this is paid for by the charge levied.

Issue 3

Tariff Zones - "The North and North West zones are adjacent geographically, however the North West zone appears to be disproportionate. If there is a cross subsidy within the current tariffs should this continue?"(p3)

Envestra advises that the zones were designed to avoid a cross subsidy and to provide cost reflective pricing. We therefore do not believe that cross subsidisation is an issue.

Issue 4

Gas odourisation – TXU appear to suggest that Envestra should be responsible for the safety, in relation to technical specification/composition, of gas supplied to delivery points, and suggests that risk should sit where it is best managed. (p3)

Envestra is already responsible, under the current Access Arrangement, for the safety and quality of gas supplied to delivery points (provided gas of appropriate quality is supplied by retailers at the receipt points). It is noted that Envestra has essentially no control over the composition of the gas it transports, since it can only transport the (quality of) gas that is delivered to it by retailers. It is clear therefore that gas quality is a risk that is best managed by the procurers of the gas, ie retailers.

Issue 5

Interval meters – “The obligations to poll and read interval meters under the Gas Retail Market Rules need to be explicit in the haulage reference services”. (p3)

Envestra believes that it is not necessary to duplicate all of the requirements of the Retail Market Rules in the Access Arrangement, and that a far better approach is to acknowledge (in the Access Arrangement) the requirements of the Rules.

Issue 6

Negotiated Services – TXU recommends that a “common charging mechanism must be established, either as a protocol or a formula, to ensure that Envestra cannot use price differentials to create a barrier to entry”. (p3)

Envestra uses a consistent charging mechanism to determine charges. However, as the name suggests, a negotiated service is provided where circumstances differ from the standard reference service.

Envestra applies a consistent charging mechanism to all retailers to ensure there is no retailer discrimination or barrier to entry.

Issue 7

Standards of service – TXU is in favour of “enforceable agreements that the user and Envestra can use to determine the threshold of unacceptable standards” and believes that the parties “should also be subject to sanction or penalty by the regulator” for failure to meet service standards. (p3)

The Retail Market Rules, Gas Distribution Code and Gas Metering Code, Gas Act and regulations already set out numerous service standards in relation to the market. For activities not covered by the Retail Market Rules, Envestra does not believe that the introduction of a new service standard regime is

warranted. Before contemplating the introduction of new and costly service systems, there must be a clear need, and the benefits of such systems should outweigh the costs.

Envestra believes that service standards in the gas industry in South Australia are already relatively high, and that TXU should provide specific examples if it wishes to support new service standards.

Issue 8

WACC – TXU supports “WACC parameters on the lower side of the plausible ranges on the basis that this is consistent with outcomes of a purer economic paradigm”. (p4)

TXU has presented no evidence to suggest that choosing WACC parameters on the lower side of the plausible range is consistent with a “purer economic paradigm”, or more importantly, why it is desirable to achieve a “pure economic paradigm” and whether such a concept is consistent with the aims of the Code.

Furthermore, a “pure economic paradigm” would appear to be inconsistent with the concept of workable competition espoused by TXU in page 5 of its submission.

Issue 9

Marketing – TXU questions the need for Envestra to have “marketing costs included in its Opex forecasts” on the basis that it believes the promotion of natural gas to be a “public policy initiative”. (p4)

The “marketing” costs referred to by TXU are not related to public policy. They are prudent network costs incurred with the aim of increasing the penetration of natural gas. Increasing gas throughput in the network lowers average unit costs and this benefits all consumers (and retailers also). Such costs are specifically recognised in section 8.36 of the Code.

3. Issues raised by AGL

Issue 1

“AGL would like to see some standards addressing the quality and timeliness of demand delivery point metering data provided to network users. Currently, an unacceptable amount of demand delivery point data is estimated and then replaced with real data at a later date. This provides uncertainty to demand customers, who rely on accurate and timely metering data to adjust their MDQs”.

The above issue is one that relates to the Retail Market Rules rather than Envestra’s Access Arrangement. Nonetheless, Envestra fails to see the uncertainty from a customer’s perspective, since their network charge does not normally alter from one month to the next (let alone from one day to the next), and an adjustment of MDQ is an infrequent event.

Issue 2

AGL would like Envestra to have an obligation to provide demand customer usage profiles in a timely manner, alleging that "to date, this information has not been forthcoming".

Envestra has compiled and provided AGL and other retailers such information in a timely manner (generally within one week). No complaints have been received by AGL or any retailer in relation to this issue.

Issue 3

AGL believes there should be a separate "use of system" agreement between Envestra and network users. It believes this would assist in areas such as "when customers are moving premises".

Since a "use of system" agreement already exists by way of the Access Arrangement terms and conditions, and the Retail Market Rules provide more than 400 system rules, Envestra does not believe that a further "use of system" or other agreement is necessary. Where AGL has identified the need for specific additional rules or protocols, these should be listed and put forward for consideration by Envestra or REMCo respectively.

Issue 4

Reduction in MDQ – AGL is concerned that the Access Arrangement does not place an obligation on Envestra to reduce a demand delivery point MDQ upon request.

Envestra has advised retailers that MDQ reductions will be assessed on a case by case basis, following a written request by a user. Envestra is not aware of any request (for a revision of MDQ by AGL) that has been denied.

4. Issues raised by ENERGY AUSTRALIA

Energy Australia did not raise any issues concerning the current Access Arrangement.

5. Issues raised by ELECTRICITY CONSUMERS COALITION OF SA (ECCSA)

ECCSA raises a number of issues, the general thrust of which is to ensure that there is proper scrutiny of the information and costs submitted by Envestra in the review process.

However, ECCSA makes incorrect references a number of times in its submission to the relationship between Envestra and Origin Energy, with the inference that the retail arm of Origin Energy, Origin Energy Retail Limited (OER), may have more than an incumbent advantage. The ECCSA submission:

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- (a) asserts that Envestra and the operator of the network are related parties (p2) and that the operation of the network takes place under a related party contract. This is incorrect. The facts of the matter are:
1. The operator of the network is Origin Energy Asset Management (OEAM), which is a subsidiary of Origin Energy. OER is also a subsidiary of Origin Energy. OEAM is ring fenced from all of Origin Energy's retail arms (including OER), and consequently all retailers are treated without discrimination.
 2. As set out in Envestra's Annual Report, Origin Energy is a shareholder of Envestra, but is not a controlling shareholder.
 3. OEAM operates the network under contract to Envestra. As a contractor, OEAM is subject to direction from Envestra and the operation of the network is not influenced by any indirect relationship between OEAM and OER.
- (b) asserts that "Origin Energy is not only the operator of the Envestra network but a major part owner of Envestra" (p2) – This is incorrect. As mentioned above, the operator of the network is OEAM. Also, Origin Energy is not a major owner of Envestra, as its shareholding is less than 20%;
- (c) states that "ESCOSA should ensure that the terms and conditions set by Envestra do not provide Origin with a preferred position" (p2) – In addition to the points clarified above, it is noted that the Access Arrangement terms and conditions approved by the regulator are applicable to all retailers in the market and cannot discriminate between retailers;
- (d) asserts that "Origin is both dominant retailer and operator of the Envestra assets" (p3) – this is incorrect (see part (a) above);
- (e) asserts that Envestra has contracted full capacity of the city gate stations to Origin and this has encumbered competition (p3) – This is incorrect. The gate stations are not Envestra's assets and are not part of the network
- (f) Requests ESCOSA to require open access to all gate stations with a new methodology for managing gate station metering (p3) – see part (e)
- (g) Asserts that there is a "close relationship between Origin Energy (the dominant gas retailer in SA) and Envestra" (p3) – This is incorrect. The dominant retailer in SA is OER, and there is no close relationship between Envestra and OER, other than the business relationship that is engendered between Envestra and each retailer it deals with.