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Dr Patrick Walsh
Chairperson
Essential Services Commission of South Australia
GPO Box 2605
Adelaide SA 5001

Dear Dr Walsh,

2006 Proposed Revision of Envestra's Gas Distribution Access Arrangement

AGL South Australia (AGL) welcomes the opportunity to provide comment on the review of Envestra Limited's Access Arrangement for the covered South Australian gas distribution system. AGL's comments are as follows.

Unaccounted for Gas (UaFG) – Clause 2.5

Under current arrangements UAFG is purchased by the Network Operator and this cost is allocated to Network Users through their network tariffs.

The treatment of UaFG proposed in the Access Arrangement represents a significant departure from present arrangements. AGL is concerned that this clause places an obligation on Network Users to supply the UAFG for the Network and yet does not hold an incentive for Envestra to ensure UAFG is a reasonable amount. AGL recognises that gas can be lost for a variety of reasons, but considers that placing reasonable upper limit of the volume of UAFG that can be claimed will ensure that the Network is maintained in a condition that minimises UAFG losses. AGL understands that in NSW the regulator determines a prudent UAFG level which the Network Operator is required to purchase from the market. UAFG are considered to be Network Operator costs. Such an arrangement provides incentives to the network operator to reduce UAFG and retain any savings for the regulatory period if it is able to better the regulatory benchmark.

AGL would like to review the empirical basis that is underpinning Envestra's proposed division of the overall UaFG rate into a benchmark for Class A (supply points >50TJ pa) and another for Class B (supply points <50TJ pa). AGL seeks clarification on how the benchmark rate for Class A can be below the tolerance limits set for meters, bearing in mind that UaFG is really about measurement errors/inaccuracies.

AGL would also like an assessment of the allocation of a significantly higher UAFG percentage, approximately 9 times larger, to Class B delivery points with a consumption less than 50TJ per annum. It is our view that a reasonable principle for the allocation of UAFG is on the basis of reflecting where such UAFG losses occur. The allocation of 9 times more UAFG to Class B delivery points would appear to be based on the premise of more losses occurring in the distribution network where

there is a greater concentration of Class B customers, rather than a trunk pipeline or lateral.

However, allocation based on consumption may not reflect a customer's actual contribution to UAFG losses. Network Users with delivery points in a similar physical location, could end up contributing considerably different amounts of UAFG depending on whether they fall just under or just over the 50TJ threshold. A further consideration is that acceptance of Envestra's proposal may lead to significant retail price impacts for the customer segment associated with Class B delivery points.

AGL also understands that adopting the approach outlined in the proposed Access Arrangement could require changes to the REMCo systems and GRMS, possibly resulting in significant cost implications to be borne by Retailers. The full extent of changes and costs is yet to be determined. AGL would appreciate the opportunity to comment further if this change is progressed and would seek assurance that there is significant cost benefit in departing from current arrangement.

Title and Risk - Annexure G, Clause 15.4

Following on from the comments above in regard to UAFG, this clause also represents a significant departure to current arrangements. Under current arrangements the Network Operator purchases UAFG and this cost is allocated to Network Users through their network tariffs. Under the new access arrangement, Network User's must accept the risk of the loss from the Network of UAFG. AGL supports a continuation of the current arrangements. It is not appropriate for Network Users to bear the risk of loss from the Network of UAFG because they have no ability to ensure these losses are minimised, and therefore minimise their risk. AGL believe that by placing this obligation on Envestra there is an incentive for them to maintain the Network in a condition that minimises UAFG losses.

Gas Balancing within Gas Delivery Zones – Annexure G, Clause 5.4

AGL's preference is for gas receipts and withdrawals to be balanced on a network section basis rather than on a delivery zone basis. Where Retailers organise for gas deliveries via different pipelines it is unmanageable to bring specific quantities through each receipt point. The requirement to balance on gas delivery zone, whilst deliveries are made from more than one gas pipeline, could result in gas unders and overs in individual zones, even though total injections and withdrawals balance.

Overrun Holiday – Clause 6

AGL supports the inclusion of a clause granting users moving from a Demand Delivery Point (which was not a Telemetered Delivery Point) to a Telemetered Delivery Point, an overrun holiday for a period as outlined below. Often it is difficult to accurately determine a customer's MDQ due to lack of detailed metering data. A fair and reasonable estimate of the customer's MDQ may still be low compared to their actual demand profile.

Granting an overrun holiday allows sufficient time to determine the users correct MDQ without incurring overrun charges where the MDQ estimate does not meet the actual demand. In practical terms, it could take up to twelve months to understand a customer's MDQ to account for seasonal fluctuations in demand such as a winter or summer peak.

AGL proposes the following clause is inserted under Daily Overruns as clause 6.6:

"Overrun Holiday

(a) If the Quantity of Gas delivered through any Telemetered Delivery Point exceeds the MDQ for that Delivery Point on a Network Day during the Overrun Holiday for that Delivery Point:

(i) no daily overrun charge will be payable pursuant to clause 6.2 in relation to that Delivery Point in respect of that Network Day; and

(ii) that Network Day will be ignored for the purposes of clause 6.4 and clause 6.5.

(b) For the purposes of this clause, a reference to "the Overrun Holiday" for a given Telemetered Delivery Point is a reference to the period that:

(i) commences when the Delivery Point changes from a Demand Delivery Point (which was not a Telemetered Delivery Point) to a Telemetered Delivery Point because the Metering Equipment at that Delivery Point begins to take readings no less than once in every 60 minutes; and

(ii) ends twelve months after it commenced or, if earlier, 5 Network Days after Envestra gives notice to the Network User ending the period in accordance with paragraph (c).

(c) Envestra will only give notice to the Network User ending the Overrun Holiday in relation to a given Telemetered User Delivery Point if Gas is taken through that Delivery Point in quantities or at rates which are materially higher than the quantities or rates which Envestra expected, based on information about that Delivery Point which was available to it at the commencement of the Overrun Holiday.

Disconnection & Reconnection Services – Annexure G, Clause 17.4

AGL is concerned that Envestra is only obliged to use "best endeavours" to disconnect or reconnect a delivery point "as soon as practicable". The Gas Distribution Code only requires Envestra to use best endeavours to carry out a reconnection within 1 business day and The Retail Market Rules state that Envestra must reconnect a supply address within 2 business days. Therefore, the only clear obligation on Envestra is to reconnect supply within 2 business days.

The Energy Retail Code contemplates that where a small gas customer makes a request for reconnection before 3pm on a business day, the retailer must arrange for the reconnection on the day of the request. Similarly, where a small gas customer makes a request for reconnection after 3pm and before 9pm on a business day and pays the retailer's reasonable charges the retailer must arrange for an after hours reconnection. If no fee is paid, then the Retailer must arrange for reconnection by the end of the next business day. Furthermore, where a customer requests for reconnection after 9pm, a retailer must arrange for the reconnection by the end of the next business day.

Disconnection of the service is disruptive for the consumer and once they have rectified the cause of the disconnection, such as allowing access or agreeing to a payment arrangement, the restoration of supply is paramount. Under the current regulations, if the consumer requests reconnection and their Retailer arranges for reconnection on that day, over a holiday period it could be as many as 6 days before

supply is restored. Even if the customer is prepared to pay for a same day or after hour's reconnection, retailers are unable to assist, as Envestra is not obliged to provide this service.

It is our view that for reasons of consistency in a competitive market environment, gas consumers should be granted the same level of service that electricity customers receive in regard to reconnection. Furthermore the Access Arrangement should be consistent regulatory arrangements for customer disconnection and reconnection to ensure retailers are able to meet their obligations. AGL strongly supports the provision of a same day reconnection service and an after hours reconnection service similar to that currently in effect for electricity. Therefore, AGL supports the inclusion of relevant service standards in the Access Arrangement that address the above concerns.

Trigger Event Adjustment – Clause 4.3

Under the proposed Access Arrangement, if Envestra gives notice to the Regulator under section 8.3B of the National Third Party Access Code, Envestra will be able to pass on increases and decreases in Imposts (ie. Taxes) to Network Users, unless the Regulator specifically disallows the variation. AGL supports this position provided that there is no obstruction to retailers subsequently passing these changes through to customers.

Should the pass through of a change in Imposts to customer be restricted, then AGL supports a continuation of the current arrangement where Envestra may apply to the Regulator for approval to increase or decrease the Reference Tariffs. This being when Envestra determines that the costs of operating the Network or performing its obligations under the Agreement have increased or decreased materially as a result of a New Impost or change in an Impost.

Goods & Services Tax – Clause 39.2

From an operational perspective, AGL would like to ensure that tax invoices are received before GST becomes payable, allowing GST paid to be claimed as an input tax credit as soon as possible. Furthermore, AGL requires a tax invoice before processing GST payments.

To address the above, AGL suggest the following paragraph, which currently appears in AGL's Haulage Agreement for Covered Pipelines Specific Terms & Conditions, be inserted as clause 39.2(e)

"If required by law, the Supplier will issue to the Recipient a tax invoice in respect of a taxable supply. A tax invoice required by this sub-clause will be issued prior to the GST on that taxable supply becoming payable. Any tax invoice issued may be issued in addition to any other invoice that relates to the taxable supply."

Reduction in Demand Delivery Point MDQs

AGL is concerned that the proposed Access Arrangement does not place any obligation on Envestra to consider requests from a Network User to reduce a demand delivery point MDQ.

Demand requirements for business vary over time therefore it is important that the Access Arrangement provides for periodic review of MDQ. A Network User should be allowed to re-set an MDQ after a minimum of 12 months at that MDQ. There should not be a floor on the MDQ re-set as Envestra is protected from a network user setting an MDQ too low by their automatic MDQ increase mechanism.

Site shutdown can also occur from time-to-time when a customer either goes into receivership or simply decides to "shut up shop". A Network User should have the right to terminate network services when any capital commitment to Envestra has been paid off and where they have been taking gas at the site for longer than 12 months.

Envestra has outlined in previous correspondence that they currently adopt a case by case approach to requests for MDQ reduction due to the number of considerations that need to be taken into account. These include:

- The long-term trend of the customer's gas load (including a material and sustained reduction in gas load which is likely to continue).
- Permanency of change in circumstances (such as change in manufacturing process).
- Envestra's capital commitment (for example where Envestra has upgraded or installed new assets).

AGL supports Envestra's approach to assessing these reductions in MDQ. However, this process should be formalised in the Access Arrangement so that Envestra has an obligation to consider an application for MDQ reduction and assess the request in a reasonable and consistent way. In the same way that the process for requesting temporary increases of MDQ is documented in the Access Arrangement, so should requests for MDQ reduction to ensure that all Retailers' are treated equitably in their requests and that the process for review is transparent.

Terms and Conditions

As noted in a previous submission, AGL supports the Commission's proposal to further clarify the service standards set out in the Terms and Conditions. AGL believes that this will improve the effectiveness of retail competition and the standards of service provided to customers. It is also important that the Terms and Conditions set out in the Access Arrangement reflect and are consistent with the retailers' and distributors' obligations under regulatory instruments and market rules. In addition, provisions under the Access Arrangement should include or facilitate the agreement on service levels and compliance with those agreed service levels.

AGL continues to support the Commission's proposal to convene a Terms and Conditions Working Group to consider Envestra's proposed Terms and Conditions. AGL believes that a Working Group comprised of Envestra, Network Users and the Commission will provide the appropriate mix of representatives and has a strong desire to participate in this group.

If you have any questions on the above comments please direct them Natasha Cheshire, Regulatory Development Manager, on (08) 8299 4515.

Yours Sincerely,

Sean Kelly
General Manager Retail Regulation