

13 March 2005

Chairperson
Essential Services Commission of South Australia
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Adelaide SA 5001

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Attention Dr Patrick Walsh

Dear Dr Walsh

2006 Gas Access Arrangement: Proposed Terms and Conditions

Origin Energy (Origin) welcomes this opportunity to further comment on Envestra's proposed Access Arrangement for the South Australian Envestra network to take effect from 1 July 2006. This submission follows on from Origin's submission of 18 November 2005 and the recent meetings held by ESCoSA to discuss the terms and conditions of the proposed Access Arrangement.

This submission does not contain confidential information and may be published on the Commission's website.

Origin has over 2 Million gas and electricity customers in South Australia, Queensland, New South Wales and Victoria and has several years of experience in the gas industry. In particular, Origin has had significantly more experience with Envestra's South Australian Access Arrangement than any other retailer.

Origin is therefore well placed to comment on the Envestra's draft Access Arrangement.

Origin's Specific comments are set out below.

1. Service Standards

Origin previously recommended that a clause reflecting the requirement that *"Envestra will Operate and manage the Network in a manner consistent with a prudent network operator"*. During one of the ESCoSA Terms and Conditions meetings, Envestra stated that the term "prudent operator" is too vague and that the Trade Practices Act, inter alia, sets its operating standards.

As a pragmatic solution, Origin recommends that a simple statement be incorporated into the Access Arrangement Terms and Conditions, stating that the Terms and Conditions are subject to the applicable regulatory instruments. The regulatory instruments (which include the Gas Act and the Distribution Code) provide objective measures of service standards.

2. Balancing Within Gas Delivery Zones

Origin notes that concern had been expressed by other retailers in relation to Clause 5.4, which sets out the gas balancing arrangements within the Adelaide Gas Delivery Zones. Origin supports the gas balancing provisions within Gas Delivery Zones as set out in the proposed Access Arrangement since they provide a cost effective manner to ensure system security whilst minimising any potential Gross Heating Value errors associated with two transmission pipelines supplying gas to the Adelaide network.

3. Advance Payment of Network Charges

In both its current and proposed Access Arrangement, Envestra requires users to make advance payment of two months of estimated network charges. In each subsequent month, Envestra retrospectively adjusts the advance payment of charges in line with the charges actually incurred by each user.

There are a number of reasons why this advance payment arrangement is inefficient and unreasonable, they are;

- Advance payment of network charges represents working capital that is currently being carried by Users. This working capital is more appropriately carried by the distributor since as a regulated entity with a lower risk profile, Envestra enjoys a lower Weighted Average Cost of Capital (WACC) than Users. The overall cost of carrying this working capital is therefore lower to the market if it is carried by Envestra.
- Origin submits that Envestra already protects itself adequately from bad-debt with a robust credit policy which seeks credit support from Users with poor credit ratings. We therefore believe it is unreasonable for Envestra to require, what amounts to a security deposit, from Users who enjoy a credit rating that exceeds Envestra's minimum threshold.
- Advanced payment followed by subsequent monthly adjustments is a complex arrangement involving the risk of errors accompanied by disputes between the distributor and Users. As gas contestability increases and more retailers enter the market, a greater number of Users would be required to pay Envestra's network charges in advance. This would inevitably lead to a further duplication of effort and an increased risk of error and disputes.
- Envestra operates in a similar financial environment to other gas distributors in Australia. However, Origin is not aware of any other Australian gas distributor that seeks an advance payment regime in its Access Arrangement. We therefore believe that it is inconsistent and unreasonable for Envestra to seek such an arrangement.
- ESCoSA in its *"Retail Gas Standing Contract Price Path; Final Enquiry Report and Final Price Determination"* of June 2005, stated

"The requirement for a 2 month prepayment of network charges will exist during the 2005/06 year, but may not exist for the remaining two years of the price path period, as a revised Access Arrangement will be in place from 1 July 2006 onwards. While the terms of the revised Access Arrangement are not yet known, for the purposes of calculating Origin Energy's accounts payable, the Commission has assumed that payment will be required 1 month in arrears, consistent with the Commission's decision with in the Electricity Distribution Price Determination and a number of other gas Access Arrangements ..." (Page A-92).

It is therefore clear that after 1 July 2006, the Retail Gas Standing Contract Price allows for the lower supply costs brought about by Envestra abolishing the prepayment requirement. To allow prepayment to continue after 1 July 2006 would add further downward pressure on retail margins causing disincentives to retail gas in South Australia.

- The Advance Payment regime represents a barrier to entry to smaller Users who are required to set up unique settlement systems to cope with arrangements that are peculiar to Envestra's South Australian and Queensland Access Arrangements.

Moreover, Users are required to pay network charges around two months before they can expect to be paid by their customers.

Origin submits that removal of prepayment would provide a more efficient operating environment and encourage greater competition in the South Australian gas industry.

Origin notes that in Queensland, the QCA proposed in its draft decision, a 12-month period in which Envestra would be entitled to seek an advanced payment of one-month instead of two. Origin strongly urges ESCoSA not to adopt such a measure for Envestra's South Australian Access Arrangement.

Origin strongly disagrees with a 12-month transition period since both Envestra and Users will be required to set up or modify existing settlement systems and processes that would operate for a short time. These systems and processes would then need to be modified again after twelve-months. Origin is concerned that two such changes to systems and processes would introduce further risk of errors and disputes multiplied by an increasing number of Users inexperienced in Envestra's settlement processes. Furthermore, a one-month pre-payment continues to remain a barrier to entry and continues to be an unreasonable security deposit for Users with strong credit ratings.

While Origin disagrees with Envestra's entitlement to seek an advanced payment, in any form, except from Users with poor Credit Ratings, Origin supports Envestra's entitlement to recover the appropriate cost of carrying this working capital in its distribution tariffs. Nevertheless, the overall impact should be lower costs in the gas delivery chain.

4. Reasonableness Provisions

Clauses 5.5(c), 9.7(c), 10.7(c), 21.4(c) and 21.5(c) contain the phrase "*... on whatever basis Envestra considers reasonable in the circumstances ...*", Origin recommends that this phrase be replaced in each instance with "*... on a reasonable basis ...*". This simple modification removes any suggestion that Envestra operates in a capricious manner in relation to its distribution functions.

5. Unaccounted For Gas (UAFG)

During the Commission's Terms and Conditions meetings, an alternate treatment for Unaccounted for Gas was discussed. However, while Envestra mentioned that it was indifferent as to the treatment of UAFG, Origin and other retailers were opposed to any changes from the present arrangement.

Origin is unaware of Envestra providing any further details in relation to an alternate treatment of UAFG and therefore recommends that the UAFG arrangements in the 2003 Access Arrangement be retained.

Origin Energy would be pleased to expand upon any of the points made in this submission. Please contact David Grove on (02) 8345 5481.

Yours sincerely

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