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

Dear Dr Walsh

Proposed Revisions to the Access Arrangement for the South Australian Gas Distribution System - Draft Decision

AGL SA welcomes the opportunity to provide comment on the above draft decision. Our comments below are confined to chapters 3 and 4 of the draft decision except where otherwise indicated.

AGL SA supports many of the changes proposed by the Commission in its draft decision. Our detailed comments are included in the attached appendix.

In summary AGL SA:

- Supports the amendment to clarify the obligation placed on Envestra to operate the gas network as a "prudent operator".
- Supports the retention of the existing treatment of unaccounted for gas (UAFG).
- Supports the introduction of the maximum daily quantity (MDQ) decrease clause but considers that Envestra should be required to provide an explanation to a network user in cases where they have rejected the user's application for a reduction.
- Considers that the amendments to clauses 5.5(c), 9.7(c) and 31.7 made with respect to "on a reasonable basis" should be extended to clauses 5.6, 10.7, 11.3, 21.4 and 21.5.
- Suggests that a change be made to the definition of "Impost" in the Access Arrangement.

- Supports the changes proposed in the decision in Amendments 15 and 16. In addition, due to work being performed to develop a national wholesale market for gas AGL SA encourages the Commission to ensure sufficient flexibility exists within the Access Arrangement to allow any developments related to balancing made at the national level to be implemented during the life of the Arrangement and not have to wait until the end of the five year term.

Please contact Robert Shannahan, Manager Retail Regulation on 8299 5542 should you wish to discuss this matter further.

Yours sincerely

Sean Kelly
General Manager Energy Regulation

APPENDIX

AGL SA's Detailed Comments on the Proposed Amendments

Amendment 7 - Prudent operator

AGL SA supports the Commission's decision to clarify the obligation placed on Envestra concerning the "prudent operator" issue. We strongly believe the changes proposed in Amendment 7 and in the Associated Regulatory Instruments provide clarity and comfort about Envestra's obligations in managing the network and the standard to be applied in determining compliance.

On a related issue, we note that the Commission has accepted submissions that Envestra should be subject to an objective standard of reasonableness in some instances but not others. ESCOSA requires amendments to clauses 5.5(c) (Amendment 18), 9.7(c) (Amendment 23) and 31.7 (Amendment 30) but not to clauses 5.6, 10.7, 11.3, 21.4 or 21.5 which also allow Envestra to make decisions without being accountable to a standard of reasonableness. AGL SA contends that similar changes should be made to these later clauses in order to achieve consistency and clarity in the document.

Amendments concerning Unaccounted for Gas (UAFG)

AGL SA fully endorses the Commission's draft decision not to accept Envestra's proposed alternative treatment of UAFG. Whilst the Commission's draft decision does leave open the possibility of a later introduction of alternative UAFG arrangements, AGL is of the view that any future attempt by Envestra to alter existing UAFG arrangements should be preceded by far more extensive and earlier industry consultation than has been the case in this round. Envestra's proposal to import the Victorian arrangements for UAFG failed to address a number of critical issues that can only be resolved following the involvement of the industry.

AGL SA also notes that the Commission makes reference at 626 to a retailer-based approach to UAFG having been considered in NSW. AGL SA is not aware of any such discussions or suggestions. It is also worth noting that there is industry-wide work underway in Victoria, preparatory to the next Access Arrangement review, to consider a move away from the current annual wash-up process and to adopt the arrangement for UAFG in SA and NSW whereby the network operator procures UAFG and reflects this charge in its haulage tariffs.

Amendment 13 - Maximum daily quantity (MDQ) changes

AGL SA supports the introduction of an MDQ decrease clause. As there is no indication what terms such as "materially change" or "significantly less" mean then we believe that Envestra should be required to provide an explanation to a user if its request for reduction of MDQ is not accepted. Without this a user has no way of knowing whether its application is being objectively assessed or indeed what needs to be achieved in order for an application to be accepted. Considerable effort could be expended by users and their customers in making applications which Envestra may not accept.

We also note that in Amendment 24, ESCOSA has required Envestra to provide an explanation of a curtailment decision and has required an amendment to this effect. For consistency reasons an explanation should also be provided in cases where a request to reduce MDQ is denied.

Amendment 15 and 16 - Gas Balancing within gas delivery zones

AGL SA supports the changes proposed in Amendments 15 and 16 which accommodate the role of the Retail Market Rules in this area and align the notification period between the Access Arrangement and Retail Market Rules.

At the national level there is currently work underway to develop a national wholesale market which would likely facilitate balancing at a network section level or an even broader level known as a "hub". This is consistent with the original proposal by AGL SA, rather than the zonal basis proposed for this Access Arrangement. We encourage the Commission to allow sufficient flexibility in the Access Arrangement so that any changes at the national level can take effect as soon as possible and not have to wait until the end of the five year term of the Arrangement.

Access Arrangement, Clause 11 (Glossary) - Definition of "Impost"

Clause 4.3 of the proposed Access Arrangement provides that if there is a Change in Imposts that increases or decreases the cost to Envestra of providing a Reference Service then the Reference Tariff for that Reference Service will be varied. Generally changes in impost would not include changes to income taxes and capital gains tax. AGL SA therefore suggests the following change to the definition of impost:

'Impost' means any royalty, duty, excise, tax, impost, levy, fee or charge (**except if imposed on the overall net income of Envestra, but** including, ~~but~~ without limitation, any goods and services tax) imposed by the Commonwealth of Australia, any State or Territory of Australia, any local government or statutory authority or any other body (authorised by law to impose such an impost, tax or charge) on or in respect of the Network (or any part of it) or on or in respect of the operation, repair, maintenance, administration or management of the Network (or any part of it) or on or in respect of the provision of any Network Service."