

3. Demand Forecasts

Domestic and Commercial Markets

In its Final Decision, the Commission has determined that it favours the MMA approach taken to forecasting as the Commission considers it is the more rigorous approach.

For the reasons set out in Envestra's submission on the Draft Decision and in the attached supplementary report from NIEIR, the MMA approach is not more rigorous than that undertaken by NIEIR and consequently does not produce best estimates arrived at on a reasonable basis. This is particularly due to the approach taken by MMA to weather normalisation, where the HDD model does not produce the best historical fit to the data.

While MMA state that they have employed a Method 2 which is equivalent to the NIEIR approach, such methodology receives little treatment in its reports and is not "rigorously" documented. In respect of this point, Envestra refers to the supplementary NIEIR report.

Envestra reiterates its position that its demand forecasts for the domestic haulage market, as outlined in the submission in response to the Draft Decision, best meets the criteria of a best estimate arrived at on a reasonable basis and therefore should be used.

However, Envestra would be prepared to accept the use of the MMA forecasts for the domestic haulage market, provided those forecasts were adjusted to take into account the approach to weather normalisation submitted by Envestra and NIEIR. Envestra is unable to make this adjustment itself, due to the Commission's refusal to provide Envestra with access to the models used by MMA. In the absence of these models, Envestra's Access Arrangement has been prepared on the basis of the NIEIR average consumption for the domestic market, which incorporates the best approach to weather normalise the data and MMA's forecasts of customer connections.

Although Envestra disagrees with the approach to calculating the demand forecasts for the commercial haulage market, it has accepted the MMA forecasts on the basis that the outcome is reasonably consistent with that forecast by Envestra. Envestra has therefore incorporated the MMA demand forecasts for the commercial haulage market into its Access Arrangement.

Northern Zone 2.5TJ Expansion – Demand Haulage Market

Envestra reiterates its position as set out in its submissions in response to the Draft Decision, that the demand forecasts for the northern zone should not include an increase of 2.5TJs of MDQ. This is because no reliable evidence has been produced suggesting that such expansion will go ahead. Given this, to include such expansion in the demand forecasts does not meet the Code's requirement that forecasts represent best estimates arrived at on a reasonable basis.

Evidence of Expansion

Envestra reiterates the position put in its submissions in response to the Draft Decision, being that it has no knowledge of any proposed expansion of existing plant in the Northern Zone.

Envestra has contacted all retailers with which it has haulage agreements and those retailers have also advised Envestra that they are unaware of any proposed expansion of Northern Zone plant supplied by the distribution system.

The only possible expansion of which retailers are aware is that of the glass bottle manufacturer referred to in Envestra's submissions in response to the Draft Decision, which manufacturer is supplied directly by the Moomba-Adelaide Pipeline and not from the distribution system.

Reliability of Customer Survey Information

In its 9 June 2006 report to the Commission, "Assessment of Envestra's Response to the Commission's Draft Decision on Envestra's Access Arrangement" MMA states:

"The customer has responded that...its expansion plans had been delayed somewhat. Instead of being in mid 2007, the expansion was now planned from some time in 2008." MMA states the customer now estimates mid 2008 to be a reasonable start up time.

The unreliability of the timing and occurrence of the expansion is clear from the above statement. In the short space of time between when the survey was conducted for MMA's March 2006 report and its report of June 2006, the customer has already delayed its expansion plans by one year. What is to suggest that in a further three months time the plans may not have been further delayed or cancelled? Of course, Envestra cannot assess this risk with any degree of precision due to the Commission's refusal to tell Envestra who the customer is or the nature of their expansion plans.

At a minimum, the change in the customer's plans suggests that the expansion is not necessarily a firm proposal and is subject to further review and possibly alteration, given it is clear from MMA's report that a precise date for the expansion has not been set. This uncertainty underpins Envestra's submission regarding the problems associated with such customer surveys.

Given this, it is clearly not a best estimate to incorporate this expansion in the demand forecasts for the demand haulage market.

Procedural Fairness

Envestra reiterates that the Commission has denied it procedural fairness by failing to provide details as to the identity of the Northern Zone customer and of their planned expansion. Without this information, Envestra cannot assess whether the basis for the Commission's Final Decision on this point is sound, nor has Envestra had the opportunity to comment or present evidence to the Commission as to whether the expansion is likely to go ahead and, if so, at what point it should be incorporated into the demand forecasts.

The rules of procedural fairness applying to the Commission's decision-making process require that it disclose to Envestra, as the entity affected by the decision, the information upon which that decision is based and, further, that Envestra be given the opportunity to respond to and test that information. This is particularly pertinent where, as with the Commission, the administrative decision-maker undertakes (in this case through its experts MMA) investigative enquiries and subsequently relies upon the fruits of those enquiries in reaching the ultimate decision. Due to the limited nature of the information disclosed to Envestra, it has not been able to test its accuracy or adduce its own material in response.

The content of the customers' responses to MMA's survey may be commercially sensitive and confidential in nature, however that in itself is insufficient grounds for the Commission to dispense with the requirement to afford Envestra procedural fairness. The Commission would have to show that the information is either protected from disclosure by statute or that disclosure to Envestra is not in the public interest. The public interest exception is most frequently invoked in order to protect informants, quite clearly a very different situation to the

present one. Envestra cannot identify any legislative requirement to maintain confidentiality, nor any detriment to the public interest by the disclosure to Envestra of the customer survey information relating to the purported expansion in the Northern Zone. There may well be some detriment to the customer if the information were to be disclosed to its competitors and Envestra therefore recognises that the information should not be disclosed to the general public, but that is a different matter from disclosure to Envestra. Envestra notes that, as the gas distributor to the customer, Envestra would have to be made aware of the expansion at some stage if, in fact, it is to occur.

Trigger Event Adjustment

While Envestra's primary submission is that due to the matters noted above the proposed expansion should not be incorporated into the demand forecasts for the demand haulage market, as a compromise position Envestra suggests that this matter be dealt with by use of a Trigger Event Adjustment Approach. That is, Envestra's Reference Tariff be varied in accordance with sections 8.3B to 8.3H upon the 2.5TJ expansion in demand occurring. This approach:

- (a) will ensure that if an expansion does occur it is properly taken into account;
- (b) addresses the uncertainty regarding the timing of the current expansion; and
- (c) addresses the concerns as to procedural fairness.

The approach is equitable as between Network Users and Envestra because it ensures that tariffs are appropriately adjusted from the time the expansion occurs, rather than creating a windfall gain or loss due to differences between the predicted timing of the expansion and its actual occurrence (if it were to occur). Given the uncertainty regarding the expansion, such a windfall is a real possibility.

As the Commission has pointed out in section 12.7.1 of the Final Decision, "*although trigger event adjustment mechanisms are usually of the cost pass-through type, the Code only defines such an approach to mean:*

"...a Reference Tariff Variation Method whereby Reference Tariffs are varied in the manner specified in a Reference Tariff Policy upon the occurrence of a Specified Event."

There are no restrictions on the manner of a tariff variation other than it must otherwise comply with the requirements of the Code."

Envestra notes that section 8.3 of the Code provides:

"Subject to section 8.3A and to the Relevant Regulator being satisfied that it is consistent with the objectives contained in section 8.1, the manner in which a Reference Tariff may vary within an Access Arrangement through the implementation of a Reference Tariff Policy is within the discretion of the Service Provider."

That is, Envestra is entitled to nominate a Trigger Event Adjustment Mechanism provided it is consistent with section 8.1. Envestra sees no basis upon which its proposal could be said to be inconsistent with section 8.1.

The details of the Trigger Event Adjustment Mechanism proposed by Envestra are set out in sections 4.5 to 4.13 of Envestra's Access Arrangement. As set out in the Access Arrangement and Access Arrangement Information that trigger will require a potential adjustment to tariffs

both on the basis of the adjustment to gas demand levels and also in respect of an adjustment to New Facilities Investment to reflect the capital expenditure required to service such increase in load. As noted in the Access Arrangement Information, an increase in load of this magnitude is likely to require substantial reinforcement of the network upstream of the relevant delivery point, as well as upgrading of the metering installation servicing the customer concerned. While it is difficult to ascertain, without details of the location and customer concerned, the exact nature of the New Facilities Investment required, Envestra's best estimate is that the required New Facilities Investment would be in the range of \$0.5m-\$1.5m.