



9 January 2001

Mr John Hall
Queensland Competition Authority
GPO Box 2257
Brisbane QLD 4001

Dear Mr Hall,

Re: Access Arrangements for Queensland Gas Distribution Networks

We refer to the Gas Distribution Networks Access Arrangements issues paper released by the Queensland Competition Authority (QCA) on 17 November 2000. We would like to take this opportunity to provide some comments and raise some serious concerns about the current ability of a competitive market to operate in South East Queensland.

As stated in your issues paper, the QCA has responsibilities under the *Gas Pipelines Access (Queensland) Act 1998* to approve access arrangements which stipulate the basic conditions under which competition can occur for the business of contestable customers. Energex Retail Pty Ltd (ERPL) contends that the access principles as submitted by Allgas Energy Limited (Allgas) and Envestra Limited (Envestra) are not in themselves sufficient to allow competition to occur.

Both Allgas and Envestra's access arrangements do not outline market operation issues. As you are aware, the gas industry does not have a national market operator such as NEMMCO. This requires each jurisdiction to develop and implement market operation structures and rules. Victoria has VENCORP to operate its market, whilst New South Wales has recently incorporated GRMCO as the gas market facilitator. Queensland currently has not developed a position with regard to the development of the market and so issues such as gas nominations, gas balancing, transfer processes and systems, settlement, etc, have not been resolved.

The structure of the gas market and associated roles and responsibilities has a profound implication on the costs of operating that market. We believe that the network operators will, by necessity, have a role to play in the market operation and that this issue must be considered when developing the access arrangements.

We believe that for the gas market in South East Queensland to effectively operate, an allocation agent must be appointed to receive gas nominations, liaise with transmission pipeline operators and balance gas withdrawals from the distribution system. Without this in place 2nd tier retailers can "free ride" on the incumbent retailers. For example, under the proposed access arrangements gas injections are deemed to equal gas withdrawals, thus the incumbent retailer would automatically compensate for any 2nd tier customers

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who withdrew more gas than their 2nd tier retailer injected. This could have significant financial implications.

Metering is another issue that will have an impact on the access arrangements. Other jurisdictions have required that large contestable customers install data loggers to record hourly and daily demand so that gas balancing and settlement can occur. If data loggers are not mandated then consumption profiles must be developed. The responsibility and cost recovery for the roll out of demand meters to contestable customers and/or the development of profiles have not been considered in the proposed access arrangements.

Additionally, there is no provision for the development for any systems or processes for customer transfer. The provision of these systems, along with the accompanying data access processes, are proving in other jurisdictions to be extremely expensive to provide. The distribution companies will have a central role to play in the provision of data and services to facilitate the market and cost recovery is a key issue. Historically distribution companies have been unwilling to invest in the development of systems to facilitate the market without certainty of cost recovery.

Lastly, we recognise that inherent cross subsidies exist between small and large users and we wish to highlight the dilemma facing incumbent retailers. Although the QCA sets distribution tariffs, retailers are unable to pass increased distribution charges through to the majority of customers as maximum retail tariffs continue to be set by the Department of Mines and Energy (DME). Thus it is imperative that distribution tariffs are calculated within the constraints of current and future retail prices. Any price path increasing distribution charges over time must also have agreement from DME for the commensurate adjustment to retail tariffs.

Thank you for the opportunity to comment on these important issues and we look forward to the development of a truly open and competitive market. If you have any queries in relation to any of the above issues please do not hesitate to call me.

Yours sincerely

Paul Mimnaw
Manager - Regulatory Affairs
ENERGEX Retail Pty Ltd

Cc: Mr John Conoplia, Department of Mines and Energy
