



Tel: (07) 3023 2429  
Fax: (07) 3229 0982

AGL Sales (Queensland) Pty Limited  
85 121 177 740

Level 31, 12 Creek Street  
Brisbane Qld 4000

GPO Box 1048  
Brisbane Qld 4001  
www.agl.com.au

Mr E John Hall  
Chief Executive  
Queensland Competition Authority  
GPO Box 2257  
Brisbane Qld 4001

By email: [gas@qca.org.au](mailto:gas@qca.org.au)

13 July 2007  
Re: APT Allgas FRC Cost Pass-through Application

Dear Mr Hall

AGL Sales (Queensland) Pty Limited (**AGL**) is pleased to provide comments on APT Allgas Energy Pty Limited's (**APT Allgas**) FRC cost pass-through application.

AGL's Queensland natural gas customer base of approximately 70,000 customers is primarily located in the APT Allgas distribution area.

AGL supports the principle of cost recovery and appreciates the business imperative for cost recovery. AGL also understands that the costs incurred to support the introduction of FRC have been influenced by the need to meet the Government's timetable of 1 July 2007.

Support for cost-recovery however, must be measured against an assessment that the:

- Costs claimed have not previously been allowed and/or recovered;
- Costs have been, or will be incurred;
- Costs are prudent and directly relate to FRC; and
- Timeframe for cost recovery does not have a significant adverse impact on customers and the industry.

These issues are addressed in detail below.

#### *Allowance for FRC costs*

AGL disagrees with APT Allgas' argument in section 3.2 of its submission that the QCA, in assessing its FRC cost pass-through application, should not consider what capital costs are within the cost build-up for the Total Revenue calculation.

AGL considers it highly relevant whether costs have already been allocated to, and are being recovered by, APT Allgas for FRC-related expenditure as part of its current Access Arrangement. AGL understands that the Allgas allocation of approximately \$4 million for the PEACE IT system was approved 'despite its cost and complexity, as the market rules and billing requirements that will apply under full retail contestability will require a sophisticated

information management system<sup>1</sup>. This statement in the QCA's Final Decision appears to indicate that the allocation was approved not just for ring-fencing compliance reasons but to cater for the new requirements under full retail competition.

AGL considers it unreasonable, if the allocation related to FRC, for the QCA to ignore this, and for customers to potentially pay twice for FRC costs and in effect 'extend credit' to the distribution business until a 'wash-up' of these costs in 2011.

AGL submits that the QCA should consider any allocations that have been made in the current Access Arrangement for APT Allgas to ensure that FRC costs are recovered only once.

#### *Demonstration that costs have been or will be incurred*

AGL understands that the QCA will be engaging a consultant to review the costs claimed by APT Allgas as part of its FRC cost pass-through application. As noted above, where it can be established that costs have been incurred (and the expenditure is prudent), AGL supports full cost recovery.

As a general comment, AGL considers that the cost pass-through application lacked sufficient detail in terms of the break down and allocation of costs, to allow a full assessment of the amounts claimed. That said, AGL's analysis of APT Allgas' application supports further consideration of the following costs:

- APT Allgas is seeking approximately \$1.2 million in capital expenditure and \$2 million in operational expenditure for Project Establishment Costs. It is not clear from the submission what these costs incorporate;
- APT Allgas is seeking approximately \$700,000 in 'partial integration costs'. The submission lacks specifics in relation to these costs. Furthermore, it is unclear which internal interfaces will remain manual and the associated ongoing costs;
- The requirement for 19 additional new staff. As noted in AGL's submission on Envestra's costs pass-through application where costs for an additional 11 staff were sought, the need for these staff needs to be demonstrated given:
  - APT Allgas currently performs functions such as new connections, metering, service order management and billing;
  - Customer numbers are comparatively small; and
  - Customer churn is expected to be relatively low.

AGL considers the need for the additional staff as well as APT Allgas' ability to recruit them should be clearly demonstrated for these costs to be allowed.

- The submission states that the forecast capital expenditure for the FRC project and related processes includes a 20% allocation of corporate overheads, covering management time (refer footnote 8, section 6.1). Consideration should be given to whether corporate overhead costs have already been fully allocated to APT's pipelines and network business.

#### *Prudence of costs and relationship to FRC*

APT Allgas' submission states that FRC costs have been pre-qualified by the QCA as being capable of pass-through on receipt of an application, and subject to, an assessment that these costs are prudent. AGL considers that these costs must not only be prudent but directly related to the introduction of full retail competition.

In this context, AGL submits that further consideration should be given to APT Allgas' claim to recover costs associated with the implementation of its GIS system. AGL appreciates the benefits that a GIS system can deliver to a network business across the range of its network

---

<sup>1</sup> QCA, Final Decision: Revised Access Arrangement for Gas Distribution Networks: Allgas Energy, May 2006, p54.

activities including managing outages and interruptions and network enhancements and extensions. As such AGL considers that the costs associated with implementing the GIS are more appropriately assessed as part of the Access Arrangement process. Should APT Allgas commit to a GIS, their expenditure should be reviewed as part of the capital expenditure review process as part of their next Access Arrangement reset. AGL does not believe that the case for the costs to be claimed as part of an FRC cost pass-through application has been made as they have not been shown to directly or indirectly relate to the introduction of FRC.

*Period for recovering FRC costs*

AGL is particularly concerned with respect to APT Allgas' claim to recover on its capital expenditure over a two year period given the impact this is likely to have on customers and development of the natural gas industry more broadly.

AGL understands that APT Allgas is seeking to recover \$119.02 and \$141.83 per year over 2007-08 and 2008-09 from volume customers. For an average residential customer this represents a substantial increase on their current annual gas bill and has the real potential to dampen growth in the natural gas market.

Similarly, the proposed increase of \$6,899 and \$7,495 per year for demand customers will have a significant impact on customers and in particular the lower end users in the demand class.

AGL understands, as a general principle, the costs for operational and maintenance expenditure is claimed in the year that it is expended. However, the recovery on and of capital expenditure, is recovered over longer timeframes which are linked to the useful lives of the relevant assets.

As noted in AGL's submission to you on the Envestra FRC Cost Pass-through Application, AGL operates across New South Wales, Victoria, South Australia, and Australian Capital Territory and has had considerable experience with the process and costs associated with the introduction of full retail competition in each of these jurisdictions. AGL is not aware of any other jurisdiction where the costs have been recovered over such a short period of time.

Moreover, the submission provides no justification or explanation for the recovery of these costs over a two year period. The claim by APT Allgas in section 6.5 of the submission that they face a 'cashflow risk' requires further clarification. As an infrastructure business, their business model is essentially one of committing resources to assets and recovering those prudent costs over the useful life of the asset. As such it is not clear where the cashflow risk lies.

Given the impact this will have on customers and the natural gas market more broadly, AGL submits that close consideration be given to the use of longer 'amortisation periods' or useful lives of the assets being installed by APT Allgas.

If you have any queries or would like further information please do not hesitate to contact me on (08) 8299 5149.

Yours sincerely,

Sean Kelly  
**General Manager Energy Regulation**