21 May 2001

Mr E J Hall
Chief Executive
Queensland Competition Authority
GPO Box 2257
**BRISBANE QLD 4001**

Dear Mr Hall

**PROPOSED ACCESS ARRANGEMENTS FOR GAS DISTRIBUTION NETWORKS ALLGAS LIMITED AND ENVESTRA LIMITED**

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AGL Energy Sales & Marketing Limited (AGL ES&M) welcomes the opportunity to comment on the Draft Decision by the Queensland Competition Authority (the Authority) on the proposed access arrangements for gas distribution networks by Allgas Limited (Allgas) and Envestra Limited (Envestra). AGL ES&M's comments are mainly on PART A (Non-Pricing Issues) and PART C (Other issues) of the Draft Decision.

Efficient and equitable access to distribution networks is a prerequisite for the development of a competitive gas supply market in Queensland. In this regard AGL ES&M welcomes the Authority's proposed amendments to the access arrangements.

It is also important that there is consistency in arrangements within and across jurisdictions to the extent possible to ensure that suppliers and customers do not have to develop and manage a number of different arrangements for the supply of gas. Already many suppliers such as AGL ES&M compete in energy markets across Australia. Some customers are also users of gas in different parts of the state and in different states in Australia. Similar arrangements will ensure costs of procurement and supply of gas is not unnecessarily high. Ultimately we must ensure that any differences in arrangements do not increase barriers to interstate trade.

AGL ES&M's main comments are as follows:

- Consistency in Approach

AGL ES&M notes that Envestra's tariffs for large customers are based on Maximum Daily Quantity (MDQ) whilst Allgas's tariffs are a function of the Maximum Hourly Quantity (MHQ). This means that there will be a need to manage two tariff regimes by retailers participating in the Queensland gas market and for customers using gas in both Envestra's and Allgas's areas. This could result in potential complexity and confusion in the application of tariffs. AGL ES&M suggests that the Authority investigate if there is a compelling reason for such difference.

In NSW tariffs based on the MDQ have been effective.

- Agreed Demand

The terms and conditions for large customer service (clause 2.1.2 – Allgas) indicates that the agreed demand, which becomes the basis for charges for the demand component, will be determined as the maximum demand for the previous year unless otherwise agreed with Allgas. Agreed demand may be varied if it can be demonstrated to the satisfaction of Allgas that the previous year's demand was abnormal.

AGL ES&M is concerned that historical demand may not adequately reflect change in a user's circumstances and its future consumption.

Given that the proposed amendments (A7 and E9) to the access arrangement allow for the demand to be varied if agreed demand is exceeded 4 times in 30 days or 10 times in 12 months, AGL ES&M believes that there is no longer a need for the above requirement.

Further, since demand is to be varied to reflect actual, AGL ES&M supports the deletion of conditions relating to overrun charges.

- Extent of security required of users

A user's capacity to meet financial obligations and security deposits are related issues. Security deposits should only be required where a user is not able to satisfactorily demonstrate that it is able to meet its financial obligations. A parent company guarantee should be sufficient in demonstrating such ability. AGL ES&M supports the Authority's amendment with respect to demonstrating a user's ability to meet financial obligations.

AGL ES&M believes that where a user has demonstrated its ability to meet its financial obligations, a security deposit is not necessary and as such seeks variation to the access arrangements to this effect. Accounts for network service should be issued in accordance with the meter reading and billing cycle of users/customers.

In the event that a security deposit becomes necessary, AGL ES&M supports the Authority's amendment that interest be paid on the deposits.

- Insurance

Under the proposed access arrangements, the service providers may require users to take out insurance against risks reasonably specified by the service providers. This requirement, it appears, is to protect the service providers in cases of significant damage as a result of events outside their control.

AGL ES&M is of the view that the indemnity provisions in the access arrangements together with the requirement on users to demonstrate ability to meet their financial obligations (including indemnities) offer sufficient protection to service providers. AGL ES&M does not believe that access arrangements should restrict risk management options to insurance only but allow users provide other options for consideration by the service providers. AGL ES&M is concerned that additional requirement for insurance for specific risks may become barriers to entry.

- Gas balancing

Access arrangements proposed by Allgas and Envestra do not include provisions for gas balancing except for the requirement that the users must ensure the aggregate quantity of gas delivered through each receipt point on behalf of the user is equal to that delivered at the delivery point on behalf of the user.

In practice, this match is not likely to be achieved on a daily basis due to the unpredictable nature of gas usage. The contract carriage market also does not provide a mechanism to deal with the imbalances created by this mis-match in receipt and deliveries. AGL ES&M is concerned the requirement to match receipts to deliveries may result in liabilities to users and proposes that a reasonable arrangement be put in place to deal with the imbalances instead.

Such arrangement does not necessarily have to be part of the access arrangements. This can be part of business rules to support full retail contestability.

AGL ES&M proposes that the access arrangements be amended to acknowledge that there will be mis-matches between the receipts and deliveries for users, and at the minimum include a requirement for the service provides to participate in gas balancing arrangements agreed to by the industry participants. AGL ES&M believes that gas balancing arrangements need to be defined as a matter of priority to enable competition in the >100TJ market from 1 July 2001.

If you have any questions about this submission please contact Kam Khelawan, Manager Regulatory Development on (02) 9922 8611 or khelawan@agl.com.au.

Yours faithfully

Phil James
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AGL Energy Sales & Marketing Limited