



Tel: (07) 3223 1972
Fax: (07) 3223 1934

AGL Sales (Queensland) Pty Limited
85 121 177 740

Level 2, 229 Elizabeth Street
Brisbane Qld 4000

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

19 March 2007

QLD COMPETITION AUTHORITY

22 MAR 2007

DATE RECEIVED

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

By email: gas@qca.org.au

Dear Mr Hall

Re: Envestra FRC Cost Pass-through Application

AGL Sales (Queensland) Pty Limited (**AGL**) is pleased to provide comments on Envestra's FRC Cost Pass-through Application.

AGL retails gas to approximately 70,000 customers in Queensland who are primarily located on the APT Allgas Energy Pty Limited distribution pipeline. AGL also operates across New South Wales, Victoria, South Australia, and Australian Capital Territory and has had considerable experience with the process of introducing full retail competition in each of these jurisdictions.

AGL supports Envestra's stated principle of adopting a low cost solution based on existing systems given the similarities between the Victorian FRC model and the Queensland model. AGL considers the adoption of the Victorian gas market rules, with minor variations, is a cost-effective and practical approach to introducing full retail competition in Queensland.

The introduction of full retail competition incurs substantial costs and we understand the business imperative for cost recovery. AGL notes Envestra's comments that a lower cost solution would be available if a 12 to 18 month timeframe for implementation similar to the timeframes allowed in other jurisdictions was available.

AGL considers that certain costs included in Envestra's application warrant further consideration and substantiation. Detailed comments on the individual cost items sought in Envestra's FRC Cost Pass-through application are attached.

AGL notes that the method for allocating the FRC costs to customers will have a significantly greater impact on smaller volume customers and smaller demand customers as a percentage increase in their current DUOS charges. Given this, AGL submits that alternative methods for allocating costs could be examined. In particular, consideration should be given to:

- a consumption based charge; and
- the use of longer 'amortisation periods', or useful lives of the assets being installed by Envestra.

If you have any queries or would like further information please do not hesitate to contact Liz Kelleher on (07) 3223 1972.

Yours sincerely,

Sean Kelly
General Manager Energy Regulation

ANNEXURE

Detailed comments on Envestra FRC Cost Pass-through Application

AGL makes the following detailed submissions on Envestra's FRC Cost Pass-through Application.

Cost Allocation

- Envestra has proposed a fixed FRC tariff for all volume customers and a fixed tariff for all demand customers. The tariffs are to take effect from 1 July 2007, and increase at CPI on 1 July 2008, 2009 and 2010. Envestra has proposed that the FRC tariff will be included as part of the Network Tariffs approved in the third Access Arrangement.
- This allocation of FRC costs between volume and demand customers proposed by Envestra will impact more on certain classes of customers, in particular, smaller volume and smaller demand customers in terms of a percentage increase in their DUOS charges.
- Given the impact on these classes, AGL submits alternative allocation methods should be considered. These may include:
 - allocation of costs to volume and demand customers based on a fixed cost and per GJ consumption; and
 - the use of longer 'amortisation periods', or useful lives of the assets being installed by Envestra.

Project Management and on-going staffing requirements

- The amount of \$3 million for general project management appears high and translates to 2,000 man-days at a rate of \$1,500 per consultant per day. Further, Envestra has applied a cost of \$3 million for general project management across all options. Given that the preferred option involves a system which Envestra is currently operating it could be expected that the project management requirements would be lower than for the implementation of new and unfamiliar systems.
- Envestra seeks an additional 7 FTEs to manage its non-metering FRC workload. Given that:
 - Envestra currently performs these functions (ie billing and connections);
 - customer numbers are comparatively small; and
 - customer churn is also expected to be relatively lowthe need for 7 additional FTEs requires further substantiation. AGL considers that the expected cost of \$0.8 million per annum, which implies a high annual remuneration for each additional staff member, warrants further consideration.
- Envestra has provided for a further 4 staff (Engineer, 2x Installation and Maintenance Fitters and Administration officer) to manage their metering and data provision functions. AGL considers that the implementation of FRC is unlikely to warrant an additional 4 full-time ongoing staff members. The metering functions are currently being performed by Envestra, albeit to a different standard, and once the roll-out of interval meters to the estimated 74 sites has been completed, ongoing maintenance and responses should not warrant 2 full-time fitters nor a full-time engineer. Consideration should be given to whether ongoing maintenance and response could be more efficiently managed through contractual arrangements.

Information Technology Systems

- Envestra has claimed that a \$2.5 million upgrade of Cordaptix is required in 2009/10 to allow for ongoing support of the system. AGL understands that this application is in use in Victoria and South Australia. AGL seeks clarification on whether the full cost of the Cordaptix upgrade has been allocated to Queensland or whether it has been apportioned across all jurisdictions in which the system is used. AGL would also be keen to

understand whether tariffs in Victoria and South Australia will reduce as a consequence of more jurisdictions 'sharing' these costs.

- AGL notes that in Envestra's Access Arrangement Information 2006 included substantial provision for upgrades to its information technology systems. In the Access Arrangement information Envestra noted that it has already expended considerable resources in the development and installation of required systems as a consequence of the introduction of FRC throughout Australia. AGL seeks further clarification of how the amounts provided for under the Access Arrangement have been taken into account in the current application for additional IT costs.

Metering

- Envestra's application provides for correctors to be placed on all interval meters at a cost of \$4,500. While the use of correctors may be warranted for supply points with very high gas flows and / or high off-take pressures AGL considers they are not warranted for all supply points with interval metering. The use of dataloggers with fixed temperature, pressure correction factors etc are appropriate for use in the 10 to 100TJ range.

Cost Pass-through Mechanism

- It is unclear from Envestra's application how the actual as opposed to forecast FRC costs will be recovered and the period for recovery. The process for reconciling Envestra's forecast and actual costs requires further explanation.
- AGL also seeks clarification and further information regarding:
 - the proportion of FRC costs that Envestra intends to recover over the period to June 2011;
 - Envestra's proposal for the FRC tariff to be included as part of the Network Tariffs approved in the third Access Arrangement from 1 July 2011, including the amount of those charges; and
 - the rationale for adopting an economic life of 5 years for the assets used to provide FRC services.