



**Response to the Queensland Competition
Authority's Draft Decision on the Revised Access
Arrangements for Allgas and Envestra**

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1. INTRODUCTION

The Energy Users' Association of Australia (EUAA) welcomes the opportunity to make a submission to Queensland Competition Authority's (QCA) Draft Decision on the Revised Access Arrangements for Allgas and Envestra.

The EUAA is a non-profit organisation focused entirely on energy issues on behalf of end users. The EUAA represents the views of over 80 members, including many large business end users of electricity and/or gas. Membership ranges across a number of sectors, including mining, manufacturing, construction, commercial property and service sector. Many of the EUAA's members operate in Queensland and several of these across States.

2. SPECIFIC COMMENT

The EUAA support the QCA in a large proportion of their Draft Decision regarding the gas access arrangements for Allgas and Envestra. However, the EUAA does have some contention with several of the decisions. These are described below.

Overall however, the EUAA notes a pervasive and alarming inclination, by both distributors although more markedly by Envestra, towards inadequate provision of information for the QCA to fully assess the access arrangements in its draft determination. The EUAA sincerely hopes this is not allowed to influence the process such that parties making submissions do not have the full complement of information available about which to make their responses and such that the QCA does not have the benefit of fully informed submissions.

2.1 *Service arrangements*

The EUAA supports several of the amendments suggested by the QCA namely:

- The requirement for the network operator to maintain the quality of gas injected into the network;
- The adjustment of the invoicing policy to allow reconciliation of Distribution Use of System (DUOS) charging at an individual customer level;
- The amendment of terms and conditions so that Allgas will have an obligation to maintain the network in accordance with good engineering and industry practices;
- The requirement for distributors to consult retailers to ascertain an order of priority for interruptions and curtailments and to provide customers with an explanation as to why they have been placed in a particular category. The EUAA would, however, like the QCA to go further on this and require distributors to also consult large users as interruptions and curtailments can severely affect business processes;
- The replacement of wording that allows judgements to be made at the discretion of Envestra e.g. to adjust the volume of gas assessed at previous readings of that meter, on whatever basis **Envestra** considers reasonable in the circumstances, with wording that would allow judgements to be made on a reasonable basis;
- The amendment to Envestra's requirement to pay network charges in advance to payment in arrears as is customary; and

- The inclusion of a requirement for Envestra to respond to non-bare transfer requests within no more than 10 business days. Since there is little or no financial incentive for Envestra to respond to such requests, this is necessary.

2.2 Revenue and tariffs

The EUAA supports several of the amendments suggested, namely:

- The requirement for Envestra to use separate weighted average price path for demand and volume customers. The EUAA believes that this is important so that accurate allocation of costs between users takes place;
- The removal of additional incentive mechanisms for the access arrangements is important since the EUAA considers that both distributors have incentives already inbuilt into the access arrangements and hence further ones are unjustified and may be detrimental to end users;
- The lack of inclusion of fixed principles that would apply through future access arrangements. These would disadvantage users who may not benefit from future regulatory changes;
- Limiting cost pass through events and setting a materiality threshold. This is important, as the EUAA does not believe users should bear the costs of events that were in the control of the service provider e.g. unexpected network ameliorations.

The QCA must also require Envestra and Allgas to provide further information on cost reflectivity, since it is apparent that large volume customers might be disadvantaged by the tariffs as they may be subsidising other groups of customers. Although the QCA believes that tariff structures are best left to the service provider, it is important that these tariff structures do not disadvantage any particular customer groups.

2.3 Capital Base and Expenditure and Non Capital Costs

The EUAA is concerned about some of the QCA decisions regarding the capital base and expenditure.

In particular, the retention of \$2.56m of capital expenditure for major projects by Envestra in 2005-6, which was rejected by the Energy Consulting Group (ECG) on grounds of insufficient information, is disappointing. The EUAA hopes that the QCA will not retain this amount without convincing evidence being produced by Envestra. The EUAA similarly hopes the QCA will insist upon receiving a break down of past capital expenditure by asset item, in order to update the regulated capital base.

The EUAA is further concerned about

- The lack of information on redundant / disposed assets provided by Envestra;
- The apparently arbitrary allowance by the QCA of half the difference between the periodic meter changes proposed by Envestra (with insufficient corroborating information) and ECG, the consultant the QCA commissioned;
- The acceptance of half the amount suggested by Envestra for additional IT spending – again an arbitrary approval of an unsubstantiated request;
- The fact that Allgas' expenditure significantly exceeded its forecasts is worrying, since there is a lack of rigour in forecasting capital expenditure or in assessing past capital expenditure.

However, the EUAA does approve of the aspects that the QCA did not include for Allgas and Envestra:

- The adjustment of Envestra's forecast for large customers from \$0.35m to \$0.1m;
- The reduction of Envestra's stay in business forecasts for mains replacement;
- The reduction of Envestra's growth expenditures for industrial and commercial customer services, additional network development, growth IT expenditure and major projects;
- The reduction in the cost of industrial and commercial customer connection for Allgas; and
- The request that both Allgas and Envestra provide adequate evidence of their expenditure during the current access period and should amend their forecast non-capital costs. Additionally, they were both requested to provide further information on the cost reflectivity of proposed tariffs, Unaccounted for gas (UAG) and tax forecasts. This further information could alter some of the draft decision outcomes and users would like clear information and a rationale before any changes to the draft determination are made.

2.4 WACC

The nominal post-tax WACC proposed seems fairly high relative to other comparable WACC decisions (see WACC table below). The QCA received a report from Allens Consulting Group (ACG) stating that based on the group of 'best' WACC parameters listed above, they obtain a value of 8.54% for the post-tax vanilla WACC. This estimate is lower than the submission of Allgas (8.75%) before consideration of the value of franking credits, and similarly is also below the Envestra's proposal (8.80%), before the effect of imputation. In light of this, the EUAA is concerned that the QCA has acquiesced to the distributors' high WACC proposals. Adopting a lower WACC would reduce costs to consumers by over the 5-year regulatory period - and provide incentives for Queensland's gas distribution industry to become more efficient.

	Date	Pre-tax %	real	Post-tax %	real	Post-tax Nominal %
IPART						
Electricity Distribution	Dec 99	7.50		3.48 – 4.84		6.58 – 7.98
(Final)						
AGL Gas Network (Final)	Jul 00	7.75		3.75 – 4.92		6.69 – 7.89
Rail (Final)	Apr 99	8.00				
Water (Final) ¹	Sep 00	6.10		3.33 – 4.64		6.20 – 7.60
ACCC						
Epic Energy (Final)	Sep 01	7.14		5.25		7.58
Powerlink (Final)	Nov 01	6.94		4.57		7.00

ElectraNet (Draft)	Sep 02	7.12	4.00	6.39
SPI Powernet (final)	Dec 02	n.a.	n.a	8.23
ESC2				
Electricity Distribution (Final)	Sep 00	6.80 – 7.20	6.80	
Gas Distribution (Draft)	Jul 02	6.70 – 7.40	6.70	
QCA				
Gas Networks (Draft)	Mar 01		6.70	9.26
Electricity Distribution (Final)	May 01		5.85	8.05
Rail (Final)	Jul 01		6.01	8.68
Ofgar				
Goldfields Pipeline (Draft)	Apr 01	7.95	4.80	7.05
Tubridgi (Final)	Oct 01	8.20	4.96	7.52

Source: Electricity Distribution Pricing Aggregate Annual Revenue Requirement (AARR) research Paper from the Office of the Tasmanian Regulator

2.5 Gas Demand Forecasts

Gas demand forecasts have an important contribution to the setting of the reference tariffs. The EUAA therefore is concerned that the distributors would try to overstate demand growth. The EUAA therefore supports the QCA's use of many of the forecasts developed by its consultants McLennan Magasanik Associates (MMA). However, the EUAA is concerned that, regarding the growth of industrial and commercial users, the QCA have accepted Envestra's predicted growth that is "somewhat higher than the MMA forecast". The EUAA would like the QCA to reconsider this area to ensure Envestra's prudence in this.

3. CONCLUSION

In conclusion, the EUAA is supportive of the QCA's Draft Decision, in particular the amendments made to the reference tariffs. We oppose the apparently high WACC value in light of its effect on consumers. One concern the EUAA has is the fact that the distributors have frequently not provided adequate information to enable the QCA to make informed decisions.