

Queensland Government Submission

**Queensland Competition Authority
Draft Decision**

**Revised Access Arrangements for
Gas Distribution Networks**



**Queensland
Government**

February 2006

1.0 INTRODUCTION

The Queensland Government (the Government) welcomes the opportunity to provide comments to the Queensland Competition Authority (QCA) in relation to its *Draft Decision on the Revised Access Arrangement for Gas Distribution Networks: Allgas Energy* and *Draft Decision on the Revised Access Arrangement for Gas Distribution Networks: Envestra*.

The Queensland Government has examined the issues raised in both Draft Decisions and has a number of comments, which it would encourage the QCA to take into consideration as part of its deliberations on the final access arrangements.

There are significant changes taking place within the Queensland gas industry that the Government considers will require substantial investment in the coming regulatory period. In particular, the Government is strongly of the view that the regulatory framework should provide sufficient expenditure allowances to support these developments.

2.0 SUSTAINABLE HOUSING IMPLICATIONS

From March 2006, all new houses in Queensland will be required to have a greenhouse-efficient hot water system. It is anticipated there will be an increase in the demand for five-star gas hot water systems, as they meet the legislated requirements under the Government's sustainable housing policy. In particular, instantaneous systems are becoming increasingly popular because they are space and energy efficient, as they do not use a storage tank and only heat the water required. However, the Government understands mains replacement and upgrades proposed by both the Envestra and Allgas Energy are necessary in older areas, particularly Brisbane, in order to replace lower pressure mains to enable these instantaneous gas hot water systems to work effectively.

Additionally, in many instances older mains are not capable of supplying a multi-dwelling building on a site previous occupied by a single dwelling. The South East Queensland Regional Plan 2005-2026 recognises that future development will need to provide for a wide range of housing location, type and density, to meet community needs and complement priority infrastructure investment.

Consequently, the QCA should ensure the distributors have sufficient capital expenditure to enable the timely upgrade of infrastructure to support Government policies.

3.0 COST PASS-THROUGH

The Government supports the pass-through of reasonable costs incurred by the distribution businesses, as it recognises there may be unforeseen matters and regulatory requirements that impact on costs. Regulatory requirements, while necessary to ensure reliable and safe operations, add to the cost of laying pipes and providing customer services and should therefore be able to be recovered by businesses who must comply with such requirements.

While the QCA in its Decisions supports the pass-through of unforeseen material changes in costs, it recommends a materiality threshold based on one percent of forecast annual revenue. The Government disagrees with the recommended materiality threshold, and believes the threshold which triggers this pass-through should be a predetermined nominal value, negotiated with the businesses in order to provide greater certainty to the businesses.

Further, the access arrangements should ensure the businesses are able to meet all of their obligations under full-retail contestability (FRC). As the details and associated costs of FRC are yet to be determined, the trigger mechanism for cost pass-through should clearly specify the introduction of FRC. This will provide future certainty for the businesses and clarity for the regulator, particularly given the changes to the National Gas Law, which may see the administrative responsibilities for the current access arrangements transferred to the Australian Energy Regulator.

4.0 SUPPLY CURTAILMENT – ORDER OF PRIORITY

The QCA has stated it is not convinced that retailers should determine the order of curtailment of reference services. Consequently, it is requiring the distribution businesses to outline the order of priority with which interruptions or curtailments will take place. As the contract for the supply of gas is between the retailer and the customer, the Government believes it is most appropriate that retailers be responsible for determining the order of curtailment. This would enable the retailer to curtail customers in accordance with the agreed terms and conditions of its gas supply contracts.

This position is consistent with the national view expressed by the Ministerial Council on Energy in relation to major supply disruptions. Under the National Gas Emergency Response Protocol it expected the ‘market’ will continue to function via commercial arrangements (contracts and the applicable curtailment arrangements) until a supply disruption is sufficiently severe to warrant the imposition of Ministerial insufficiency of supply powers. In this context, the Government encourages retailers to develop curtailment strategies in consultation with the distributor, who has specific obligations under the *Gas Supply Act 2003* to operate and maintain the pipeline.

5.0 ALLGAS ENERGY CAPACITY MANAGEMENT

With reference to the Allgas Energy Draft Decision, the Government disagrees with the amendment that requires Allgas Energy to maintain the distribution network in accordance with good engineering and industry practices. Good engineering and industry practices are subjective, vary and may conflict with relevant legislation. As a consequence, it is suggested the distributor be required to maintain the network in accordance with the legislated requirements.