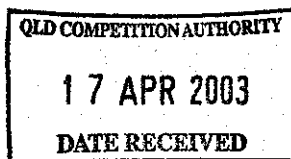


17 April 2003



Mr EJ Hall  
Chief Executive  
Queensland Competition Authority  
GPO Box 2257  
Brisbane QLD 4001

Dear Mr Hall

### **General Accounting Guidelines for Gas Distribution Network Service Providers**

Allgas Energy Ltd (Allgas) appreciates the opportunity to review and make comment on the Queensland Competition Authority's (QCA) draft report, *General Accounting Guidelines for Gas Distribution Network Service Providers*. This is the first set of guidelines that a regulator has attempted to publish under Section 4.2 of the *National Third Party Access Code for Natural Gas Pipeline Systems* (the Gas Code) and rightly requires extensive consultation.

Allgas has previously provided specific comments to the QCA on the draft Guidelines and would like to reiterate several of these issues below for further consideration. First, however, Allgas would like to suggest that the QCA consider the policy developments taking place at the national level and their impact on the development of these Guidelines.

The Gas Code proposes a light-handed approach to regulation and in recent years, areas of the Gas Code such as the extent of information-gathering powers of regulators have been the subject of much debate. A formal proposed amendment to the Gas Code, clarifying the scope of Section 4.2 was introduced to the Natural Gas Pipelines Advisory Committee (NGPAC) by representatives of the Victorian and New South Wales regulators. However, in its recent meeting of 4 April 2003, NGPAC determined that it should not consider any amendment on this issue because a full review of the Gas Code is pending.

The Review of the Gas Access Regime is slated to begin in coming months, with the Productivity Commission expected to complete the review by the end of 2003. Consequently, Allgas believes the QCA should carefully consider the implications of finalising the draft Guidelines in advance of the findings of the Review of the Gas Code, which we understand will specifically address the clarification of the powers of the regulator in regard to the reporting of information. Allgas' preference would be for the QCA to await the

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outcome of the Review prior to finalising the Guidelines. This would be consistent with the approach adopted by regulators in other jurisdictions.

Delaying the finalisation of the draft Guidelines would not obviate Allgas' responsibility under Section 4.2 to provide Regulatory Accounts for the 2002/03 financial year. However, it may assist in clarifying legal issues surrounding the scope of regulators' authority in this regard.

Allgas would also request that the QCA take into account the costs and benefits of compliance with the draft Guidelines. The Allgas distribution network supplies only 2 per cent of gas customers in Australia with average domestic usage of only 13 GJ per annum - a quarter the size of an average Victorian domestic customer. While Allgas recognises the need for compliance with Section 4.2, it should also be recognised that any additional regulatory costs are a significant impost on service providers and on Queensland gas customers and need to be minimised.

Taking these issues into account, Allgas would question the need for the draft Guidelines to include:

- ***non-capital costs, separately disclosed as operating and maintenance costs, administration costs, marketing costs and unaccounted for gas costs.***

The gas industry is changing with ownership and management of networks often disparate. Similarly, the structure of the Allgas business is changing to maximise growth and efficiency opportunities for its gas network. These changes will make the specific cost separation nominated by the QCA inappropriate. Allgas believes it would be more appropriate to provide disaggregated data based on a current business structure rather than a business structure that applied several years ago.

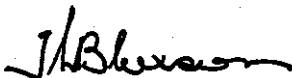
In the medium-term, Allgas supports a framework that involves less scrutiny on breakdown of costs and a greater focus on the outcomes, leaving the business with the flexibility to alter its cost structures to meet changing market needs, as long as outcomes are achieved.

- ***the provision of a regulatory cash flow statement.*** Construction of such a Statement would result in additional costs. A Statement of Cash Flows is already prepared as part of the company's statutory accounts and we can discern no benefits in transforming this into a regulatory account format. As a result, in a cost-benefit or public interest sense, there is limited grounds for such a statement. We note there is no parallel requirement in relation to regulatory accounts for electricity networks;
- ***the provision of an independent audit.*** The Code does not require an audit to be performed. Allgas believes the cost of performing an audit, directly and indirectly would be excessive. Even if the QCA was to arrange and directly pay for an audit of the Regulatory Accounts, the audit will only be satisfactory if Allgas invest resources, time and money into the procedure; and
- ***the provision of Directors' Responsibility Statements*** is also extreme. However, the purpose of these Statements is to assure the QCA that the Regulatory Accounting Statements are presented in-line with its Guidelines. This is the same stated purpose of the requirement for an independent audit. As such, Allgas proposes that it provides the Directors' Responsibility Statements in place of performing a costly audit.

Allgas would like to thank the QCA for the opportunity to comment on its General Accounting Guidelines. However, we hope that the QCA deliberates on whether to progress these Guidelines in light of national policy developments in order to avoid a situation where they must be revisited or retracted in future months.

Should you have any further queries in regards to this matter, please contact Patrick Whish-Wilson on 3407 4977.

Yours sincerely

A handwritten signature in black ink, appearing to read 'T. Bloxsom', with a stylized flourish at the end.

Tom Bloxsom  
Ceo - Allgas Energy Ltd