

26 February, 2001

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

Dear Mr Hall

**Re: Ergon Energy Submission**

We refer to the Ergon Energy submission to the Queensland Competition Authority, dated 28 December 2000, regarding the Queensland Gas Distribution Networks Access Arrangements. The Ergon submission contains a number of errors and misleading statements that give a distorted view of Envestra's Queensland operations and Access Arrangement. Envestra provides the following comments relating to the Ergon submission:

**3.1 Envestra's Demand Haulage Service**

Ergon advocate the provision of the Demand Haulage Service for a minimum term of one month. Demand Haulage Reference Tariffs listed in Annexure C of the Access Arrangement were calculated on the basis of a minimum term of one year. This is because tariffs have been set on the basis of past consumption and associated annual load profiles. Should the minimum term be less than one year, it would be possible for consumers to continually vary their contracted capacity. This would result in less revenue than forecast. Therefore a change in the minimum term would require Demand Reference Tariffs will need to be recalculated to ensure costs are recovered.

**3.7 Extensions/Expansions Policy**

Ergon contend that the discretion afforded to exclude significant extensions to the network would be inefficient. Any exclusion of consumer(s) under section 8.1 of the Access Arrangement would not be inefficient. Section 8.1 provides flexibility to both the service provider and consumer(s) in a manner that results in existing consumers being unaffected. The increased flexibility provided by section 8.1 allows the unique requirements of large extensions to be catered for without any cross-subsidisation by existing consumers. .

### **3.17 Redundant Capital**

Ergon argue that Envestra is incentivised to declare assets redundant and return them to the capital base at a later point in time for financial advantage. There is clearly no such financial advantage. Envestra's treatment of Redundant Capital in its Access Arrangement is consistent with Section 8.28 of the *National Third Party Access Code for Natural Gas Pipeline Systems*. Capital can only be removed from the Capital Base if it ceases to contribute in anyway to the delivery of services. It is impractical, and high risk, for a service provider to implement a policy whereby capital is removed from the Capital Base as Redundant Capital in the expectation that it will be incorporated back into the Capital Base at a later stage.

### **3.27 Operating & Maintenance Costs and relationship between Envestra and Origin Energy**

Ergon suggested that Origin Energy Asset Management Ltd (OEAM) is a related company to Envestra. This is incorrect. OEAM is a subsidiary of Origin Energy Ltd. Neither OEAM or Origin Energy Ltd are companies related to Envestra. OEAM is contracted by Envestra to provide asset management services.

### **3.29 Tariff Structures**

Ergon's comparison of gas distribution charges is misleading, as all distributors do not provide equivalent services. For example, Victorian gas distributors do not provide meter reading services or system use gas, these are provided by retailers, consequently the costs associated with these services are not included in their reference tariffs.

### **3.31 Demand projections**

Ergon believe Envestra's demand forecasts are conservative when compared to ABARE and NIEIR forecasts for Queensland as a whole. State-wide Queensland forecasts of gas consumption, like those provided by ABARE and NIEIR, relate to the whole of the market, where over 85% of the gas consumed does not pass through distribution networks<sup>1</sup>. Moreover, the network subject to the Access Arrangement is a sub-set of Envestra's Queensland business and, unlike the total Queensland market, demand is mostly driven by a small number of factors (like new housing estates and industrial development). Consequently, the ABARE and NIEIR forecasts are of little relevance to the network businesses in Queensland. We believe that our demand forecasts represent a reasonable estimate of the likely levels of demand attributable to the covered network.

Yours sincerely

Andrew Staniford  
National Manager, Regulatory Affairs  
Envestra Limited

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<sup>1</sup> The Australian Gas Association, *Gas Statistics Australia 2000*, p57