



**Incitec Ltd**

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Incitec's comments in relation to QCA's draft decision re: Access Arrangements for Queensland Gas Distribution Networks are as follows:

On the whole we feel the draft decision has addressed most of Incitec's challenges and recommendations.

- The 'hole in the ground' residual value for the asset valuations has been removed
  - Incitec had strongly objected to a residual value
- WACC is expressed on a post-tax nominal basis
  - Incitec stated this was the relevant measure
- A revision to non-capital costs and demand forecasts
  - Incitec had assessed the non-capital costs reductions proposed to be 'modest'.
  - We raised doubts on that including demand forecasts by asking for a trigger mechanism (also accepted by QCA) for a mid-term review involving those two items
- Amendments to the total revenue requirements
  - Incitec has required this through questioning of the higher financials sought by the applicants
- Recognised cross subsidies to households by large users and canvassed options to address them
  - Incitec had challenged QCA to draw cross-subsidies out, particularly the challenge to QCA if they used standalone pricing for large users and incremental cost pricing for householders.

#### Other Issues

- Asset Values:
  - We note that QCA accepted Incitec's query
- DAC values used.
  - QCA accepted Incitec's raising of use of incumbent DORC (as opposed to new entrant DORC which produces higher numbers). The resultant DORC values for Envestra and Allgas take into account 2 key issues raised by Incitec ('hole in the ground' residual values and Incumbent DORC) which means reducing their DORC values by:
    - \$2m (Allgas)
    - \$35m (Envestra).
- Capital Expenditures/New Facilities:
  - Incitec had questioned these. QCA amended these downwards.

- Post-Tax WACC:
  - We note that QCA agreed to 9.26% for Allgas (Incitec asked for 8.92% whilst Allgas sought 9.5% ) and 9.26% for Envestra (Incitec asked for 8.92% and Envestra sought 9.39%-10.27%). This is a reasonable conclusion although this could be better!
- Non-capital costs:
  - QCA questioned Envestra's high costs and suggested revised larger savings for Allgas as well. It is noted that QCA said they will investigate further. We urge for QCA to continue this investigatory process.
- Standalone/Incremental:
  - It is noted that the issue of cross subsidy was dealt with under QCA's 'cost reflective approach'. We believe this still contains cross-subsidies if large users are allocated costs on a standalone basis). Large customers will face CPI-5.1% (annual average) (Allgas) and CPI-3.6% (Envestra). If 'standalone' is removed then the CPI-X will be even larger.
- QCA only refers to IPART's 1999 Draft Decision of AGL and not to the 2000 Final Decision. Incitec had subsequently reminded IPART (after the draft decision) that standalone pricing discriminates against large users and hence this led to a change in IPART's position in the final decision.
- We also understand that additional information was made available to QCA. We urge QCA to disclose this information to the general public.
- Allgas should also be required to reveal more information with respect to cost allocations. This information needs to be released publicly, now, prior to the final decision.

We do hope that QCA finds our comments helpful.

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