

**Queensland
Government**

Queensland Health

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Our Ref: DG027922

Mr E J Hall
Chief Executive
Queensland Competition Authority
GPO Box 2257
BRISBANE Q 4001

Dear Mr Hall

I am writing in response to your letter dated 16 October 2000 to the Director-General, Queensland Health, concerning the proposed access arrangements proposed by Envestra Ltd and Allgas Energy Ltd, following the amendments introduced to the *Gas Pipelines Access (Queensland) Act 1998*.

Queensland Health reviews its energy requirements on an ongoing basis and has therefore considered the implications of the forthcoming changes to the retail gas markets, as outlined by the Queensland Competition Authority (QCA) in its Issues Paper. In general, Queensland Health would require that the access provided by the pipeline operators be on a fair and equitable basis, and that it would not discriminate against consumers who choose to source gas from third party suppliers.

Queensland Health also acknowledges the right of the pipeline owner to be able to cover certain aspects of risk, which could be shared with the consumer, such as when the consumer draws significantly more or less gas from the network than forecast.

Queensland Health takes the view that the pricing mechanisms should be both transparent and justifiable, without the inclusion of artificial costs that inflate the pricing formula. Queensland Health would concur with the QCA in that the owner of the pipeline is entitled to make a reasonable benchmark return. However, that should not involve consumers cross-subsidising other aspects of the pipeline owner's business, including gas distribution and retail.

On the whole, the methods proposed by Allgas and Envestra appear suitable, with Queensland Health's only significant comment relating to the determination of the rate of return. Both the CAPM and WACC approaches are considered suitable, although it is considered that by using CAPM the rate of return may be unrealistically underestimated, given that CAPM is a static model that does not accommodate economic cycles.

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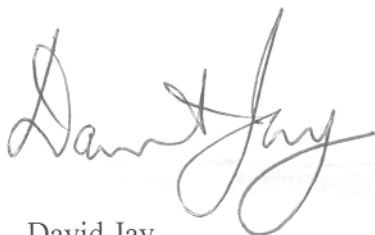
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I look forward to the Authority's response to the proposed access arrangements and further developments in the process. Meanwhile, should you or your officers wish to discuss any of the issues raised, please contact Mr Peter Morero, Team Leader, Health Economics Team on telephone (07) 323 41782, or facsimile (07) 323 41174.

Yours sincerely

A handwritten signature in cursive script, appearing to read 'David Jay', written in black ink.

David Jay
Acting Deputy Director-General
Policy and Outcomes
21/12 /2000