1/222/01
David Randle
9486 3240

17 December 1999

Mr Mike Jansen
Office of Gas Access Regulation
6th Floor
197 St Georges Terrace
PERTH WA 6000

Dear Mr Jansen,

Comments on Tubridgi Pipeline System Access Arrangement

I refer to the Tubridgi Pipeline System Access Arrangement dated 21 October 1999 and your request for comments. Thank you for allowing additional time in which to submit comments.

The comments are provided from the perspective of AlintaGas' Trading Division ("**AlintaGas Trading**"). AlintaGas Trading procures, ships and markets natural gas. These activities are separate from the distribution of natural gas, which is the responsibility of AlintaGas' Distribution Division.

Clause 3.2.5 of the Access Arrangement: Rebate of Revenue

The Tubridgi Parties propose to provide a rebate to Reference Service Users on revenue the Tubridgi Parties earn in excess of $350,000 per annum earned from the provision of Negotiated Services. AlintaGas Trading would be interested to know how the revenue limit of $350,000 was determined. With the rebateable revenue to be shared equally between the Tubridgi Parties and the Users, there is no apparent reason why all revenue from Negotiated Services should not be rebateable.

Clause 9 of the Access Arrangement: Review of the Access Arrangement

Clause 9.3 proposes that if an independent report identifies demand for the Tubridgi Pipeline System is likely to exceed 20 TJ/day for each day over any period of three consecutive months between 1 July 2002 and 30 June 2004, then the Tubridgi Parties will submit revisions to the Access Arrangement by 30 June 2002.

The proposed demand level of 20 TJ/day before the Access Arrangement will be reviewed would appear to be excessive. To illustrate this point: Table 2 in clause 5.2 of the Access Arrangement Information shows the Tubridgi Parties are forecasting demand of 7.5 TJ/day in 2002/03 and 3.0 TJ/day in 2003/04. An additional 10 TJ/day of demand, for example, at a 100% load factor will earn the Tubridgi Parties an extra $1.56 million per annum (in real dollars) without the parties having to submit revisions to the Access Arrangement. This seems to provide the potential for excessive windfall gains.

A more equitable arrangement might be for revenue to be rebateable if it is earned on gas transported in excess of currently forecast volumes.

Clause 4.4 of the General Terms and Conditions: MDQ Increase

AlintaGas Trading considers it inappropriate to unilaterally increase the MDQ if the Quantity of Gas delivered on a day exceeds the MDQ. The amount of firm capacity a User reserves should be a decision for the User. If the User has not reserved, or chooses not to reserve, sufficient firm capacity to meet its peak daily demand then the User risks being curtailed on those occasions that the MDQ is exceeded.

Rather than having an automatic increase in MDQ, the pricing structure could be set so as to discourage a User from relying on capacity in excess of its MDQ.

Clause 7.8 of the General Terms and Conditions: Basis for Corrections

Any correction of meter readings should not be at the sole discretion of the Tubridgi Parties. If the User disagrees with the basis upon which the Tubridgi Parties makes any corrections, then the User should have recourse to appropriate dispute resolution.

Clause 7.9 of the General Terms and Conditions: Maximum Correction

The clause says that the Tubridgi Parties will “not have to” correct meter readings that are more than one year old.

This opens up the possibility for the Tubridgi Parties to correct meter readings that are more than one year old if the correction favours the Tubridgi Parties, but to not make the correction if it would favour the User. A simple modification to the clause would remove any potential for bias.

Clause 25 of the General Terms and Conditions: Force Majeure

Clause 25.2 details the consequences of non-performance by the Tubridgi Parties of their obligations as a result of force majeure. A similar clause is required to relieve the User of its obligations during an event of force majeure.

Clause 34 of the General Terms and Conditions: Costs and Stamp Duty

Clause 34 proposes that the User should pay its own costs and those of the Tubridgi Parties in preparing, negotiating, executing and delivering an Agreement. This might be acceptable for those costs that are not be recovered elsewhere. However, it would appear from page 13 of the Access Arrangement Information that the Tubridgi Parties' pipeline marketing costs, including the costs of attending to the commercial arrangements associated with the Tubridgi Pipeline, are to be recovered as part of the Non-Capital Costs of the Tubridgi Pipeline.

Access Arrangement Information: Page 10, Weighted Average Cost of Capital

The real pre-tax Weighted Average Cost of Capital being proposed of 8.75% would appear to be high when compared, for example, to the 8.3% Weighted Average Cost of Capital recommended in OffGAR's Parmelia Pipeline Access Arrangement Draft Decision.

Access Arrangement Information: Page 11, Depreciation

The Tubridgi Parties' do not appear to use a consistent depreciation rate. In obtaining the DORC valuation of $23.755 million, the Tubridgi Parties seem to have depreciated the pipeline and meter stations at a rate of 1.25% from its Optimised Replacement Cost of $26.092 million (see Table 1 on Page 8). Yet the Tubridgi Parties propose a 5% Depreciation Rate during the first Access Arrangement Period (see Table 2 on Page 11).

Access Arrangement Information: Page 26, Queuing Policy

The Tubridgi Parties propose that requests for the Reference Service will rank higher in priority than requests for a Negotiated Service. However, if the terms and conditions of a Negotiated Service are not materially different to those of a Reference Service, then the Negotiated Service should probably still be classified as a Reference Service for the purposes of queuing policy and for distributing any rebateable revenue. Terms and conditions that might be considered to be material are those associated with issues such as price, contract term and curtailment priority.

AlintaGas Trading would welcome the opportunity to provide further input and comment on the above and would also appreciate the opportunity to comment on any future drafts or decisions concerning the Tubridgi Access Arrangement.

Yours sincerely,

J E Hennessy
Manager Gas Supply

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