INDEPENDENT PRICING AND REGULATORY TRIBUNAL

PUBLIC FORUM
INTO
AGLGN RESPONSE TO IPART DRAFT DECISION 2006-2010

Tribunal Members

Mr Michael Keating AC - Chairman
Mr James Cox
Ms Cristina Cifuentes

Held at the Grace Hotel,
York Street, Sydney, NSW, 2000

On Friday, 11 February 2005, at 9.30am

MR KEATING: Ladies and gentlemen, my name is Michael Keating and I am the new Chairman of the Independent Pricing and Regulatory Tribunal. This is not quite my first hearing, but it is almost my first hearing of the tribunal.

The other tribunal members are Jim Cox, who for some reason has decided to sit down the back, and Cristina Cifuentes, who has also decided to sit down the back, and there are a number of staff from the secretariat here, in particular Ruth Lavery on my right, who heads the gas team.

The purpose of today's meeting is for AGL Gas Networks to make a presentation on the content of its response to the tribunal's draft decision on their proposed access arrangement and, as I hope you are all aware, AGLGN's written response was received by the tribunal on Tuesday and has been on the tribunal's web site since then.

The purpose of today really is to give AGLGN an opportunity to present its response and to provide an opportunity for questions from the rest of us seeking clarification. I don't think today is really the day to debate that response, if I can put it that way. The tribunal for its part is still actually reading the response and digesting it and we have not formed any views at this stage on the detailed content of the report. For that reason there will be another opportunity for the tribunal to hear stakeholders' views where there may be more debate, but that is slightly down the track. So this meeting is really to enable all of us to better understand AGL Gas Network's views and we will dispute them, if need be, later on.

The main business of the day will be that David Pringle will make a presentation, then we will ask for questions from the floor. As you can see, there are a couple of microphones there for this purpose. The meeting you might also have noticed is being transcribed, so I would ask that speakers please clearly identify themselves before they speak and speak as clearly as possible for the transcribers.

Before asking David to take the floor and make his presentation, Ruth Lavery will make some comments about process and the timetable.

MS LAVERY: After this meeting we will be asking you to put in written submissions, which are due in on 28 February, and we are aiming to put out the draft decision by the end of April, which makes it a fairly tight timetable, so it will be very difficult for us if you put your submissions in late. The 28th of February is the deadline for the submissions. After that, about a week later there will be another public meeting, which will be in the nature of a round table where we will discuss submissions and AGL's proposal in more detail.

We are looking at putting the final decision out at the end of April, with a view to the new access arrangement commencing on 1 July.

MR PRINGLE: The presentation today is really a summary of the submission that was lodged with IPART earlier in the week and I have got page references, or section references, as I go through on top of the slides. They are the references in the submission, so it is a summary of the submission. Having said that, though, I won't go into emphasising certain parts of the submission. I have no intention today to debate or explain the detailed analysis behind some of, for example, the WACC parameters. I am not qualified to do that and I don't think the audience would particularly want to debate about what WACC should be, but I will go through all the key issues and try to bring out the main points in our submission.

Basically our submission is set out in four parts: There is an introduction, then the four parts after that. There are three areas of new information - and the new information we are bringing to the table are items we have been discussing right throughout this review. Section 3 deals with new issues that have arisen during 2004. We put in our submission in December 2003 and really the whole 2004 calendar year has been a process of negotiations. These are issues or circumstances that have arisen throughout the year which we didn't have the opportunity to put on the table in our original submission and although all those have been at least briefly mentioned over that 12-month period, we have not had the opportunity to comprehensively present a case on those issues. That is what we have done in our submission.

Section 4 just details a number of adjustments which we, or AGL, believes are required if the cost of service in that draft decision is to actually reflect the intent of the draft decision. I will go through each of those throughout the presentation. And, finally, section 5, we just list all the 38 amendments in the draft decision and summarise our position on each of those. I will not go through the 38 amendments today but I will go through those in the particular proposal that need adjustment.

The three items of analysis we have been talking about for sometime which we are now bringing new material to the table on, the first one of those is the rate of return that has been allowed in the draft decision. Basically the work that we are talking about today, and the work that is summarised or spelt out in quite a bit of detail in our submission, is the result of the work that was done throughout 2004. Largely the original intent of that was to support AGL's presentation to the Victorian regulator in relation to their review of electricity pricing in Victoria but, having done that work and prepared a case for that, we thought obliged that not only should that be considered in the Victorian situation but it is just as relevant and should be considered in New South Wales.

That is a body of work that we did not have done 12 months ago. Some of the arguments are not new arguments but it is new evidence to support what we have been saying and some of those are new arguments completely that we weren't aware of when we put our case 12 months ago.

The second body of evidence that we have summarised, or spelt out, in our submission is the position on the proposed write-down of the Wilton to Wollongong pipeline. The reason why we didn't put that case, or haven't put it comprehensively in the past, is that that whole issue of the write-down came up quite late in the review and AGL does not believe it has had the opportunity to comprehensively present that case. That is why it is coming to the table quite late, but it came up quite late in the review process.

Thirdly, there is the position on ancillary charges. I believe that is a minor issue, but again quite late in the review process AGL was asked to explain and quantify its position on those ancillary charges. We attempted to do that but we realised there were some flaws in our case we had put and we have gone back and reviewed our position and come back with a new position on ancillary charges.

Ancillary charges I am not intending to talk about in detail today. It is spelt out in our submission and we are quite willing to deal with IPART, whoever, on the detail of what is said in our submission on that. It is not a significant issue that I will deal with further today.

On the rate of return, in our original situation 12 months ago we put forward a rate of return of 7.85 per cent. Throughout the 12-month period between when we put forward our submission and when IPART came out with its draft determination there had been quite a significant drop in real interest rates and although IPART did cut back on some of the parameters that we proposed, the basic reason or the prime driver for the drop between what we proposed and what IPART used in the draft decision is a drop in the real interest rates.

AGL is coming back now proposing a slight increase in the proposed rate of return from what we put forward 12 months ago but that really is a result of the body of evidence we talked about before in relation to what we had prepared throughout the 12-month period. Partly it is a restatement of what we put forward in our original analysis with more supporting documentation, some of those arguments we weren't aware of 12 months ago.

That new body of evidence can really be broken down, those who have read that part of the report, we have used as a statistic the Monte Carlo analysis to try to quantify what the rate of return should be, and there is also quite a discussion on the various parameters. The Monte Carlo simulation is a recognition of what was put to us by Professor Stephen Gray from Queensland University, but what is behind it - and I think certainly IPART has recognised it in the past - is that the CAPM pricing model which is commonly used to determine the rate of return does not determine an exact number that says this is the rate of return. It estimates the rate of return and it can only do that within a reasonable range.

There are a number of variables, each of which have been and will be debated at length, which go into determination of what the CAPM pricing will be, or the actual cost of capital, but each of those, or many of those, can only at best be estimated, particularly the market risk premium, beta and the cost of debt. Those variables can only be estimated within ranges.

What the Monte Carlo simulation does is basically recognise that there is a reasonable range for those variables, sets up a database, if you like, with a range for each, then samples; and the work that Professor Gray has done is sample those range of variables 10,000 times, then you come up with a range of possible estimates of what the rate of return or the WACC should be for the CAPM pricing model. Having done that, rather than coming up with a point estimate saying that WACC should be 7.75 or 6 or whatever, it recognises that there is a distribution of what the range of WACC could be estimated at.

What AGL is proposing is that it is appropriate, once you've got that range, that the regulator would need to be at least 80 per cent confident that it is not underestimating the service provider's rate of return. Using that analysis and the parameters that AGL is proposing in its response, it comes out that to be 80 per cent confident you need to have a 7.9 per cent real pre-tax rate of return. There is a quite detailed itemisation of how that works in our submission, and I don't intend to go any further into that today.

The obvious question, I think, then is why would you want to accept the 80 per cent confidence limit which I just spoke about a few minutes ago. It has been widely recognised in recent years that there are severe consequences of underinvestment. The Productivity Commission a number of times, the Federal Government, the Australian Competition Tribunal and the Supreme Court of Western Australia have all recognised that in recent papers, in recent decisions, that, basically, if you underestimate the rate of return, there are severe consequences of underinvestment. Basically, that deters future efficient investment which would otherwise be efficient, and the consequence of that is that future services to users and prospective users aren't adequately met; the right amount of capital won't be spent to continue to maintain the existing equipment; and economically viable expansions of the network just won't go ahead. From that, users in the longer term would suffer quite dramatically. The other consequence of that is just the long-term viability of service providers.

That position is basically summarised in the

Productivity Commission's final report on the review of the Gas Access Regime which was handed down late last year. This is their proposed amendment to the Gas Access Regime for pricing principles. What they have recommended is:

Reference tariffs should be set so as to generate revenue for a reference service or services that is at least sufficient to meet the efficient costs of providing access to the reference service or services.

Basically, they are saying that the consequences of getting it wrong, and the downside, are much more severe than overestimating the cost of providing the service.

That is only the proposed amendment to the Gas Code; that is not the actual Gas Code that is operating today, but AGL would argue - and I believe it quite strongly - that that position is equally applicable to the current Gas Code, but just not spelt out as explicitly. But it is clear from sections 8.1 and 8.2 of the Gas Code that the regulator must consider the interests of users and prospective users of the network and also the service providers' legitimate business interests in determining what the rate of return and, indeed, reference tariffs are in an access arrangement review.

Also, section 2.24 of the Gas Code says that the regulator may take into account any other relevant factor in determining the rate of return and the reference tariffs, and AGL would argue - again, I would agree quite strongly - that the recommendation of the Productivity Commission, although it is not law yet, is quite a relevant factor that should be considered in the determination of the reference tariffs in this access arrangement review.

Moving off from the Monte Carlo analysis to the parameters, I said earlier, and I repeat, that I'm not going to go through and debate each of these parameters in detail, but there is quite a body of evidence in our submission arguing that, if anything, a value of nought for gamma is quite a reasonable, and indeed appropriate, level. Certainly gamma should be determined at the lower end of the range.

There is new evidence in that submission to say that beta should be set at 1. 1 is the exact value for beta that we proposed in our original submission in December 2003. What we have in our submission is new evidence or a new body of work, or a summary of existing work to actually support that case.

We also present new information in terms of what the allowance should be for debt margin. We present information based on data from Bloombergs, data from Westpac and a recent Snowy Hydro debt issue, and all of those three show that the actual rates of return, or the rates of return determined by those bodies are also something like 20 to 25 basis points higher than the rates of return put forward by CBA Spectrum. We based our original submission on CBA Spectrum analysis, or data published by them. We are now putting on the table that there are three other sets of data that say that that analysis is understated by a certain level.

Finally, we present data in relation to the costs of debt or the debt hedging cost. In the numbers that we put forward in our original submission and the supporting documentation we talked about the need for an allowance for hedging debt, or inflation hedging the debt. When I wrote that up in the actual documentation, I left out the sentence that said that there should be an allowance for the debt hedging cost, and for that reason that wasn't considered in the draft decision. What AGL is saying now is that that oversight on my part should be corrected and there should be consideration of an allowance for the debt hedging costs.

Moving on now to the second point of additional information that we have put in our submission that requires consideration. We only became aware that there was a serious consideration of writing down this pipeline very late in the process, but IPART has proposed in its draft decision that the value of the Wilton to Wollongong pipeline should be written down by a bit over $2m, or about 20 per cent of the value of that pipeline. AGL objects quite strongly to that proposal.

The power to write down values of assets is allowed for in the Gas Code; quite clearly the Gas Code sets out that the regulator has the power to do that, but it is a discretionary power in the Gas Code. It says that the regulator may have a capital redundancy mechanism if it

chooses to do that, but the Gas Code goes on to say that if you have a capital redundancy mechanism, then it is mandatory that the regulator takes that mechanism into account in determining both the rate of return and also the economic life of the assets in the access arrangement.

To AGL's knowledge - and I have canvassed a number of other service providers throughout Australia - if this proposal goes ahead, IPART would be unique in Australia in actually activating a capital redundancy mechanism for a gas distribution pipeline, which is not a problem in its own right, but if that does go ahead, it must be recognised that not only does it take $2m off the value of AGL's network, but it increases the risk of all our investments, both our existing investments and our future investments. The current value is basically $2bn, and it increases the risk of all that investment.

If AGL were a service provider under these rules and incurred efficient investment - and there is no question at all that it was efficient investment when that money was spent - it must bear in mind that, through no fault of its own, the value of that could just be written off by the regulator in the future. As I think I said earlier, in doing that, AGL could find no evidence in the draft decision that that has been considered either in the rate of return or in the economic life of the assets.

Also, on the write-down of the pipeline, AGL believe that in proposing that write-down IPART has not considered the real roles that that pipeline does play. It plays a role in transporting gas from point to point, from Wilton to Wollongong, that is clearly recognised. But it also plays a critical role in providing security of supply to the whole Wollongong region. So it is not only those customers or sections of the market who are sourced directly through that Wilton to Wollongong pipeline, it also supplies security of supply to all customers in Wollongong, including those who get their gas from the EGP, from Victoria. If there was to be any problem at all in the EGP pipeline, those customers would have no supply at all if it wasn't for that Wilton to Wollongong pipeline, so it does play a valuable role. By writing down the value and assuming the pipeline is much smaller than it actually is completely ignores the role that that plays.

That security of supply function is not only something that may happen at some time in the future if there is a major problem; on a daily basis, the EGP only delivers certain agreed amounts of gas to the majority of its customers. I think there is one customer to which it delivers actual volume, but to the others it delivers only what was nominated. So very regularly that Wilton to Wollongong pipeline is used to provide gas to those other customers who are supplied gas from the EGP on those days when there is a shortfall on EGP deliveries. That role, from what we could see, hasn't been considered at all in the proposal to write down the pipeline.

Thirdly, the other bit of evidence which we put forward in our submission in relation to why that pipeline should be written down is that the Wollongong pipeline is supposedly valued at DORC, and we accept that the value of DORC was determined some years ago, but when that DORC was determined - depreciation of replacement cost - that was determined based on an exercise of trying to value the whole network, and there was no real analysis done to determine what the value of that 30km section of pipeline was.

Although the analysis is quite reasonable if you're trying to value 20,000km of network, it doesn't represent the true replacement cost of that 30km section of pipeline, which is over quite difficult topography, through border catchment areas and down through the Wollongong escarpment. We had Norm Bakker, who is quite a respected engineer, do a study of what the actual replacement cost of that pipeline would be, given its actual characteristics, and his report, as presented in our submission, showed that the actual replacement cost is significantly above the theoretical replacement cost if you just use the average construction rates for the whole of the network.

That is an argument that we had put to IPART earlier without Norm Bakker's supporting evidence and IPART in their draft decision put the view that to consider that would actually be a re-evaluation of the DORC. AGL just cannot accept that argument. All we are saying is that it is a relevant factor that needs to be considered in determining whether the value of the pipeline should be written down or not.

Moving on, section 3 of our submission deals with a number of new issues that have actually arisen in the last

12 months. These are issues that AGL was not and could not have been aware of when it put forward its submission 12 months ago. The first of those is the government water-saving measures as a consequence of the water supply issue in Sydney that seems to be getting worse daily, apart from all the rain.

The New South Wales Government back in October announced that it was going to propose new water-saving measures, and there were more details of that that weren't released until December 2004, virtually the same time as the draft decision was released. AGL is also aware that that could have significant impacts on our forecast sales, because quite a deal of our sales to the domestic market or the residential market are actually in heating hot water. So if they use less hot water, they use less gas, simple as that. So we contacted the Institute for Sustainable Futures who were at least one, if not the primary, contractor involved in helping the government develop that water strategy to help us quantify the impact of those measures on natural gas.

Just to divert a little bit, before we put forward our submission, the State Government already had Basix in place, which are rules that require reducing energy and water consumption in new homes. We did some analysis and there was a quite lengthy debate, and I'm sure the IPART secretary people will recall quite vividly the debate between AGL and MMA in terms of what the impact of Basix would be.

Both us and MMA at that point in time were trying to estimate what it would be, but neither of us had actual true information of that impact because it was a fairly new case. We were dealing with research papers, but we had difficulty trying to contact the people who had written those research papers to determine what the impact of Basix would be. One of the major, if not the major, sources of information that we were trying to quote was actually the Institute for Sustainable Futures. Both AGL and MMA had tried to contact that group but were unable to during that review process.

Subsequent to that we were able to contact the Institute for Sustainable Futures and we discussed with them directly what the impact of both Basix and the metropolitan water strategy would be. What we did find, and were able to quantify with ISF's help, was that the government water-saving measures would reduce our forecast sales over the regulatory period by 700 terajoules, which was somewhat less than what we had thought the outcome would be, but in that same process we realised that AGL's estimate had actually overstated the impact of Basix by 500 terajoules, so the net effect was only 200 terajoules which, in my argument, is not great; it is not as great as we thought it was going to be when we started down that process. But there is a body of work that has been done and we put that forward in a table which is summarised in our response.

The next issue which we put forward for consideration - and we don't put forward in any detail - is AGL is likely to be required to spend quite an amount of money on making sure that our network or our trunk pipeline is not damaged by mines subsidence. That is an issue which may well cost AGL many millions of dollars, but it is also an issue which is subject to quite confidential commercial negotiations.

So what AGL is proposing at this point in time, because it is very difficult to quantify how much money will be required over the next five-year period in relation to mines subsidence, is that that be included as a cost pass through event. So if AGL is required to spend a significant amount of money on mines subsidence, after that money has been spent and after it has been deemed prudent, after the event at the next annual review of prices that would be reflected in reference tariffs going forward.

Similarly, in 2004, IPART themselves wrote a report to the DEUS recommending that guaranteed customer service standards be introduced in New South Wales, including guaranteed customer service standards for gas networks. It is not something that AGL factored into its consideration in 2003, and in very recent times DEUS has put forward an issues paper to actively go out and to actually put those in place. What AGL is seeking at this point in time is spelled out in our submission, which is that should that go ahead and if AGL is required to incur significant costs, those costs should be passed through. AGL's understanding - and I'm sure it's right - is that there is a similar provision for electricity distribution; they have the ability to pass those costs through. We're just seeking similar provisions for gas.

I must also say that the cost of guaranteed customer service standards we don't envisage will be huge but we don't see why we can't pass those costs through.

Section 4 of our response actually deals with a number of adjustments which AGL believes, and I am sure we are on very strong grounds, need to be made to the cost of service as set out in the draft decision. The first one of those - for those again who have been following the review reasonably closely, the demand forecast, or the sales forecast, which AGL put forward last December, the actual demand forecast included in the draft decision actually has increased quite a bit in terms of the tariff sales forecast.

The basic reason for that is that there has been a more optimistic view of the Sydney housing market and AGL was asked, or was required, to include an additional 35,000 new customers on to its network. To put this in perspective, that 35,000 customers has more than doubled the size of the total Country Energy network and is almost half the size of the Canberra AGL distribution system. But the way the cost of service and the pricing is worked out in the draft decision, if taken literally the prices have reduced because that higher volume is included in there but there is no allowance at all for the additional capital and operating cost of servicing those additional 35,000 customers.

What AGL is proposing and has put forward in the response, and I would think it would be fairly incorrect not to accept, is that there should be some allowance for that additional market expansion. To model that, AGL has put forward what those costs should be, and all we have done is taken the methodology and the unit rates that have already been reviewed by Parsons Brinckerhoff and ECG and ultimately deemed prudent, or at least in the draft determination IPART has said they are prudent, we have just applied that methodology and those unit rates to the additional 35,000 customers. As I said a couple of times, we think it would be blatantly incorrect if that was not incorporated in the cost of service.

The second item which we think is fairly significant and needs adjustment is that throughout the review process with ECG it became quite obvious that we needed something like $25m worth of capital expenditure that had been incurred directly for the AGL distribution system from our original submission. In its report ECG I am pretty sure said that was prudent and efficient expenditure or that that is the type of expenditure that would have been incurred by a prudent efficient operator, basically saying it is reasonable expenditure.

That expenditure is acknowledged by IPART when it talks about past capital expenditure in its draft decision but it didn't go forward and actually make allowance for that in the cost of service. AGL put forward in its submission, and again I believe quite correctly, that it would be incorrect not to accept our position on that and include allowance for that prudent efficient expenditure.

There are also three other adjustments that AGL in its detailed analysis of the draft decision - you will appreciate we went through it with a fine toothcomb, three other areas that we believe are not nearly as significant as the earlier ones but they are reasonable amounts of money and items that need to be corrected going forward.

Two of those issues we put forward are actually to the detriment of AGL Gas Networks but we believed that the right thing to do was make the analysis and move it from there. They are depreciation of land, allowance for working capital and the capital supervision costs included in mains construction.

Finally in our submission we actually run through each of the 38 amendments that IPART proposed in its draft decision and give our position on each of those. To do that briefly today, there are 24 amendments which we agree completely that they are acceptable and we will implement. Not all of those 24 amendments we agree are in the best interests of users and/or AGL, but we have agreed to implement those amendments. There are another five amendments which we agree to in principle but we are proposing fairly minor word changes which would clarify the meaning and we will deal with IPART directly on that. I am quite happy to discuss it but it is not something I propose to talk through today. They are fairly minor word changes to particular clauses in the draft decision.

But there are nine amendments which we believe we just can't agree to implement without some further discussion or

further debate. Dealing with those nine amendments, the first five really relate to items that I have already spoken about earlier today. We can't agree with amendment 7 in relation to demand forecasts. Basically because of the water saving issues we believe the forecast needs to be changed. Amendment 10 in terms of the roll forward of the asset base. Because of the omission of the capital expenditure and in particular the 35,000 additional customers, we can't agree with that amendment.

We don't agree with amendment 11 in relation to rate of return. There are a couple of hundred pages explaining that, if you want to read it.

Again, we don't agree with amendment 12 on non capital costs, and that is exactly the same point, the major point on the roll forward of assets base, that there is no allowance there for the additional operating costs for those 35,000 customers.

Amendment 13 on working capital, we don't agree with that amendment because we don't agree with the rate of return that is allowed for working capital and we also pointed out an error in the volume of working capital that is allowed in the draft decision.

Then there are another four amendments which probably are a little bit more subtle and possibly not close to the heart of some of the people in the room. But just to deal with them quickly, amendment 15 asks AGL to reduce all reference to the gas swaps service which was in our submission. I think there was an unintended consequence of that submission that that would delete all user swaps as well as receipt point swaps. We understand that because of the rejection of the proposed amalgamation of the trunk zones apropos receipt point swaps they become redundant or can't be applied, if you like, at this point in time, but we don't believe it was IPART's intention to delete the user swaps and also it is AGL's position that there is no harm in leaving that swap service in regardless because it may become effective at some point of time in the future should another receipt point, for whatever reason, be constructed within the same trunk zone as one of our existing receipt points.

Amendment 24 is more an administrative process and it is probably more of interest to IPART than AGL and users, but we proposed that AGL give IPART 30 business days notice when we proposed to increase our prices throughout the regulatory period. Throughout the regulatory period there are periodic reviews of prices as a minimum to allow for CPI but if the cost pass-through mechanisms are allowed there are also cost pass-through mechanism to adjust for these, so there is an annual price change and we propose it should be 30 business days' notice to IPART when we do that. The draft decision came back and said that IPART would need 50 business days' notice to respond and to review our annual price change. What we put in our submission is that the information that we need to put our price change forward, or calculate the price change, including the CPI for the previous quarter, we don't know that until 40 business days anyway, so given that we don't know the information until 40 business days from the end it is impossible for us to give IPART 50 business days notice.

As I said, that is probably more of interest to IPART and ourselves than to anybody else.

Amendment 25 is in relation to payment security. AGL has accepted in part what IPART recommended in the draft decision but we have proposed an amendment. We believe that amendment gives AGL the ability to retain the minimum level of flexibility to effectively manage our credit risk. We think if the proposal as put forward in the draft decision is taken literally that AGL can't effect its credit risk matters.

Amendment 34 talks about deletion of delivery points. Again, we propose reasonably minor change to that. We suggested that was the intention of IPART's proposal anyway, but our proposal would allow the deletion of delivery points because of churn and not because of permanent deletions.

That is the end of my formal presentation.

MR KEATING: Thank you very much, David. It is now open for questions?

MR LEONG: George Leong from Orica and MSP. A couple of questions referring to the Wilton to Wollongong trunk line. You said that one of the functions of the trunk line was for balancing gas. I thought the EGP, because it was a controlled pipeline, that the majority of the gas comes

through EGP and it is only when there is a problem on the EGP is there balancing of gas supply.

The second question is that the normal and reduced pipeline capacity of the Wollongong pipeline, if that is reduced, will still do the job of supplying this balancing gas, this balancing provision that you talked about.

The third question is that I am a little bit concerned that you spoke about the mines subsidence problems with the trunk line. Mines subsidence is normally a local event in a local area. Can you tell us how extensive is the mines subsidence problem on the trunk line?

MR PRINGLE: There are a few questions there that I will take one at a time. The first one of those is that the balancing gas is a daily event. It fluctuates on many days. EGP supplies extra gas on many days, I am not sure of the exact ratio, but extra gas is supplied through Wilton and Wollongong and ultimately from South Australia. I don't know the exact portion of how many days each pipeline went over balance but I do know there are many occasions it is very regular that extra gas is supplied through Wilton and through the Wilton to Wollongong pipeline and one analysis we did is that over the last two years at least something like 40 days the volume of gas that has gone down the Wilton to Wollongong pipeline for notionally EGP customers has been greater than the volume of gas through the pipeline for contract customers notionally supplied through Moomba.

What was your second question?

MR LEONG: My second question is that you are saying that you still have to perform this function, this trunk line, and IPART basically reduced the capital by 20 per cent. If the normal size of the pipeline was to reduce by 20 per cent, could it still perform that function?

MR PRINGLE: You may well be right. I can't comment on that but I do know that in the work that MMA did, they specifically did not consider that. I could not comment on whether you are right or not. Your third question, I am not clear?

MR LEONG: It is that the mines subsidence affected area on the Wilton to Wollongong trunk is only a local phenomena in a local area. I am just wondering how extensive is the mines subsidence where the pipeline travels? Is it a large percentage of the pipeline or only a very, very small percentage?

MR RAPISARDA: Alf Rapisarda from AGL. George, the issue we are talking about is that some particular mine subsidence is happening in the Appin area south of Sydney. It is pretty well publicised that long-wall mining activity down there has impacted quite a lot of infrastructure in the area in the past.

MR LEONG: Is it 120 kilometres of pipe or 100 kilometres of pipe?

MR RAPISARDA: At the moment we are dealing with its impact in a couple of locations.

MR KEATING: Other questions?

MR RANDALL: Phil Randall from EnergyAdvice. I was waiting for the questions to finish and the AGL response. I have a question in relation to the process going forward: we have a public hearing in the first week of March and, Ruth, you have indicated today that it is going to be on the basis of a round-table discussion.

I would like to suggest that there be an opportunity for presentations to be made by interested parties. Throughout this process so far, no interested parties have actually been able to make formal presentations to IPART. I think last time we had this process five years ago there were two public forums and all interested parties were able to give formal presentations. I didn't attend the last round-table back in September or October, but I understand that there were no formal presentations allowed.

So I would request on the behalf of some of the interested parties in this room that some formal presentation opportunity be given in the next round-table discussion in March.

MR KEATING: We will take that on notice.

MR RANDALL: Thank you.

MR WAYLAND: John Wayland from Lovells Springs. We are a

small gas user in the Newcastle area. I would like to support that, please, if there can be a public hearing. I respect your decision today not to hear comments about the AGL but to have their introduction, but we would like an opportunity to be able to address these fairytales at an appropriate time, Mr Chairman.

MR KEATING: Further questions? In that case, I will close the proceedings. I would like to thank David and AGL for the presentation and I can assure you that there will be a chance, in whatever form, to adequately comment on AGL's proposed amendments and, indeed, on our draft decision at a future date.

Thank you all for your attendance.

AT 10.35AM THE FORUM CONCLUDED