

4 December 2003

Mr Tony Hinton
Presiding Commissioner
Gas Access Regime Review
Productivity Commission
LB2, Collins Street East
MELBOURNE VIC 8003

Dear Mr Hinton

Review of the Gas Access Regime

We write regarding the Australian Gas Association's (AGA) Supplementary Submission to the above review dated 31 October 2003. In that submission under the heading "Trends in Gas Distribution Investment"¹, the AGA makes a number of assertions regarding BHPB's Initial Submission to the review. This letter deals with each of the AGA's assertions.

AGA's assertions centre on Table 3.2 of the BHPB Submission. This table was contained in a section of our submission entitled "The Gas Industry Under the Code". That section sought to show a variety of metrics concerning the gas industry as a whole including the distribution segment. For the distribution segment the relevant metrics in the section were:

- | | |
|------------|---|
| Figure 3.3 | Kilometres of Natural Gas Reticulation Pipeline laid and in use, Australia 1989-2002. |
| Table 3.2 | Capital Expenditure on Distribution of Natural Gas, Australia (Constant Prices, December 2000 \$m). |
| Table 3.3 | Household Access and Connection to Natural Gas (%). |

All information used to construct these figures and tables was referenced to various issues of the Australian Gas Association publication Gas Statistics Australia. Further, at footnote 14 of our submission we clearly state that caution is needed in making comparisons over time and that both the AGA and ABS note that gas industry statistics over time have been affected by recent industry restructuring.

¹ AGA Supplementary Submission Pg 7

Our primary point was that since 1990-91 when open access was first proposed², the distribution segment has continued to grow and that distributors have invested \$3.2* bln (\$1.4* bln of which was invested between 1997-2002).

It appears that the AGA, in its attempt to argue against BHPB's submission, has sought to cast doubt upon and recast its own statistics.

Firstly, the AGA in its attack on the length of time BHPB covered in our data set states:

"Capital expenditure data prior to the large scale restructuring and privatisation is not directly comparable to data after these processes, particularly given formerly government-owned business enterprises undertook capital expenditure that may have been underreported in AGA data, and that in the pre-privatisation period the series may also be impacted by investments arguably in some cases made on the basis of a range of non-commercial objectives."³

We note the following:

- 1) AGA only suggests that capex may have been underreported, it does not provide any evidence that it was.
- 2) The second part of the AGA's statement would suggest that pre-privatisation (and the Introduction of the Gas Access Regime) , capex could be inflated above that which would have occurred in an industry disciplined by private capital.

Second and particularly concerning to BHPB, is the AGA's attempt to rewrite their own data collection history by including leased investments in the early years of the data set. If the AGA was to be consistent, it would have to include leased investments in all years of the data set, not just the ones that are convenient to the argument it is pursuing.

After the AGA's attempt to discredit BHPB's analysis, it then conducts its own analysis by looking at capex investment over the period 1997-2002 and draws a number of conclusions on trends that it observes. It is unfortunate that the AGA, in looking at a relatively short investment horizon and then trying to draw conclusions on trends, has neglected to caveat its analysis with the observation that capex investment has historically been lumpy. Indeed the year 1999-00 saw investment of \$359* million, the highest level of investment in the entire data set.

BHPB does not know if the AGA's statistical series is biased towards an underreporting of capital expenditure or an over reporting. In any event it is not the issue at hand. The real issue is when all the distribution specific information is aggregated (capex, km of pipes laid and in use and percentage of households connected to gas) it is, in our view, clear that significant discretionary investment has been made throughout the period including under the Gas Access Regime.

Finally, it is disappointing that the AGA should attempt to discredit a bona fide, in depth submission by another party, not by detailed analysis and rebuttal but through groundless and sweeping suggestions, such as:

² See Section 2.2 of BHPB's Initial Submission

* December \$2002 dollars.

³ AGA Supplementary Submission Pg 7 (emphasis added).

"The AGA has not at this time undertaken further analysis of other potential inconsistencies in statistical evidence presented in the BHPBilliton submission. Given this specific instance, however, AGA suggests the Commission should not place reliance on data which is not able to be independently replicated or confirmed by the Commission."⁴

BHPB is sure that the Productivity Commission will, as always, maintain its professionalism and not allow this important review to be diverted by self serving and inaccurate assertions from an industry body with a heavy vested interest. BHPB is more than happy to provide any of the information sources we used in the development of our submission to the Productivity Commission.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Colin Martin', with a stylized flourish at the end.

Colin Martin
Manager Commercial Assurance

⁴ AGA Supplementary Submission Pg 8