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Mr Sebastian Roberts
General Manager
2012 Victorian Gas Access Arrangement Review
Australian Energy Regulator

Dear Sebastian

A: Introduction

EnergyAustralia welcomes the opportunity to comment on the Australian Energy Regulator's (AER) Access Arrangement (AA) draft decision which applies to APA GasNet Australia (Operations) Pty. Ltd. from 1 January 2013 to 31 December 2017.

We are a major integrated energy company with diverse interests in south-east Australia. We have a significant commercial and retail gas load in Victoria, as well as gas fired generation. Therefore, the Victorian Transmission System (VTS) is critical to our operations.

We are generally comfortable with the key aspects of the AER's draft-decision, however we are concerned about the following aspects of the draft decision:

- AMDQ credit certificates;
- Augmentation capital expenditure;
- Weighted Average Cost of Capital (WACC);
- Extension policy;
- Transmission Payment Deed.

B: Key issues

AMDQ Credit Certificates (AMDQCC)

The Australian Energy Regulator (AER) has decided to treat AMDQ cc as a "reference service" in its draft-decision.

It has done this because it considers AMDQcc are likely to be sought by a major part of the market and will be offered in the same part of the market as the haulage "reference service". As a result, it cannot treat AMDQcc as a "rebateable service".

Whilst the AER has been reviewing APA GasNet's access arrangement (AA) proposal, the Australian Energy Market Commission (AEMC) has been assessing a rule change that was lodged by the AER relating to the treatment of AMDQcc. [1] The AEMC's final rule determination amends the definition of "reference service" in the National Gas Rules (NGR), but did not amend the definition of "rebateable service". As a result of this decision, the AER will have no power to claw back any surplus revenue that APA GasNet's over-recovers in excess of its regulated revenue from issuing AMDQccs in the next regulatory period. Therefore, APA GasNet will keep $27.5 million of revenue it recovers due to the "price effect" of selling AMDQcc to market participants over the five years. It will also earn additional revenue from selling AMDQcc in the next regulatory period as a result of the "volume effect" which it will be entitled to keep.

We are disappointed with the AEMC's final rule on the AER's rule change relating to the treatment of AMDQcc. Regulated monopolies should not be able to earn revenue which is surplus to its building block revenue. We are particularly concerned that APA GasNet will have incentives to try and recover more of its revenue from issuing AMDQcc in the future.

We intend to submit a rule change to the AEMC to resolve this issue. Our rule change will seek to place all of the revenue that APA GasNet over-recovers from AMDQcc into a market based fund. The money from the fund will be used to finance capacity expansions. The parties who contributed to the fund will receive AMDQcc for contributing to the funding of any capacity expansions.

Augmentation capital expenditure

Gas to Culcairn

EnergyAustralia supports the Gas to Culcairn project.

APA GasNet proposed the project following the many requests to increase the injection capacity of the south west pipeline, as well as the capacity of the system for withdrawals at Culcairn.

APA GasNet has estimated the cost of the project at $158.1 million. To meet the incremental flows on the system, it has proposed to undertake the following augmentation works within the VTS in 2013-2014:

- installation of a Taurus 60. 5 MW compressor station at Stonehaven on the south west pipeline (SWP)
- lay 104.1km of 450mm pipeline looping the Wollert to Barnawartha pipeline comprising:
    - Wollert to Wandong (27.8 KM)
    - Line valve 12 to inlet Euroa Compressor Station (30.0 KM) and
    - Outlet Euroa Compressor Station to Line valve 17 Benalla (46.3 KM)

The AER reviewed the Gas to Culcairn project to determine whether it complies with Section 79 of the NGR. Following this review, the AER issued a determination rejecting the project on the basis the forecast incremental gas volumes

[1] National Gas Amendment (Reference service and rebateable service definitions) Rule 2012

relating to the Gas to Culcairn project had not been arrived at on a reasonable basis. Therefore, they did not represent the best forecast possible in the circumstances. The AER recommended that the scope of the Gas to Culcairn project should be amended to reflect the best available estimate of forecast incremental capacity expansions and proposed an alternative project.

We request that the AER review the capital expenditure approved for the alternative to the Gas to Culcairn project. Of particular concern is the AER's decision to locate a bi-directional C50 compressor station at Winchelsea, compared to the proposed site at Stonehaven. The lead time required to acquire a compressor site, easement and get the necessary approvals at Winchelsea will only delay the installation of a compressor on the south west pipeline by at least another year. This is particularly concerning, especially given the level of congestion on the south west pipeline. Our view is that the proposal in the draft decision is a false economy as the additional costs of securing a compressor site - which include the easement costs and approvals required to locate a compressor at Winchelsea - will be higher than associated cost savings of moving between the proposed Taurus 60.5 MW to the C50 compressor station at Stonehaven.

The AER argues that the location of a compressor at Stonehaven is more optimal for west bound flows. It suggests Winchelsea provides greater capacity for flows to Melbourne/Culcairn (at least 20 TJ/day for the same compressor size) with associated security of supply benefits in the event of an outage at Longford. Whilst this may be true, we consider that overlooks the significant benefits that westward gas flows on the VTS will provide in the future because of the decline of Casino/Minerva and the increasing flows to South Australia from Longford. The security of supply benefits associated with implementing the Taurus 60. 5 MW compressor station at Stonehaven would be significant. We suggest that they will be comparable to the benefits of installing the bi-directional C50 compressor station at Winchelsea.

Whilst we are disappointed with the AER's decision to reject the capital expenditure required for the Gas to Culcairn project, there is still value in the alternative level of capital expenditure including:

- the augmentation of the south west pipeline through the construction of a bi-directional C50 compressor station at Winchelsea;
- the augmentation of the Northern network through the construction of approximately 27.2 Km of 450 mm pipeline looping between Wollert and Wandong.

<u>Western Outer Ring Main</u>

EnergyAustralia supports the proposed Western Outer Ring Main (WORM) project.

We agree with APA GasNet that the WORM project is required to provide is an acceptable level of security of supply in the event of a major gas plant outage at Longford. The AER rejected this argument in its draft-decision, arguing that the security of supply benefits associated with the WORM project are not well supported and that the WORM project is not required to deliver Gas from Iona to Melbourne in the event of a Longford outage. The AER identifies that the key limiting factor on gas availability from Iona to Melbourne - in the event of a Longford outage - is the capacity of the south west pipeline. As such, the AER did not accept that the capital expenditure as proposed by the WORM project to be justifiable under Rule 79 of the NGR.

We believe that this assessment does not account for all the benefits and request. The security of supply benefits attributed to the WORM project need to be assessed in the context of declining gas reserves from Casino/Minerva and the increasing flows from Longford. As gas reserves begin to reduce at Casino and Minerva, Longford gas will be required to fill underground storage and supply the Victorian market. For this reason, we consider that the WORM project will provide significant security of supply benefits. In addition to this, it will simplify the operation of the VTS and avoid sub optimal capital expenditure and reduce operational expenditure costs in the future. We request that the AER review the need for the WORM project in the context of the increasing reliance on Longford gas in the future.

Weighted Average Cost of Capital (WACC)

The AER has decided on a rate of return of 7.16% compared to APA GasNet's proposed 9.06%.

This is primarily due to the difference of opinion between the AER and APA GasNet on the appropriate values of the Market Risk Premium (MRP) and the Risk Free Rate (RFR).

In addition to the proposed changes proposed to the WACC by the AER, we believe there should be an additional adjustment to the risk profile of APA GasNet (via the WACC parameters). This is to cater for the lower risk of the business as a result of the additional pass through provisions that have been proposed by APA GasNet and approved by the AER. Except for a change in the definition of the carbon cost event pass through, the AER has accepted APA GasNet's proposed pass through events and definitions.

Extensions policy

As noted in our earlier submission, there are insufficient price signals for the augmentation of the VTS in our earlier submission. Therefore, AMDQcc did not provide sufficient compensation for new investment as it is required/economic.

We request the AER reconsider this decision.

In our view, any extension provided by APA GasNet - or any other provider who can meet the technical requirements for connection - should either be rolled in (and AMDQcc assigned) or should remain outside the transmission system and be operated by the owner as they see fit.

This reflects the arrangement for the EGP and for the Western Transmission System. In particular, it should not be possible for the AER to reject a roll in application and still require that pipeline extension be part on the market carriage system.

Transmission Payment Deed (TPD)

The terms and conditions of payment under the proposed Transmission Payment Deed (TPD) in the AA cause us some concerns. These concerns relate to billing and payments terms, prudential requirements and termination payments.

The service provider provides a single pipeline service under this AA being the reference service. The reference service comprises the tariffed transmission service. The terms and conditions on which the service provider will supply the reference service, in respect of entering into agreements with shippers for the payment of reference services tariffs, terms and conditions reflect the principles in Schedule F. Schedule F includes the Transmission Payment Deed (TPD) terms and conditions which apply to gas shippers.

We offer the following comments on Part F of the TPD following the Draft-decision.

<u>Part "F" – Transmission Payment Deed Terms</u>

F2 – Billing and Payment

EnergyAustralia notes that the AER considers that clause F2 is not consistent with the National Gas Objective (NGO) and requires it be amended in accordance with Revision 12.1.

We prefer to retain the wording in the current Transmission Entitlement Deed (TED) that relates to the treatment of disputed amounts. We believe that wording in the current TED more clearly describes the obligations of Shipper when the invoiced amount is disputed (in part, or in whole) and the consequential financial costs following resolution of the disputed amount.

However, if the AER changes its decision and retains the facility as proposed in F2, we suggest that greater clarity is required regarding the interest chargeable in the instances where the disputed amount is found to be payable by, or re-payable to, the Shipper. To this end we propose that after “together with interest on that amount” the following should be added “at the Commonwealth Bank corporate overdraft reference rate plus two percentage points”.

F4 Prudential requirements

EnergyAustralia disagrees that the clause F4 is consistent with the NGO and should not propose to require any amendments.

We consider that the prudential facility in the current TED should be adopted (i.e. Clause 4). The advantage of Clause 4 in the existing TED is that it clearly describes the shipper’s corporate investment rating to avoid credit support. This qualification is less clear in the proposed F4 as it relies on the “reasonable” view of the Service Provider.

F8 Termination

EnergyAustralia agrees that clause F8 should overtly indicate that failure to pay a disputed amount is not a material default.

We agree with the AER that it is not consistent with the NGO to permit APA GasNet to terminate the Transmission Payment Deed, where a user has disputed an invoice. APA GasNet should not be able to incorrectly charge a user a then terminate the Transmission Payment Deed if the user disputes the invoice.

C: Conclusion

EnergyAustralia looks forward to working with the AER on APA GasNet’s AA proposal for the VTS.

We consider that our submission has raised some substantive issues for the AER to consider before making its Final determination. We believe that our comments on the key issues that we have raised in this paper are consistent with the National Gas Objective (NGO) and the National Gas Rules (NGR). Therefore, we urge the AER to consider them.

In order to deal with the issues that we have raised in a rigorous and transparent manner, we expect that there will be an opportunity to consult further with the AER on the range of issues that we have raised in this submission. In this regard, we would welcome further dialogue with the AER on any of the issues that we have raised in this submission.

For any enquiries regarding this submission, please feel free to contact Mr. Con Noutso - Regulatory Manager at EnergyAustralia on Tel: 03 8628 1240.

Yours sincerely

Signed for email

Con Noutso
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TRUenergy