

A few
words.

Mr Warwick Anderson
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Australian Energy Regulator
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Dear Mr Anderson,

Amadeus Gas Pipeline: Access Arrangement Revision Proposal 2016-21

AGL welcomes the opportunity to provide comments on the Access Arrangement Revision Proposal (Revision Proposal) for the Amadeus Gas Pipeline (AGP) to apply from 1 July 2016 to 30 June 2021.

AGL has a long history of involvement in Eastern Australian gas markets and currently supplies gas and electricity to over 3.8 million customers on the east coast. Additionally, AGL utilises gas in power generation, is involved in gas extraction activities and has also recently completed the construction of a gas storage facility in Hexham, New South Wales.

To date, AGL has not been a User on the AGP. However, as highlighted by APT Pipelines (APTNT) in its Revision Proposal, there is a proposal to connect the Northern Territory to the south eastern gas market through the mooted North East Gas Interconnector (NEGI). If this NEGI is sanctioned, it is likely that many new Users will seek access to capacity on the AGP, including, potentially, AGL. As such, AGL encourages the Australian Energy Regulator (AER) to ensure that the final AGP Access Arrangement can cater for such a significant project during the next access arrangement period.

In its Revision Proposal, APTNT does not propose any change to its extension and expansions policy as currently approved by the AER believing that the prevailing policy:

- can support such a development;
- gives the AER appropriate oversight of the extension or expansion; and
- addresses the uncertainty that exists over the project.

AGL agrees with APTNT that the uncertainty over the project's development and indeed, the unknown technical scope prevent it being directly incorporated into this Access Arrangement at this point in time.

However, given this project is likely to fundamentally change the physical operation and usage of the AGP, AGL is not confident that the prevailing expansion and extensions policy will adequately address the issues and provide the certainty needed to deliver efficient outcomes for current and new pipeline Users.

Some of the issues and unknowns regarding an expansion driven by the development of the NEGI and its coverage under the AGP Access Arrangement include:

- the existing pipeline is not currently fully utilised along all sections of the pipeline so the capital investment required to enable a NEGI may not be large;
- the direction of the gas flows in the pipeline sections is also likely to change and assets such as compressors, that were previously utilised by AGP and remain in the regulatory asset base, may again be used with only incremental investment needed to refurbish these assets;
- gas flows will likely increase on the existing pipeline as well as any segments relevant to the expansion; and consequently,
- application of the regulated Reference Tariffs as initially set is likely to result in overcharging of all users of the AGP.

In saying this, AGL agrees with the AER that pipeline expansions should be covered by default in the majority of cases. Applying a non-coverage decision on an expansion where current and incremental assets are utilised by both new and existing Users produces its own issues of cost allocation and differential pricing.

AGL note the current extensions and expansions policy in the Revision Proposal does allow an expansion in capacity not being treated as part of the covered pipeline. The AER is required to agree to the non-coverage of such an incremental expansion but AGL requests greater assurance that section 7.2(a) provide a sufficiently transparent and rigorous non-coverage decision. As a comparison, section 7.1 of the policy contemplates a non-coverage decision for pipeline extensions and appears to be a more stringent and consultative process.

The current policy also states that reference tariffs in the access arrangement period will not be affected by any extension or expansion made and that APTNT will elect whether access to the new capacity will be offered at the Reference Tariff or as a negotiated tariff. In the case of an AGP expansion to support a NEGI, this is likely to result in existing Users paying higher charges than necessary and provides little regulatory support or certainty to new Users seeking access to expanded capacity.

In its Final Decision on the prevailing AGP Access Arrangement, AER proposed to monitor the operation of the extensions and expansions policy and carry out a review in its next determination to determine how effective the policy was and whether the policy needs to be modified to increase its effectiveness.

In conclusion, AGL submits that the AER now needs to review the extensions and expansions policy to accommodate the likely introduction of the NEGI including:

- a transparent and informed process for determining whether such an expansion will be covered; and, if it is covered,
- highlight a process for determining how the expansion will affect Reference Tariffs or negotiated tariffs to the benefit of all Users.

If you wish to follow up on any issues raised, please contact me on (03) 8633 6967.

Yours sincerely,



Simon Camroux
Acting Head of Regulatory Strategy