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Mr David Hatfield  
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The Australian Competition and Consumer Commission  
PO Box 1199  
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Dear Mr Hatfield

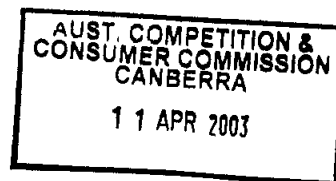
**Moomba-Sydney Pipeline Access Arrangement**

Attached is the Consolidated Information Based On Questions From The ACCC document (emailed to the Commission on 12 March 2003) relating to the Revised Access Arrangement submitted to the Commission on 30 April 2002. The document is a compilation of responses, not including confidential information, to questions and information sought by the Commission during August and September 2002.

Yours sincerely



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# MOOMBA - SYDNEY PIPELINE REVISED ACCESS ARRANGEMENT

## CONSOLIDATED INFORMATION BASED ON QUESTIONS FROM THE ACCC

### Introduction

This document is a compilation of a number of responses to Commission requests for information about the EAPL's Revised Access Arrangement for the Moomba-Sydney Pipeline (MSP) submitted on 30 April 2002. EAPL has agreed to a Commission request that it prepare a consolidated document to be made available to parties with an interest in the MSP Revised Access Arrangement.

It is important to note that the information was prepared for and submitted to the Commission before EAPL had evaluated the implications of the WA Supreme Court Decision on the Dampier to Bunbury Natural Gas Pipeline Draft Decision (the Epic Decision). As the information provided to the Commission related to the Revised Access Arrangement it did not reflect changes to EAPL's position about the appropriate initial Capital Base (ICB). These are contained in EAPL's submission to the Commission of 5 November 2002. To assist interested parties EAPL's revised position on the ICB has been incorporated into this consolidated document.

### Asset valuation (ICB)

The proposed ICB of \$740m in the Revised Access Arrangement is not derived from a particular valuation methodology. The Code requires consideration of a number of valuation methodologies, which in the case of the MSP range up to \$1,700m. An ICB of \$740m reflects that correcting the errors in the Draft Decision must lead to a substantial increase in the ICB above the value of \$539m proposed by the Commission in the Draft Decision<sup>1</sup>.

EAPL notes that the value of \$740m is not presented as a maximum possible value for the ICB, but as a minimum value which would properly recognise the interests of EAPL as required under the Code while still recognising the interests of Users.

The EAPL submission of 14 March 2002 set out corrected values for each of the matters to be considered in arriving at the ICB which are as follows:

DORC	\$970m (14 March 2002 submission referred to \$940m approx)
Economic WDV	\$1,700m approximately
Reasonable expectations	greater than \$666m. [ <i>Now calculated as \$784m - \$998m</i> ]
Purchase price	greater than \$586m.

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<sup>1</sup> In EAPL's submission of 5 November to the Commission on the implications of the interpretation of the Code provided by the WA Supreme Court Decision on the Epic Dampier to Bunbury Access Arrangement, it submitted that the appropriate ICB is represented by the NPV of cashflows that EAPL would reasonably expect under the regulatory regime prior to the introduction of the Code. In the submission EAPL calculated a range of \$768m - \$972m. This range has now been corrected to \$784m - \$998m.

The asset values for each class of asset is not relevant for the NPV methodology.

### Disposal of assets

The ICB in the Revised Access Arrangement includes adjustments for disposal of assets arising from the formation of APT. The adjustments to the ICB for disposals were based on ORC and DORC values in the 1999 Access Arrangement Information, the assets disposed are as follows:

#### MSP Assets Disposed (\$2000)

	ORC*	DORC*	Revised AA Deemed Disposal Value
Plant, machinery & equipment	\$ 10.3m	\$ 4.8m	\$ 2.0m
Mobile Equipment	\$ 6.0m	\$ 3.0m	\$ 3.0m

Note: \* From AA1999 (p27)

The Capital Base was adjusted downward for disposals by \$5.0m (\$2000) to arrive at the Initial Capital Base of \$740m (\$2000). In addition, actual capital additions of \$0.2m and \$0.7m were added to the asset base in 2001 and 2002 respectively.

EAPL did not have sufficient time to undertake a rigorous reassessment of Optimised Replacement Cost (ORC) for the Revised Access Arrangement. In addition, the amount of the disposals is minor in comparison with the value of the capital base so that no adjustment to the ORC was undertaken. For the MSP, the net effect of technological improvements, changes in the exchange rate, inflation, etc, are likely to increase the value of ORC above the estimate used in the 1999 Access Arrangement and retained by the Revised Access Arrangement.

The direct impact on opex as a result of the disposal of specific MSP assets is not known to APT, as the services associated with these assets are now part of an overall management and services agreement. The agreement does not specify the charges for the services provided previously by these assets or any particular asset.

### Capital Expenditure

The Revised Access Arrangement contains proposed capex during the Access Arrangement Period. In addition to annual stay-in-business capex, periodic intelligent pigging (in-line inspections) and compressor overhauls, there are three capacity expansions proposed for the Northern, Southern and Canberra Laterals.

#### *Northern Lateral Expansion*

The 1999 Access Arrangement did not forecast any capacity expansion on the Northern Lateral in the initial Access Arrangement Period.

The Northern Lateral has a single reciprocating compressor (called the Young-Lithgow or YL Compressor), to boost delivery pressures at the Lateral's extremities in peak periods. There is no backup unit, in the event of compressor failure. While this unit has historically operated for short periods in winter only, recent modelling indicates that substantial growth in the area will result in peak system constraints requiring expansion as early as 2004.

The Northern Lateral compressor will be increasingly used to assist the northbound flow of gas through the Interconnect in the shoulder and summer periods. This use of the unit will result in greater likelihood of unplanned interruption and maintenance.

The capital cost of expanding the Northern Lateral capacity in 2004 is estimated at \$2.5m, based on the cost of adding a duplicate reciprocating compressor unit to the existing station. However, pending further detailed analysis, a larger compressor, partial looping, or some combination of the above may be appropriate solutions. A detailed cost-benefit analysis of the most appropriate expansion option(s) is yet to be undertaken.

#### *Canberra Lateral Expansion*

The Canberra expansion represents the partial looping of the Canberra Lateral.

At the time of the original Access Arrangement in 1999, the Eastern Gas Pipeline (EGP) did not include plans to connect with the distribution network in Canberra. The Moomba Sydney Pipeline (MSP) was the sole transporter of gas to the ACT which was experiencing some of the highest growth rates in the country. Projections of peak day load into Canberra indicated a requirement to expand the lateral's capacity to maintain minimum network pressure requirements. A detailed cost benefit analysis suggested that partial looping of the lateral was the most efficient use of capital to satisfy the constraints due to increasing demand.

Since 1999, opening up of the retail gas market (ie Full Retail Contestability), and the construction, by AGL Gas Networks ACT (now ActewAGL), of a network extension to the EGP, EAPL delayed plans to proceed with the expansion.

As of June 2002, the EGP has been fully connected to the ActewAGL network. The requirement to expand EAPL's Canberra Lateral by 2007 is based on increasing minimum pressure requirements of the network, proposed power generation in the ACT and EAPL system modelling.

The capital cost of expanding the Canberra Lateral capacity in 2007 is estimated at \$3.5m, based on the cost incorporated in the 1999 Access Arrangement escalated to 2007. A detailed cost-benefit analysis of the most appropriate expansion option will be undertaken prior to the Lateral's expansion.

#### *Southern Lateral Expansion*

The capex identified as Southern Lateral expansion is for the installation of a compressor station at Uranquinty.

In the original 1999 Access Arrangement, EAPL proposed the addition of a compressor to be located on the Southern Lateral at Uranquinty in 2003, based on expectations of increased customer demand and increased usage of the Interconnect.

At the time of submitting the Revised Access Arrangement, EAPL modelling suggested the expansion would be required by 2008. However, recent activities by Victorian retailers responding to market dynamics in SA, Vic and NSW suggest that EAPL may need to consider the expansion sooner than 2008.

The capital cost of a compressor at Uranquinty in 2008 is estimated at \$16.3m, based on the cost incorporated in the 1999 Access Arrangement escalated to 2008. A detailed cost-benefit analysis of the most appropriate expansion option will be undertaken prior to the compressor construction.

#### *New Facilities Investment tests*

For all of the above proposed capital expansions, the requirement to expand is not based solely on an achieving a specific volume target. The requirement to expand depends on number of factors, including but not limited to, system or lateral peak day volume requirements, system or lateral minimum pressure requirements, specific delivery point volume constraints (daily and/or hourly).

Each of the expansions is justified on a combination of the tests under s8.16(b) of the Code. A different mix of the tests applies to each expansion as follows:

Northern Lateral Expansion - As growth in load is the main driver for this expansion, the anticipated incremental revenue generated by the additional capacity is expected to cover a significant proportion of the costs of the expansion (test (i)).

Continuing load growth on both the Northern Lateral and increasing use of the Interconnect will require the installation of a duplicate compressor to allow for periods of planned and unplanned maintenance. The investment in capacity expansion is needed to provide system wide benefits of security of supply (test (ii)) and to maintain the integrity and Contracted Capacity of Services (test (iii)).

Canberra Lateral Expansion - The need for this lateral is based on expected load growth to Canberra notwithstanding the additional source of gas into the ACT/Queanbeyan network from the Eastern Gas Pipeline. Consequently the anticipated incremental revenue generated by the increasing demand for use of the lateral is expected to cover the costs of looping the Canberra lateral (test(i)).

Southern Lateral Expansion - It is forecast that the addition of the Uranquinty Compressor will be necessary to meet increasing demand for transportation services in both a southerly and northerly direction along the Southern Lateral. Consequently the anticipated incremental revenue from additional services generated will cover a significant proportion (possibly all) of the costs of the compressor (test (i)).

As stated in the 1999 Access Arrangement, the availability of sufficient bi-directional capacity in the pipeline link between the Victorian and NSW pipeline systems provides

significant system wide benefits to users of the MSP. The benefits of accessing a wider range of gas supply sources will enhance security of supply and promote basin on basin competition in Victoria and NSW (test (ii)).

In addition the compressor will provide operational security of the Southern Lateral in the event of unplanned maintenance on compressors either on the GasNet system or at Young (test (iii)).

#### *Replacement capital expenditure*

To assist the Commission in assessing its Revised Access Arrangement EAPL provided a confidential copy of its financial model used to develop tariffs. The model projects costs and revenues for the anticipated 80 year economic life of the MSP.

The capital expenditures in 2012 (\$19,769,664), 2014 (\$17,505,535), and 2017 (\$15,343,731) are for additional mainline compressors required to transport the gas volumes incorporated into the volume forecasts. The capital expenditures in 2023 (\$14,410,718) and 2027 (\$12,728,644) are to replace the existing mainline compressors at Young and Bulla Park.

#### **Depreciation**

The economic life for the MSP Revised Access Arrangement is 80 years. It does not include costs specific to refurbishing the MSP. The requirement to refurbish the MSP is not considered to be different to that of other Australian pipelines. The decision to refurbish the pipeline will be determined on an as and when needed basis.

#### **Operating Costs**

##### *Changes in Operating Costs as part of a stand-alone business*

The level of operating costs proposed in the Revised Access Arrangement changed from those in the 1999 Access Arrangement. A significant amount of the change in operating costs resulted from APT being established as a stand-alone listed pipeline business. The change is not due to the IPO charges, but rather the costs to APT resulting from operating as a stand-alone business. The costs relating to the establishment of the IPO have not been included in the forecast operating expenses as part of the Revised Access Arrangement. The MSP is the largest asset in the APT pipeline portfolio.

Operating costs in EAPL's 1999 Access Arrangement were costs in EAPL's accounts and as the new owners of EAPL APT understands those costs did not include corporate overheads. Until the formation of EAPL, AGL and the other owners of EAPL at the time incurred these corporate overheads. These costs, now incurred by APT directly, include items such as the cost of APT's Board, managing its corporate structure and other costs associated with operating as a listed entity. These costs are now included in the Revised Access Arrangement.

With respect to the details of the costs relating to the establishment of APT, APT internally allocates the EAPL's portion of the costs of establishing the IPO through higher interest cost

recovery rates to EAPL. As a result, the costs relating to the EAPL IPO is not included in the operating expenditure forecasts.

APT allocates a proportion of its total corporate overheads to each of its subsidiary companies. The corporate overhead allocated to EAPL in the Revised Access Arrangement is \$2.6 million in 2000/2001.

Other components of EAPL's operating costs affected by the establishment of APT are contracted management and services costs, and marketing costs.

*Forecast Operating Costs*

**Forecast Operating Costs (Non Capital Cost)  
 (\$2001)**

	2003	2004	2005	2006	2007	2008
Total	17.174	23.181	23.091	23.090	23.090	23.090

NOTE: 2003 is for 9 month AA period (01Oct 02 to 30 June 03).  
 On gas used: compressor fuel is now provided by shippers

*Opex Benchmarking*

Two benchmarks are considered in the pipeline industry as providing a broad expectation of the level of operating costs:

1. Opex as a percentage of pipeline capital (replacement) cost.
2. Opex/km of pipeline length.

As for all partial indicator type benchmarks there are a number of factors which will affect these such as, the terrain through which the pipelines operate, the level of compression and a range of other particular circumstances that drive both construction cost and operating cost. There is therefore a considerable variability between pipelines reflecting these factors.

In the Final Decision on the Moomba-Adelaide Pipeline the Commission noted that in referring to the first measure (percentage of capital costs – with ORC as a proxy for capital cost), “Typically this ranges from 2 percent for an uncompressed pipeline to 5 percent for a fully compressed pipeline”.

The Commission also considered the second measure (Sopex per km) in the Moomba-Adelaide Pipeline Final Decision.

The table below compares the values for the MSP for both measures against the major Australian pipelines, based on the opex values approved by regulators under Final Decisions, or Draft Decisions where there is no Final Decision.

On both measures the opex for the MSP is well within the range of variables accepted by regulators.

Opex as a percentage of ORC

The MSP ratio of 2.2 percent is consistent with the Commission's expected ratio for a partially compressed pipeline, and is in line with pipelines of similar size, terrain and levels of compression.

Opex per km

This ratio at \$11,400 per km is also within the range accepted for similar pipelines.

**Benchmarking O&M Costs for Australian Pipelines  
(real 2001 dollars)**

	EAPL MSP		Epic MAP		GasNet		GGT		Epic DBNGP		NT Gas ADP	
	% ORC	\$000 /km	% ORC	\$000/ km	% ORC	\$000/ km	% ORC	\$000/ km	% ORC	\$000/ km	% ORC	\$000/ km
2000							2.3%	7.5	1.7%	16.8		
2001			2.4%	14.4			2.2%	7.2	1.6%	16.4		
2002			2.3%	13.8			2.2%	7.2	1.8%	18.5	1.7%	3.7
2003	2.2%	11.3	2.3%	13.9	3.6%	14.6	2.2%	7.2	1.8%	18.2	1.7%	3.7
2004	2.2%	11.5	2.3%	13.8	2.5%	9.9	2.4%	7.8	1.8%	17.8	1.7%	3.7
2005	2.2%	11.4	2.3%	13.8	2.4%	9.6					2.0%	4.4
2006	2.2%	11.4			2.5%	10.1					1.7%	3.7
2007	2.2%	11.4			2.5%	10.1						
2008	2.2%	11.4										

**SOURCES:**

EAPL Moomba- Sydney:

Revised background information: 12/8/02  
Information requested in ACCC letter dated 27/5/02  
EAPL Access Arrangement 1999

Epic Moomba-Adelaide:

ACCC Access Arrangement for MAP  
ACCC Final Decision  
Epic Energy SA: Schedules for Access Arrangement for Moomba to Adelaide Pipeline System (29 June 2001)

GasNet:

ACCC Draft Decision (14 August 2002)  
GPU GasNet Pty Ltd - Application for Revision to Access Arrangement: Annexure 1  
GHD Technical Life Analysis of GasNet's Transmission System  
GPU GasNet Public Report: 2001 Comparative Performance Benchmarking for the Natural Gas Pipeline Industry

Goldfields Gas Pipeline:

OffGAR Draft Decision (10 April 2001)  
GGT: Access Arrangement Information (15 December 1999)

Epic Dampier-Bunbury:

OffGAR Draft Decision (21 June 2001)  
Epic Energy: Proposed Access Arrangement Information (28 July 2000)

NT Gas Amadeus Basin-Darwin:

NT Gas: Access Arrangement Information ( 25 June 1999)  
ACCC Draft Decision (2 May 2001)



## **Rate of Return**

The revised access arrangement information notes an asset beta of 0.62. This figure was based on the following:

- EAPL is experiencing higher levels of systematic risk through competition with other energy sources. That is its exposure to volatility in the economy is increasing.
- EAPL is experiencing increased competition with the EGP also exacerbating its exposure to the economy.
- Uncertainties with deliverability from Moomba and the development of alternative gas sources which have components of additional systematic as well as non-systematic risk.
- The development of coal seam methane in NSW with similar impacts on systematic risk.
- APT believes that asset beta range estimated in the 1999 Access Arrangement is in an appropriate range. However, as EAPL is now experiencing higher levels of risk since 1999, as discussed above, it has adopted an asset beta in the higher end of the range established in 1999.

## **Return on Working Capital**

While EAPL does not agree with the Commission's approach to not include a return on working capital, the Revised Access Arrangement does not include any provision for a return on working capital.

## **Reference Tariff Methodology and Tariff Path**

The total required revenue is calculated on the basis of forecast costs, a rate of return on the investment and depreciation expenses over the remaining life of the MSP.

Reference tariffs are applied to the total required revenue to determine a tariff path that ensures EAPL recovers the forecast costs, return on the investment and depreciation. Economic depreciation was applied in developing tariffs. That is, to the extent that the tariff path under-recovers the costs and the rate of return, the extent of the under-recovery is added onto the regulatory asset value. Likewise, where the tariff path over-recovers costs and the rate of return, the regulatory asset value is reduced to the extent of the over-recovery.

Whilst the above methodology takes into account the forecast costs over the economic life of the MSP, the relevant period is the Access Arrangement period.

The methodology for determining the revenue path is the same methodology as adopted for the ACCC approved Central West Pipeline Access Arrangement. The Commission has accepted that this depreciation approach is consistent with Code principles.

The starting point for tariffs for the MSP, for both Mainline and Regional Lateral Reference Tariffs is the current MSP Published Tariff. The decision to leave the initial tariffs in the Revised Access Arrangement at the current Published Tariffs was to avoid significant price shocks or price pleasures and remove the 100km cap on lateral tariffs as proposed in the original Access Arrangement. EAPL's allocation of fixed and variable costs is unchanged

from the original Access Arrangement. The allocation of the required revenue between capacity and commodity charges is unchanged at 94.1% capacity and 5.9% commodity.

The tariff for the first partial year the proposed Access Arrangement period (1 Oct 02 to 30 June 03) is:

**MSP Revised Access Arrangement Reference Tariffs, Mainline and Regional Laterals  
 (\$2002 for 01 Oct 02 – 30 June 03)**

Capacity Charge:	0.04764	Cents/GJ/km/day
Commodity Charge:	0.00299	Cents/GJ/km

The above tariffs are identical to the current 2002 MSP Published Tariffs for Firm Transportation. The above tariff, when expressed in dollars per terajoule per kilometer per month is as follows:

**MSP current Published Tariffs  
 (\$2002 for 01 Oct 02 – 30 June 03)**

Capacity Charge:	\$ 14.5000	/TJ/day/km/month
Commodity Charge:	\$ 0.0299	/TJ/day/km

Overall, the X factors (4% for the mainline, and -4% for the laterals) have been determined by taking into account forecast volumes on the Mainline and Laterals.

The basis of EAPL selecting this Mainline tariff path is:

- The tariff path provides a consistent tariff for the remainder of the economic life of the MSP,
- The consistent tariff path reduces the price shock / pleasure to EAPL and customers, and
- The X is a clear rounded number for customers.

The basis of EAPL selecting the tariff path for Regional Laterals is:

- The revenues generated from customers utilising the Laterals is insufficient at current tariffs to recover the costs of providing the services,
- This tariff path reduces the price shock for end customers, and
- It should be noted that the Regional Lateral tariff is significantly below the tariff for the Central West Pipeline, given the similarities of the Regional Laterals to the Central West Pipeline.

**Incentive Mechanisms**

The incentive mechanism is through the price path contained in the Revised Access Arrangement. This is the most common incentive mechanism proposed by service providers under the Code as it gives the clearest and strongest incentives for EAPL to pursue efficiencies both in use of and operation of the MSP.

## **Demand forecasts**

EAPL has used the October 2001 ABARE demand forecast in the Revised Access Arrangement.

The underlying assumptions to derive the EAPL demand forecast are based on the 1999 Access Arrangement assumptions that includes the following:

- Initial market share loss to EGP on start up, of approximately 20PJ,
- Strong growth in the tariff markets,
- Initial decline followed by a 1% growth in the contract market,
- Increasing sales of Cooper/Eromanga gas into Victoria,
- Increased gas fired power generation and co-generation, and
- Supply at Moomba will be supplemented with reserves from a northern source.

The modifications to the 1999 Access Arrangement forecast include:

- ABARE's October 2001 forecast, adjusted to reflect lower growth rates,
- The effect of competition from EGP,
- Minor changes to the growth rates and timing of the tariff and contract market,
- Large gas fired generation / co-generation not likely to be competitive until 2007, and
- A slight reduction in forecast growth of bi-directional flow through the Interconnect.

## **Extension and Expansions Policy**

It is intended that where it is agreed with the Regulator that an extension or expansion is to be covered, the Reference Tariffs will remain unchanged. However where the incremental revenue does not exceed the cost of New Facilities Investment, a Surcharge may be required. EAPL will determine whether such a Surcharge is required and make an application to the Regulator under the Code at the time.

## **Terms and Conditions**

### *Cross references to the transportation agreement*

Attachment D, clauses 61 and 63 - An Insolvency Event in a transportation agreement (applicable to both EAPL and Users) covers events such as the appointment of an administrator, a court application to be wound up or declared bankrupt, the appointment of a liquidator, a declaration of insolvency, and other substantially similar events that have the same effect under law.

Attachment D, clause 73 - Liabilities and Indemnities: These terms and conditions are repeated from the 1999 Access Arrangement (Attachment 3, Clause 24.2) as the Draft Decision did not require an amendment to this aspect of the 1999 Access Arrangement.

The specific inclusion of clause 77 (e) was to provide for occasions where liability would not be limited in regard to other terms and conditions not considered in the Access Arrangement but as agreed by both parties to a Transportation Agreement.

### *Negotiated Services*

Clause 5.5 - This clause provides that EAPL will not act in a discriminatory manner in providing services. Negotiable services by their very nature contemplate that the services provided to users may be different.

The term "non-discriminatory manner" means that EAPL will act in a manner which is consistent for each service offered and between each service offered, subject to differences which arise from legitimate economic, commercial and technical considerations. Such considerations would include:

- the level of service sought and the appropriate tariff relative to that level, and
- the application of prudent discounts where they are permitted by the Gas Code.

It is not discriminatory to treat users differently where they seek different services or where prudent discounts are necessary to maximise throughput economically and in a manner that will benefit all users.

### *Receipt Point Temperatures*

Attachment D, Clause 38 - EAPL's 1999 Access Arrangement and the Revised Access Arrangement require that users use all reasonable endeavours to make the gas available to EAPL at the receipt point at a daily average temperature of not greater than 10°C above the mean ambient temperature. The original maximum inlet temperature of 70 degrees (160 degrees Fahrenheit) was contained in the original The Pipeline Authority (TPA) haulage agreement (1974), but was found to have a negative impact on the integrity of the pipeline. After a pipe rupture downstream of the Moomba plant in 1982, EAPL installed air coolers at the inlet of the pipeline, and has since required inlet gas to be received at a maximum of 10 degrees above the ambient temperature (which is typically about 50+ degrees in summer).

### *Transfer of receipt delivery points*

Attachment D, Clause 77 (e) - In its submission to the Commission in response to the Draft Decision of 14 March (D 18 page 25), EAPL did not agree with the required amendment to Clause 28.1(5) of the 1999 Access Arrangement because EAPL requires access to certain facilities to operate the pipeline and provide the services. The submission also pointed out that where EAPL does not own or operate facilities at a receipt point or delivery point (including meter sets and data sources), EAPL will not be able to provide a service from a receipt point or to a delivery point unless arrangements have been made for the owner or operator of the facility to ensure that EAPL has access to facilities necessary for the proper operation of the pipeline and the provision of services. The intent of the clause is to ensure that EAPL's access to the facilities is unaffected by another user using the receipt point or delivery point.

Consequently clause 28.1(5) was not repeated in the revised Access Arrangement but was replaced with 77(e) which meets EAPL's needs and provides for all situations where EAPL does not own a receipt point or delivery point.

Attachment D, Clause 77(f) - EAPL indicated in its response to submissions of 17 August 2000 (p29) that it would delete clause 28.1(6) in response to proposed amendment A3.3. In its submission of 14 March 2001 responding to the Draft Decision, EAPL explained the need for this clause and that it disagreed with the amendment, in D 17 page 24 of the submission. EAPL particularly highlights the reasons establishing the need for this clause of the Revised Access Arrangement.

### *Security*

Attachment D Clause 1(a) - This clause requires a User to provide security for the performance of its obligations under the transportation agreement and that security may be of a type and such extent as EAPL reasonably determines. Clause 32 of the 1999 AA submitted by EAPL contained a similar provision, although that provision provided greater detail as to the type of security contemplated.

Clause 1(a) of Attachment D is part of the Interpretation and General section of the Attachment D. Clause 81 is the same as Clause 32 of the 1999 Access Arrangement and interprets clause 1(a) further as follows:

81. The User may be required, as a pre-condition prior to entering into the Transportation Agreement, to provide and maintain a financial security for the due and proper performance of its obligations under the Transportation Agreement, in the form of an appropriate guarantee or letter of credit, or parent company guarantee.

### **Balancing**

Following the submission of the Revised Access Arrangement EAPL proposed a revision to the balancing provisions of the Revised Access Arrangement arising out of recent experiences of gas market place behaviour that are anticipated to increase and are likely to be detrimental to the operation of the MSP.

EAPL's approach to gas balancing for the MSP is to apply a flexible, fair and responsive nominations and balancing regime, which places responsibility on all users, to operate in accordance within predetermined imbalance limits.

The markets served by the MSP are no different to markets served by other pipelines in south-east Australia in that there is a significant difference between summer and winter demand. In addition, there is a significant difference in demand on weekdays compared to weekends throughout the year.

There is intra-day and intra-week variability of upstream production and downstream demand, and the MSP, unlike other pipelines in south eastern Australia, is able to provide users a degree of flexibility by utilising available linepack to smooth out these variations. This flexibility is reflected in the Balancing provisions of the Revised Access Arrangement.

Such flexibility has considerable value to users during peak demand periods. During short term unplanned supply interruptions it provides the benefits of limited continuity of supply; however, this must be managed within reasonable limits to ensure the pipeline's operational integrity and safety.

The gas market in the south-east corner of Australia is in the early stages of development. Until very recent times producer and shipper behaviour has been related to long term contracts for gas resulting in stable patterns of supply and demand. The Victorian wholesale gas market, operated by Vencorp, has been providing a basis for trading gas since 1998 and the Interconnect between the MSP and GasNet Systems was completed soon after its implementation. However, it has only been in recent months that significant variations in traded gas prices have occurred, creating an environment in which producers and shippers have responded to prices based on short term variations in supply and demand rather than to prices based on long term contracts .

In this new and developing market environment producers, shippers and retailers will seek to optimise their trading positions through utilisation of linepack in pipelines where it is possible. The level of exercise of linepack (drafting and packing) is becoming quite considerable and is having significant impacts on the levels of linepack to the point where the operational effectiveness (or efficiency) is reduced, and ultimately safe operation of the MSP may be threatened.

Consequently EAPL has identified that there is a requirement for new strong economic signals to sufficiently discipline users to balance their receipts and deliveries in both the short term in addition to those which currently deal with the need for long term balancing. EAPL believes the balancing procedures as proposed in the Revised Access Arrangement do not contain sufficient incentives for users to remain in balance, and thus EAPL may face unreasonable risks as a result.

### *Operational Issues*

EAPL's greatest concern is that a significant pipeline imbalance contributed to by some shippers may result in the inability to maintain minimum delivery pressures under contract to all shippers.

In addition excessive imbalances may require EAPL to operate compressors more often and considerably less efficiently than would otherwise be the case. Although MSP users now provide their own compressor fuel for operations, this fuel is allocated pro-rata based on a shippers share of total deliveries, so one shipper's imbalances requiring greater use of compressors could cause all users' fuel costs to rise.

In consideration of the above points, amendments to the Balancing Procedures are proposed below in a revised Attachment E of the Revised Access Arrangement.

## **ATTACHMENT E: BALANCING**

Users will be responsible to control and, if necessary, adjust Nominations and vary receipts and deliveries of gas to ensure that each Day the quantity of gas:

- (a) received into the pipeline by or on behalf of the User, and
- (b) delivered to the User's Delivery Points to or on account of the User

is the same.

### **CALCULATION OF IMBALANCE**

The User's Daily Imbalance equals Input minus Withdrawal minus Change in Quantity of the User's share of Users' Linepack.

#### **Input**

The User's Input will be one of three amounts:

- (a) Where there is only one User at the Receipt Point, the metered quantity at the Receipt Point is the User's Input.
- (b) Where there is more than one User at the Receipt Point, the metered quantity must be allocated to each User in accordance with the allocation methodology agreed by all Users or, if the Users fail to agree, then such methodology as EAPL reasonably determines (such as pro-rata based on Nominations).
- (c) Where a User trades a Daily Imbalance with another User, the Input will be adjusted in accordance with the traded amount.

#### **Withdrawal**

The User's Withdrawal will be one of two amounts:

- (a) The Withdrawals will be the total quantity of gas measured on the Day at all of the User's Delivery Points.
- (b) Where there is more than one User at a Delivery Point, the metered quantity will be allocated to each User in accordance with the methodology agreed by all Users or, if the Users fail to agree on a methodology, such methodology as EAPL reasonably determines (such as pro-rata based on nominations).

#### **Change in Quantity of Linepack**

EAPL will determine for each User a Target Linepack from time to time – that is the share of the Users' Linepack to be provided and maintained by the User.

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The change in Quantity of the User's share of Users' Linepack equals User's Target Linepack for the Day minus the User's actual Linepack at the end of the previous Day<sup>2</sup>.

### **Consequence of Imbalance**

Where an Imbalance exists, there are the following consequences:

#### **Operational**

- 1 If an Imbalance is likely to jeopardise the ability of EAPL to comply with the requirements of any Transportation Agreement or to operate the pipeline properly, EAPL may require the User to correct the Imbalance as soon as possible.
- 2 If the User fails to correct or to take reasonable action to correct the Imbalance within four Hours of receipt of the notice, EAPL may without liability to the User, reduce the quantities of gas received, transported and delivered to or on behalf of the User or purchase a quantity of gas to correct the User's Imbalance, to and only to the extent necessary to enable EAPL to comply with those requirements or to operate the pipeline in a safe and efficient manner.

#### **Obligation to rectify**

In addition to the above consequences:

For Users with an aggregate Receipt Point MDQ greater than or equal to 50TJ the User's Imbalance Limit will be equal to +/- 10% of the User's aggregate Receipt Point MDQ. For Users with an aggregate Receipt Point MDQ less than 50TJ the User's Imbalance Limit will be equal to +/- 5TJ.

- 1 If on any Day the User's Imbalance exceeds the User's Imbalance Limit the User must adjust its receipts and deliveries to reduce the Imbalance to within the Imbalance Limit by the end of the following Day.
- 2 Where a Imbalance is not reduced to within the Imbalance Limit by the end of the following Day:
  - (a) EAPL may apply a Short Term Imbalance Charge equal to \$0.50 for each GJ in excess of the Imbalance Limit for that Day and each Day thereafter until the Imbalance is reduced to within the Imbalance Limit; and,
  - (b) if the User's Imbalance is in excess of the Imbalance Limit for four consecutive Days, EAPL may purchase gas to correct a User's negative Imbalance, and the User will be liable for a charge equal to 150% of the actual purchase price of the gas.

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<sup>2</sup> This means that on Day(t), the Imbalance is:  $\text{Input}(t) - \text{Withdrawals}(t) - (\text{Target}(t) - \text{Actual}(t-1))$ . The actual value of  $(\text{Target}(t) - \text{Actual}(t-1))$  - ie. a positive value or negative value as the case may be - is applied to the formula.



- 3 From time to time EAPL, may
- (a) reduce the Short Term Imbalance Charge, and/or
  - (b) increase the Imbalance Limit
- and will notify all Users in writing of any such changes and the period for which they apply.

For any User;

- 4 If a Imbalance exists on the last Day of a Month (M1), the User must endeavour to reverse the Imbalance during the subsequent Month (M2) by making adjustments in receipts and/or deliveries. If on any Day during M2 the User reverses the Imbalance, then the Imbalance for M1 will be deemed to be corrected (ie. a positive Imbalance at the end of M1 will be corrected by a negative Imbalance on any Day during M2 and vice versa).
- 5 If a User fails to correct the Imbalance during M2, EAPL may adjust the User's receipts and deliveries over the next Month (M3) to correct that Imbalance.
- 6 Where on the last Day of M3 an Imbalance remains, EAPL may:
- (a) charge the User a Long Term Imbalance Charge calculated by multiplying the Imbalance existing on the last Day of M3 by the Imbalance Rate; and/or
  - (b) in the case of a negative Imbalance, correct the Imbalance by purchasing gas at the Receipt Point and charging the User 150% of the amount paid by EAPL for that gas (which will be treated as gas supplied by the User at the Receipt Point). EAPL will notify the User promptly after it corrects an Imbalance in this manner.

### **Procedures Relating to Trading of Imbalance Quantities**

The User may during M2<sup>3</sup> trade gas with other Users so as to reduce or eliminate any Cumulative Imbalance they would otherwise have, provided that:

- 1 the gas traded relates to the same Month for both parties; and
- 2 neither User subject to, and as a result of, a trade may exceed the Imbalance Limit for that User; and
- 3 the parties to the trade must both advise EAPL of the identity of the buyer and seller, the period to which the trade relates, and the quantity traded no later than the last Day of M2.

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<sup>3</sup> The requirement that the trade occur in M2 relates only to the User having a continuing Imbalance from M1 which it wishes to reduce or eliminate by trading.