

16 February 2006

Mr Sebastian Roberts
General Manager
Transitional Branch
AER
GPO Box 520
Melbourne 3001

By email to gna@accc.gov.au

Dear Sebastian,

RE: GASNET APPLICATION UNDER SECTION 21 OF THE GASCODE IN RELATION TO FORECAST NEW FACILITIES INVESTMENT

Origin appreciates this opportunity to provide some brief comments on the proposal by GasNet to augment the Principal Transmission System (PTS) between Lara and Brooklyn (The Corio Loop) to remove an emerging network limitation.

Analysis by VENCORP and CRA found that the proposed Corio Loop expansion among a number of alternatives was likely to provide the greatest net market benefits. We have reviewed the analysis and broadly agree with its conclusions. Key benefits identified were the reduced potential for curtailment of industrial and commercial users, enhanced reliability and security as well as increased scope for gas on gas and pipeline on pipeline competition. It is the combination of these benefits that is the feature of the Corio loop; reduction in the incidence of curtailment of large users (without AMDQ) on its own would not be sufficient to support sharing of costs across all users.

It is also evident that the beneficiaries in this case are diffuse with a number of different parties likely to benefit from the pipeline expansion and with the beneficiaries likely to change over time as the expansion encourages new suppliers, customers and shippers to access up stream and downstream markets. It will therefore be difficult to attribute the costs of the pipeline over its operational life to specific parties; particularly in the absence of firm access rights to the network.

In light of this essential difficulty Origin is supportive of Gasnet's intention to recover the cost of the Corio Loop augmentation through an increase in reference tariffs to all users of the PTS. Moreover, many of benefits identified as consequential to the investment such as competition and reliability benefits can be considered to primarily fall to consumers as a class, further justifying this approach. Origin is supportive of an increase in reference tariffs to recover the costs of the investment provided all gas retailers are subject to an equivalent increase, which can then be passed through in a competitively neutral manner to end users.

Notwithstanding this, we welcome an independent assessment by the AER of the prudence of costs GasNet intends to incur on the behalf of users. In particular, Origin draws the attention of the AER to the desire by GasNet to seek an additional \$2.2M for the capitalisation of construction costs over the period of construction. We are somewhat

puzzled by this request and are unclear as to the economic principle behind seeking a return on an investment before it is in a position to provide the service on which the return is based. We are concerned that acceptance of this proposal may set an undesirable precedent for recovery of capital investment projects under any Access Arrangement and at a minimum request the AER to formalise the economic basis and impact of supporting such a claim across the industry and clarify the situations in which the principle might apply or not apply. If the AER were to accept the principle in the context of the GasNet's Application, we would also urge the AER to provide clear guidelines with respect to an acceptable construction period, such that users do not bear the additional risk from any inefficiencies on GasNet's construction programme (noting they already bear some risk with respect to the total construction cost).

If you have any further questions please do not hesitate to contact Glen Orgias on 02 8345 5241

Yours sincerely

Phil Graham
Gas Trading Manager