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Australian Competition and Consumer Commission
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Dear Ms Kaur

MAPS Access Arrangement: Queuing Policy

We refer to your facsimile dated 1 August 2001 and our discussions with Mr Anderson and Ms Gallagher of your office last week. Set out below is Origin's response to the ACCC's proposed queuing policy as set out in that facsimile.

1. Existing Users

Origin agrees with the division the ACCC has made between developable capacity and existing capacity. In Origin's view, it is fundamental to the effective operation of the market that incremental users should pay the full costs of enhancement of the capacity of the Pipeline. This will ensure economically efficient decisions (in particular the decision whether to enhance the capacity of the Moomba-Adelaide Pipeline or to construct new pipelines). Existing users of gas should not be required to subsidize incremental users.

Consistent with this view, Origin submits that the Access Arrangement should provide Pipeline Users with a right to renew their existing contracts in respect of the Pipeline. A party who is using existing capacity of the Pipeline to service existing users should not be placed in a position where, at the expiration of the term of its contract, it is required to relinquish its capacity and potentially be required to purchase incremental capacity to continue to service those needs (because their existing capacity has been taken by another user or subject to an arbitration process). Such a requirement may result in the existing user being priced out of the market. Further it is inequitable that existing gas consumers should be required to subsidize the cost of incremental capacity.

Origin suggests that the Access Arrangement allow an existing user to elect (a certain period prior to the expiration of an existing contract) whether they wish to renew that contract. Origin believes that an appropriate period would be 3 years. If that right of renewal is not exercised or is exercised for a smaller quantity, then the surplus capacity will be dealt with under paragraph 2 below.

2. Uncontracted Existing Capacity

In the situation as exists at present where existing users have been unable to renew their existing contracts then, consistent with the principles outlined in paragraph (1) above, gas required for existing use should have priority over gas required for incremental use. Origin believes that this is intended under clause 6.15(d) of the Code

In respect of capacity required for incremental use Origin agrees that paragraphs 3(i) and (ii) of the ACCC proposed queuing policy are an appropriate means of addressing the situation where:

- (a) there is uncontracted capacity in the Pipeline available within say, the next three years; and
- (b) capacity requests (to use gas for incremental use) are then made which exceed the amount of that uncontracted capacity.

In respect of the factors listed in paragraph 4 of the ACCC's queuing policy, Origin has the following comments:

The period over which the prospective users are willing to contract

It is not clear from the proposal how this factor should be taken into account in the arbitrator's decision. The length of contract to which prospective users are willing to commit may differ depending on their intended use. For example, a gas retailer may be unwilling to make a long-term commitment due to uncertainties particular to that market, whereas a proponent of a new power station may be able (and, indeed, may prefer) to commit to a long-term contract. In Origin's view if the intention is that priority will be given to longer term contracts, this factor will unreasonably favour generation users. Origin notes that a party entering into a long term contract will be in a better position to bear the costs of expanding the Pipeline, as that party will have a longer period of time to recover that investment.

The feasibility of pro-rating demand

Origin considers that the inclusion of this factor may encourage ambit claims, (which may prove very difficult to identify in practice). In addition, allocating existing capacity in this manner may result in particular projects not being viable to the extent that a minimum supply requirement of those projects cannot be satisfied.

Furthermore, pro-rating demand may proportionately reduce an existing retailer's capacity to service its existing market; the consequence being either existing customers cannot be serviced or higher prices prevail to fund additional capacity.

Other factors

Origin considers that the arbitrator should also be entitled to have regard to such other factors as the arbitrator reasonably considers relevant. That is, the factors set out in clause 4 should not constitute an exclusive list.

3. *Developable Capacity*

Origin agrees with the ACCC's proposal that Developable Capacity be serviced on a first in first served queue basis.

In the case of developable capacity, the concept of an 'open season' for requests has merit, as a larger one-off expansion of capacity to cater for aggregate requirements may be significantly more efficient than piece-meal augmentation for individual requests. Furthermore, it is likely that expansion will involve a reasonable degree of lead-time associated with planning, design and construction activities and therefore allowing the service provider a relatively short period in which to seek further proposals for the creation of developable capacity should not unduly delay the process of dealing with the initial request.

Notwithstanding the above, Origin understands that the cost of incremental capacity on the MAPS may vary depending on the nature and level of augmentation required. If so, the open season approach referred to above should not result in a prospective user paying more than they would have done had subsequent requests not been taken into account. For example, if two prospective users each request 10TJ/day of capacity and the unit cost of expanding by 10TJ/day is less than the unit cost of a 20TJ/day expansion, the request with the higher standing in the queue should benefit from the lower price.

Origin therefore agrees with queuing on a first come first served basis and supports a reasonable open season period in respect of developable capacity.

I trust that the above comments will assist the ACCC in its deliberations. Please do not hesitate to contact me if you have any questions or wish to discuss the matter further.

Yours sincerely

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