



3 January 2013

Mr Sebastian Roberts  
General Manager  
Australian Energy Regulator  
GPO Box 520  
Melbourne VIC 3001

Submitted by email: [VicGAAR@aer.gov.au](mailto:VicGAAR@aer.gov.au)

Dear Mr Roberts

## **APA GASNET 2013-17 ACCESS ARRANGEMENT PROPOSAL - DRAFT DECISION AND REVISED PROPOSAL**

Origin Energy Limited (Origin) welcomes the opportunity to comment on the Australian Energy Regulator's (AER's) Draft Decision on the proposed 2013-17 Access Arrangement for the Victorian Transmission System (VTS) and APA GasNet's Revised Access Arrangement Proposal.

Origin broadly supports the AER's suggested amendments to APA GasNet's Access Arrangement Proposal. In this submission, we would like to comment on two specific issues:

1. capital expenditure for augmentations; and
2. Authorised Maximum Daily Quantity Credit Certificates (AMDQ CC).

### **1. Capital expenditure for augmentations**

In its Draft Decision, the AER approves \$84.5 million (\$2012) of APA GasNet's proposed \$270.3 million (\$2012) total forecast capital expenditure for augmentations over the 2013-17 Access Arrangement period.<sup>1</sup> The AER considers that two of APA GasNet's five major augmentation projects meet the conforming capital expenditure criteria. In relation to the remaining three proposed projects, the AER does not approve any expenditure for the Western Outer Ring Main or the Kalkallo Lateral projects. It does, however, approve conforming capital expenditure of \$68.6 million (\$2012) for the Gas to Culcairn project.<sup>2</sup> This would cover augmentation of the South West Pipeline through construction of a bi-directional C50 compressor station at Winchelsea and augmentation of the Northern network through construction of approximately 27.2 km of 450 mm pipeline looping between Wollert and Wandong.

Generally, APA GasNet has made amendments to its Proposal in line with the AER's Draft Decision for four of the five projects. With regard to the Gas to Culcairn project, however, it considers the AER's approved amount is insufficient to cover its revised volume forecasts. APA GasNet's revised forecast for Culcairn exports is 68 TJ/day, which includes an additional 30 TJ/day above existing exports. APA GasNet believes that the AER's decision of 27.2 km of looping is inadequate for these additional exports through Culcairn. As such, APA GasNet proposes an additional 8.2 km of looping from Wollert to Clonbinane and MAOP upgrade of the Euroa to Springhurst pipeline. This additional augmentation would be at an extra cost of \$14.6 million (\$2012) above the \$68.6 million (\$2012) augmentation approved by the AER for this project.<sup>3</sup>

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<sup>1</sup> AER 2012, *Access Arrangement Draft Decision - Part 2 Attachments*, September, p. 30

<sup>2</sup> AER 2012, *Access Arrangement Draft Decision - Part 2 Attachments*, September, pp. 42-45

<sup>3</sup> APA GasNet 2012, *Revised Access Arrangement Proposal - Submission*, November, pp. 24-26

With regard to total forecast augmentation requirements, Origin agrees with the AER's Draft Decision as it aligns with our own internal analysis and modelling. The AER's approved augmentations provide sufficient capacity to meet future system of security requirements and our forecasts of incremental gas demand in both the VTS and for exports to New South Wales (NSW). This level of augmentation represents capital expenditure that conforms with the requirements for a prudent service provider outlined in the National Gas Rules (NGR). As such, the approved level of expenditure promotes the efficient use of natural gas services and hence, the National Gas Objective.

Regarding APA GasNet's proposed further augmentation under the Gas to Culcairn project (additional \$14.6 million (\$2012)), we consider this level of augmentation is excessive. The AER's approved augmentation provides adequate capacity to satisfy forecast export volumes into NSW while maintaining sufficient capacity for Victorian customers. Consequently, the additional capital works program and additional capital costs are unnecessary.

## 2. AMDQ CC

The AER considers APA GasNet did not describe all pipeline services that are likely to be sought by a significant part of the market in its Original Access Arrangement Proposal. It concludes that AMDQ CC should also be classified as a pipeline service under the National Gas Law. As a result of NGR 101, the AER subsequently concludes that AMDQ CC is a reference service and it is required to set an AMDQ CC reference tariff in the Access Arrangement.

### *a) Tender process for AMDQ CC*

The AER's Draft Decision accepts that the pricing of AMDQ CC through a tender process is efficient. However, no detail is provided in the Draft Decision on the practicalities of having an AMDQ CC reference tariff in a tender process. This is a confusing omission as it is not easily apparent how a tender process would work alongside a reference tariff. To give participants certainty of the robustness of the overall AMDQ CC framework, it is important that the AER explain the operations of the tender process with a reference tariff in its Final Decision.

This issue relates to a concern about the AMDQ CC tender process more broadly. Over recent years, participants have expressed concern with the lack of transparency and detail around APA GasNet's process of conducting tenders for AMDQ CC. For example, there are no prescribed details about the timeframes for when an auction should be held or for how long the tender process should run. For the AMDQ CC tender for the South West Pipeline in early 2011, little time was given to shippers to undertake necessary internal analyses and gain the relevant approvals once notice was given of the start of the tender process: prospective shippers had ten working days to lodge bids for existing certificates and once existing certificates were allocated, they had a further five working days to lodge an expression of interest for new certificates for the proposed expansion.

We recommend the Access Arrangement detail guidelines APA GasNet must adhere to in conducting a tender process for AMDQ CC. As a minimum, this should include well defined timeframes and transparency of information at all stages of the process from the initial advice of a tender through to details of tender outcomes. Providing market participants with greater certainty around the tender process can improve the quality of the tender, resulting in more efficient outcomes.

*b) Further discussion on AMDQ CC*

AMDQ CC provides both physical and financial rights to participants. The financial rights relate to reduced uplift payments (i.e. participants can use part or the whole of their AMDQ CC as uplift hedges against congestion uplift charges). The physical rights relate to injection and withdrawal tie-breaking rights (i.e. when there are equally priced injection bids or withdrawals bids, those bids associated with AMDQ CC will be scheduled first).

Origin considers that the value of AMDQ CC to participants relates to these rights rather than the simple administration of the certificate. This value is an important investment signal in terms of the cost of network capacity constraints on a pipeline. As such, the price paid for AMDQ CC would be expected to reflect the value of these rights. It is not clear in the Draft Decision if this is intended to be achieved through the AMDQ CC reference tariff alone or the combination of the AMDQ CC reference tariff and the tender process. The AER should clarify this in its Final Decision.

AMDQ CC is an important but complex instrument. Setting a reference tariff and establishing guidelines for its tender are not simple tasks. It is important that participants have sufficient opportunity to contribute to any AMDQ CC requirements the AER considers should be included in the Access Arrangement, particularly if they differ from those in the AER's Draft Decision. Origin is happy to assist the AER at any point to understand AMDQ CC and develop any AMDQ CC related requirements.

### **3. Further information**

Should you have any questions or wish to discuss any part of this submission further, please contact Lillian Patterson (Senior Regulatory Policy Analyst) on (02) 9503 5375 or [lillian.patterson@originenergy.com.au](mailto:lillian.patterson@originenergy.com.au).

Yours sincerely,



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