POTENTIAL *ENERGY*

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General Manager
Regulatory Affairs -- Gas
Australian Competition and Consumer Commission
PO Box 119
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Dear Sir/Madam

Moomba to Adelaide Pipeline System Access Arrangement

This submission by Potential Energy Pty Ltd ("PEP") is in response to the ACCC's issues paper dated 25 May 2001 and Epic Energy South Australia Pty Ltd's (“Epic”) revised Access Arrangement dated 18 May 2001.

By way of background, I note that PEP acts as a consultant to the energy industry on commercial and market matters, and is also a potential investor in the industry.

Our comments on selected issues follow.

QUEUING POLICY AND EXTENSIONS/EXPANSIONS POLICY

In our view, the queuing policy and extensions and expansions policy as proposed should provide prospective users with a workable system.

Prospective users need to be able, through an informal approach to Epic, to enquire about the availability of capacity and its indicative cost at the early stages of consideration of a possible project (Epic provides this service on an informal basis now -- it is appropriate that this continues outside the formal access arrangement procedures). In the event that the preliminary enquiry leads a prospective user to determine that a comprehensive feasibility study of its potential project is warranted, it needs to firm up the availability of capacity and the cost of that capacity -- without at that time making a firm commitment to proceed with the capacity reservation / expansion.

However, it is critical that its position in the “queue” is retained while its feasibility study proceeds and other project approvals are obtained, as it is not until the time of financial close of the potential project that the prospective user can firmly commit to pipeline capacity. Clause 10.3 appears to provide an adequate mechanism to facilitate this process.

EXTENSIONS/EXPANSIONS POLICY -- IMPLICATIONS FOR FUTURE TARIFFS

In our view an extensions/expansions policy which results in multiple tariffs for haulage is not necessarily inappropriate.

Aspects of this issue include:

- Certainty for users: it is important that pipeline users have as much certainty of future pipeline tariffs as possible; the potential for another user's capacity requirements to result in increases in the tariffs paid by an existing user is highly undesirable.

- Potential cross-subsidy: there is a risk that with a policy of “rolling-in” incremental investment, that incremental capacity is added to the pipeline which would otherwise be uneconomic or not justified by the user for whom the capacity is being developed.

- We would be very concerned with the alternative suggested; ie, including forecast capital expenditure in the cost base for reference tariffs. Our experience has been that indicative capital costs (and indicative tariffs) have typically been overstated, and that more optimal outcomes are likely to be developed at the time an expansion actually takes place.

PART HAUL SERVICE

Provision should be included in the Access Arrangement for distance based tariffs. It is inequitable and contrary to the principles of the National Third Party Access Code for Natural Gas Pipeline Systems (“the Code”) for pipeline users located significantly north of Adelaide to be charged a tariff based on the entire length of the pipeline.

BACK HAUL SERVICE

Given the potential for construction of a new pipeline to supply gas from Victoria to Adelaide, provision in the Access Arrangement should be included for the introduction of a back haul service. A statement of principles to apply to a back haul service would be an appropriate way to deal with this potential service in the current Access Arrangement.

INTERRUPTIBLE (IT) SERVICE

In our view, the potential for utilization of the IT Service should not be underestimated. It is therefore in the interests of all pipeline users that the use of the IT Service not be discouraged by conditions applying to the service (ie, as specified in the Access Arrangement) or by the tariffs applicable. Because the pipeline has limited capacity available to be contracted, but does not often operate at capacity, the IT Service may be attractive to some users who can operate in an interruptible mode, or who are willing to install an alternative fuel capability.

Our concerns are as follows:

- Allocation of IT nominations: the proposed allocation of limited capacity amongst multiple IT Service users on a pro rata basis is unsatisfactory (as per clause 18.5(f)). As with FT Service users (via the queuing policy), priority should be given to earlier users relative to subsequent IT Service users.

- Tariffs for IT Service: the charges to apply for the IT Service should not be a disincentive to the development of projects on the basis of an interruptible gas supply.

It is likely that for projects that are developed with an alternative fuel capability, those alternative fuels will generally be significantly more costly than natural gas. Therefore such projects are likely to be economic only if IT Service tariffs are materially lower than FT Service tariffs. This is, of course, appropriate recognizing the comparative value of IT Service relative to FT Service.

The principles of the Code would also suggest that tariffs for a particular service should be set with reference to the incremental costs of that service; the incremental costs of IT Service are primarily the operating and maintenance costs incurred in providing the service. Therefore, IT Service tariffs should be set with reference to the FT Commodity Charge Rate, rather than with reference to the sum of the Capacity Charge Rate and the FT Commodity Charge Rate.

Thank you for the opportunity to provide input on these issues. Please contact the undersigned if additional comment or clarification is required.

Yours sincerely

Scott Hutchinson
Director
Potential Energy Pty Ltd