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Mr Warwick Anderson  
Director of Regulatory Affairs Division  
Gas Group  
Australian Competition & Consumer Commission  
PO Box 1199  
DICKSON ACT 2602

Dear Sir

### **Moomba to Adelaide Pipeline – Epic – Access Arrangement**

Thank you for the time that you and your staff made available to us in Adelaide on Tuesday 26<sup>th</sup> June.

We confirm our comments at the meeting as follows:

#### **Extensions and Expansion Policy**

We confirm discussion that it appears highly likely that a new pipeline will be built from Western Victoria to the vicinity of Adelaide by one of the proponents.

Santos shares the concern of the Commission that the Extensions and Expansion Policy, in its current form will result in multiple and confidential tariffs for different usage of MAPS. This perpetuates the monopoly power of Epic over the pipeline into the future to the detriment of competition and therefore consumers. Later users of the facilities are likely to pay more for capacity.

We note in section 3.16 of the Code that it requires that a service provider include an extensions/expansions policy. This must mean that as capacity requests increase the Parliament intended that the service provider should offer to expand the pipeline. This is supported by the objectives of the Code as stated therein. It appears from section 3.16 that the Commission cannot require Epic to roll the new facilities into the existing capital base of

the pipeline or to fund new facilities. However it can require Epic to make an offer to expand the capacity. The Commission should require Epic to provide competitive means to do this.

The Commission seeks to improve competition. Santos therefore suggests that the tariff for new and existing users in this instance should be the same unless the NPV of future tariffs on the extension/expansion of the pipeline is exceeded by the income on the standard tariffs which that extension/expansion will generate. If the reverse is true a surcharge could be added. Adjustments should then be made, if necessary, if the higher charges/surcharges paid by the new user are further compensated to the service provider by the pipeline capacity additions being added into the capital base for future tariff calculations. We have made this point on more than one occasion in previous submissions and it does not lose its power by repetition.

These submissions, together with those under the heading of Pipeline Capacity and Throughput, direct the reader of the access arrangement to the conclusion that there is a high potential for adjustment of access conditions which could seriously harm competition in gas haulage costs into South Australia. The Commission in our view should find the policy offered by the service provider unacceptable. We refer to our previous submissions and the solutions offered therein. The current section 10 of the access arrangement is merely a set of permissions for Epic to respond as it sees fit to any request for access and this could be harmful to competition. Santos rejects the Extensions and Expansions Policy offered by Epic.

Nevertheless it also points to some of the specifically concerning aspects to the Extensions and Expansion Policy:

- ◆ Section 10.2(c) – this is vague and provides too much discretion to Epic.
- ◆ Section 10.3(b) – the reference to 14 days should be 30 days considering the gravity of the decisions required.
- ◆ Section 10.4(a)(i) – the reference to section 6.22(b) in the Code is inappropriate and the use of the word “believes” indicates the desire of Epic to have an excess of discretion which will provide it with too much influence on competitive decisions.

We confirm our comments at the meeting that Santos has been unable to secure any capacity, including interruptible capacity, to transport its own gas through the Port Pirie to Whyalla pipeline. Epic has stated to Santos that it is unable to provide even interruptible capacity because of the conditions of the contract it has with Origin Downstream. As a consequence, Santos has been obliged to purchase from Origin Downstream. This substantially increases the costs to the South Australian Cooper Basin Producers to run the Port Bonython Liquids Plant. This must amount to the hoarding of capacity in contravention of the *Trade Practices Act* and the Code. It is obvious that there must be some interruptible capacity from time to time in that pipeline. This increases our concern at the Extensions and Expansion Policy being offered.

### **Pipeline Throughput**

Actual throughput of MAPS has confirmed Santos' comments of the 18 September 2000 and 15 October 1999 that Epic has significantly under estimated throughput. Further, Epic used 1998 throughput as the basis for tariff calculation. This inappropriate data resulted in calculation of a tariff that is higher than justified. Below is a comparison of Epic's forecast and actual MAP throughput.

	<b>EPIC Forecast (PJ/year)</b> (est from Issues Paper)	<b>Actual (PJ/year)</b>	
<b>1997</b>	77 (actual as indicated by Epic)	77	
<b>1998</b>	79 (actual as indicated by Epic)	81	
<b>1999</b>	78	86	
<b>2000</b>	79	91.2	
<b>2001</b>	81	50.2 <u>52.3</u> 102.5	to 26/6/01 Santos forecast to end year
<b>2002</b>	82		
<b>2003</b>	82		
<b>2004</b>	83		
<b>2005</b>	84		

Clearly, Epic has used a throughput which is inconsistent with history. The throughput used in the value calculations should be adjusted accordingly.

### Pipeline Capacity

Epic has indicated that the contractible capacity of MAPS is 323 TJ/day (excluding the capacity addition for National Power, which increases capacity to 338 TJ/day). This compares with the maximum capacity of 395 TJ/day (415 TJ/day including National Power upgrade).

Santos agrees that the “maximum capacity” is not an appropriate figure as it assumes all facilities are available when needed. However, Epic has not provided an adequate justification for their 18% write-down in capacity. The deemed pipeline capacity is critical to Epic’s contention that the pipeline is full and that rate increases require upgrades as for National Power, at tariffs believed to be substantially above existing published tariffs.

The table below indicates the extent that actual daily MAPS inlet flow has exceeded the stated capacity. Epic has been able in 2000/2001 to operate for significant periods at above the deemed capacity. Note that, because of linepack, this does not necessarily match daily offtake at the delivery points:

	<b>2000</b>		<b>2001</b>
	<b>Full Year</b>	<b>Year to 26/6</b>	<b>Year to 26/6</b>
<b>Period flow (PJ)</b>	91.22	44.01	50.22
<b>% Sales above</b>			
<b>323 TJ/d</b>	10.69	5.70	16.48
<b>338 TJ/d</b>	2.81	1.43	10.53
<b>360 TJ/d</b>	0.74	0.74	5.28
<b>380 TJ/d</b>	0	0	1.92

### Part Haul and Back Haul Service

Santos shares the concern of the Commission that there is no part haul and back haul service offered and that this is a breach of section 3.3 of the Code. Epic is fully aware of the increasing complexity of the South Australian gas market particularly with the entry of a new pipeline from Victoria. Part haul and back haul services will without doubt be required by a significant part of the market and should be included in the access arrangement. Santos favours the first option offered in 4.2 of the Commission’s comments covering the new access arrangements namely, the inclusion of a tariff in the access arrangement.

### **National Gas Specification**

We confirm our comment that one of the concerns noted by Origin Downstream to Santos was that it could not accept the National Gas Specification gas as this contravened Origin's contracts with final consumers. Those contracts all expire by the end of 2002 and that objection will then disappear.

Aside from that, Santos reiterates its previous submissions that the acceptance of National Gas Specification gas cannot be at the complete discretion of the service provider and again that this could lead to anti-competitive behaviour for reasons not apparent to anyone but Epic. Any contract that has been entered into in the last eighteen months would have made provision for moving to the National Gas Specification.

We look forward to your response to the Epic access arrangement.

Yours faithfully

**John Anderson**  
Manager, Legal & Business Services