



TRUenergy Gas Storage Submission

GasNet Revised Access Arrangement for the Principal Transmission System

14 November 2008 Draft Decision

Summary

TRUenergy Gas Storage Pty Limited owns and operates the Iona Gas Plant located near Port Campbell in Victoria. Gas Storage is the second largest injection source (by capacity) in the Victorian Gas Market. Five retailers inject gas into the South West Pipeline (SWP) at the Iona Gas Plant.

The main concern of TRUenergy Gas Storage is the ACCC's decision not to accept further expansion of the SWP to provide sensible gas transmission capacity from the three production facilities in the Iona/Otway region into Melbourne. This is denying the market increased gas price competition and security of supply.

Both the TRUenergy Iona Gas Plant and the Alinta Eastern Gas Pipeline are expanding rapidly (and investing significant funds) to meet customer demand. However expansion of GasNet's Principal Transmission System (PTS) is being limited by the ACCC's Draft Decision despite calls from gas retailers for increased expansion, particularly of the SWP.

TRUenergy Gas Storage is adamant that further expansion of the SWP via compression at Stonehaven is urgently required. We believe there are sufficient incentives to accelerate the commissioning of the Stonehaven compression to winter 2010 at the latest, and that 2012-2013 is clearly too late.

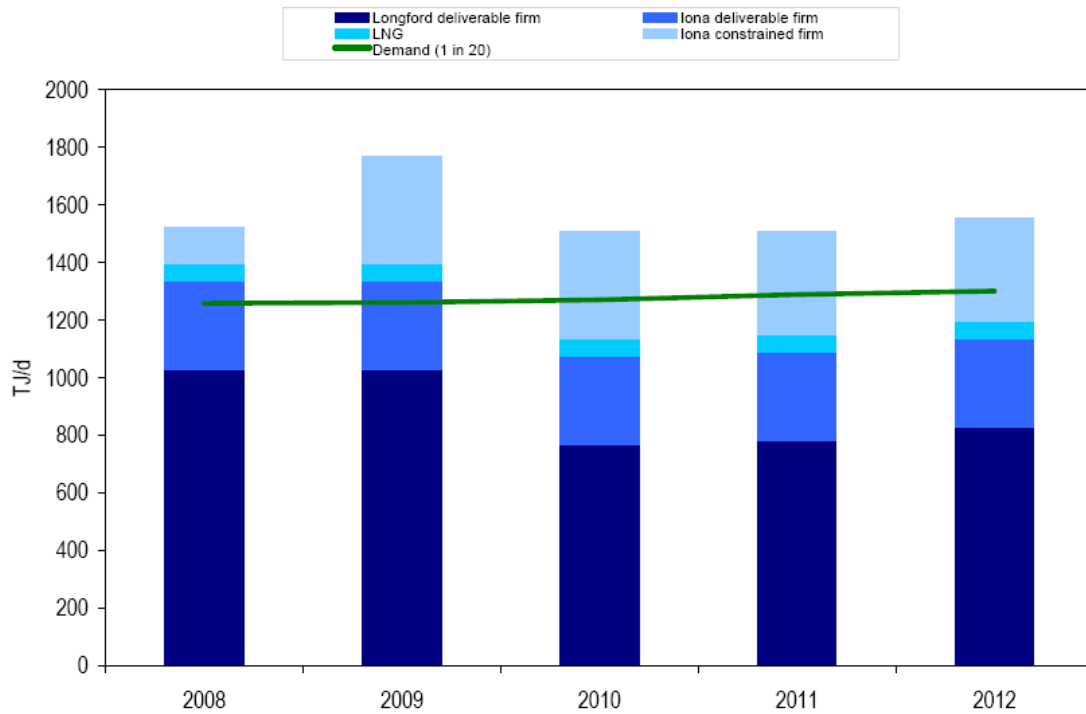
Competition in Gas Supply

The 2007 VENCORP Annual Planning Review (APR) report identified a possible supply shortfall into the Victorian market from 2010 onward (see figure 5 below). Gas from all Iona/Otway sources is constrained by transmission capacity on peak days.

As indicated in figure 5.2, non-firm capacity is available from Longford, but on what terms is the non-firm gas available? During winter 2007 non-firm gas was being offered for injection at the Moomba Gas Plant at over \$100 per GJ. How is this situation good for gas price competition when retailers are forced to contract at Longford due to transmission capacity limits?

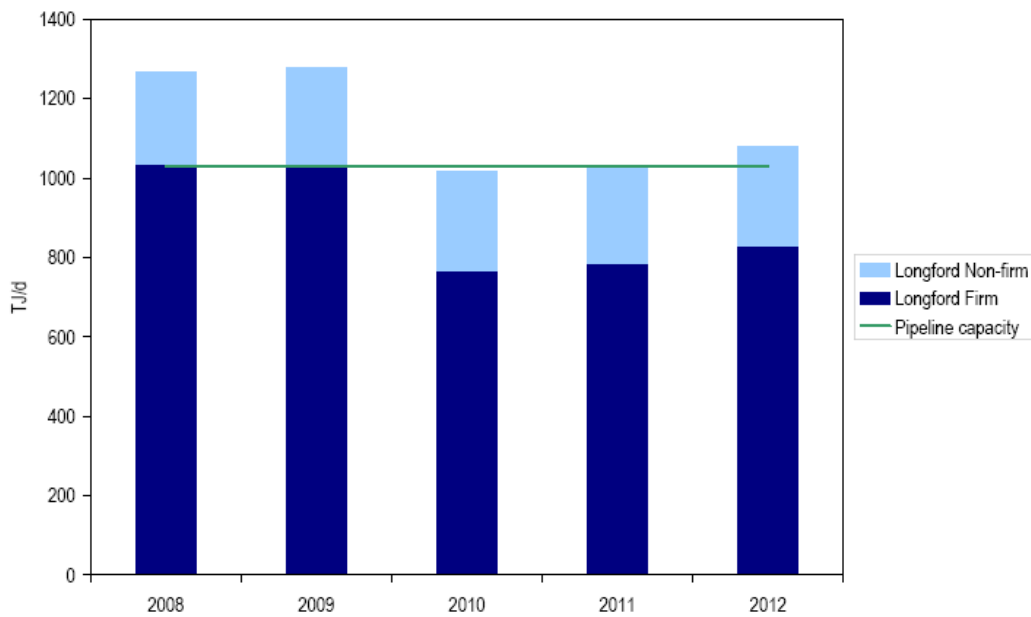
It is also well known the Alinta is rapidly expanding the capacity of the Eastern Gas Pipeline (EGP) that can transport additional amounts of gas from Longford to New South Wales. This gas is displacing the declining quantities of gas being made available at Moomba.

Figure 5 – Peak day demand and supply forecast, 2007-2012 (TJ/d)



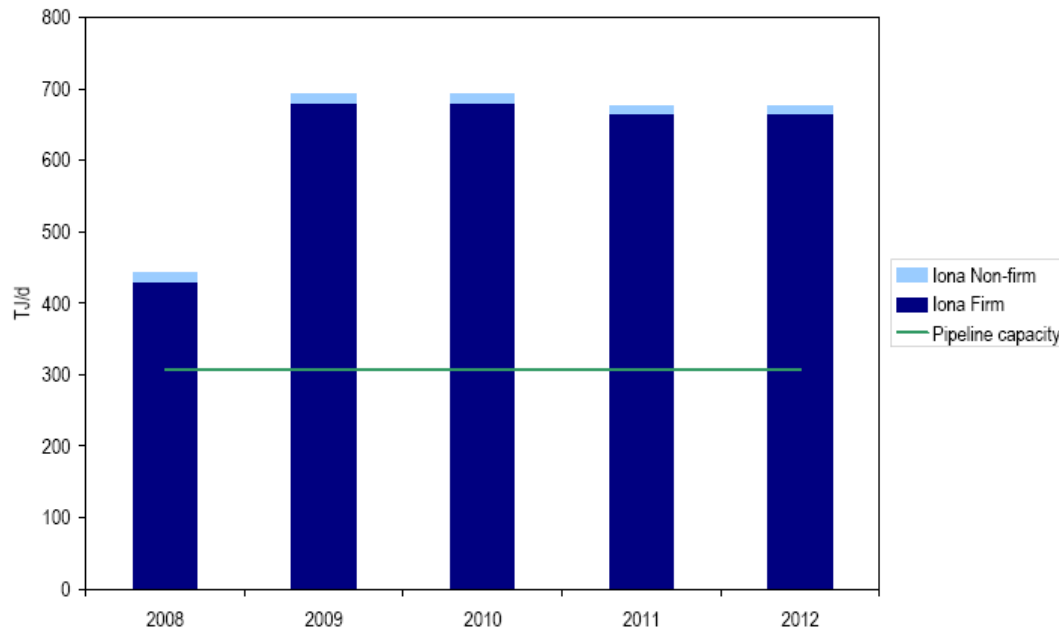
Source: VENCORP 2007 APR Report

Figure 5-2 – Total Longford, VicHub and BassGas peak day supply and capacity forecast, 2008-2012 (TJ/d)



Source: VENCORP 2007 APR Report

Figure 5-3 – Total Iona and SEA Gas peak day supply and capacity forecast, 2008-2012 (TJ/d)



Source: VENCORP 2007 APR Report

Figure 5.3 above shows that the capacity from the Iona/Otway injection sources is almost 700 TJ/day from 2009. This is actually an underestimation. Gas Storage advised VENCORP of a capacity of up to 570 TJ/day for the 2007 Annual Planning Review (APR). The Otway Gas Plant has a published capacity of at least 200 TJ/day and the Minerva Gas Plant is believed to have a capacity of approx. 140 TJ/day.

These plant injection capacities total approx. 900 TJ/day. However the combined capacity of the SWP and the SEA Gas pipeline is less than 700 TJ/day. Line pack in the SEA Gas pipeline is also used to supply South Australia on a peak day to effectively make even more gas available for injection into Victoria (an additional 50-100 TJ).

Gas Storage has been very concerned about this situation for sometime, as demonstrated by a quote from our 2004 APR submission to VENCORP, "Flow of Casino gas combined with storage gas will be at least the current rated plant capacity of 320 TJ/day, however capacity into the PTS is limited by the SWP capacity and flow from other injection sources (e.g. SEA Gas, Woodside)".

Had the Woodside Otway Gas Plant started up prior to winter 2006 as planned while the SWP capacity was still only 220 TJ/day the inadequate PTS capacity planning would have been clearly apparent. Gas Storage also understands that the limited SWP capacity has created operational difficulties for VENCORP operations over the last two winters.

Gas Storage has long asserted that the Brooklyn to Lara Pipeline (BLP) should have been commissioned in 2004 when the Iona Gas Plant was initially expanded to 320 TJ/day, and the SEA Gas pipeline and the Minerva Gas Plant were constructed. Stonehaven compression should have been available for the Otway Gas Plant commissioning.

We believe that investment in the PTS has fallen behind and a catch up is urgently required. There appears to be a disproportionate focus on the cost of providing adequate transmission system and insufficient consideration of the impact on gas price competition.

Pipeline Capacity Investment Signals

Prior to the Brooklyn to Lara Loop project, expansion of the PTS was supposed to be funded by Market Participants purchasing AMDQ and AMDQ Credit. This appears to have been spectacularly unsuccessful in producing any real expansion of the PTS.

VENCorp had to resort a Market Benefits Test to get the BLP justified when faced with the operational issues being encountered and the possibility of other parties building the BLP themselves outside of the Victorian market.

So it seems apparent that AMDQ Credits are not a suitable mechanism for driving investment in the PTS. AMDQ Credits do not give the holder a firm right to inject gas into the PTS. The holder of the credits loses its capacity right to any other party that bids gas into the market at a lower price.

This results in large quantities of gas being bid into the market at \$0.00 per GJ to ensure it is scheduled. This creates scheduling issues for VENCorp operations, especially when the weather is warmer than forecast. The pricing volatility increases market risk, especially for new entrants, which in turn affects competition.

The mechanism for future expansions of the PTS and the role of AMDQ Credits must be reviewed to ensure that this is not hindering much needed investment.

Relocation of the Springhurst Compressor

As a response to 1998 Longford gas crisis, a large compressor (Centaur 50, approx. 4850 kW) was installed at Springhurst in northern Victoria as part of the Moomba to Melbourne Augmentation.

It is understood that this compressor is rarely, if ever, run aside from monthly testing. This is because there is insufficient capacity in the Bathurst-Orange-Lithgow Pipeline to supply gas to the compressor. Low pressures in Albury are also likely to occur when it is run.

If there was a repeat of the 1998 Longford outage, gas flow up the Eastern Gas Pipeline (EGP) would be significantly reduced. As the EGP is becoming more of a base load supply into New South Wales, it is doubtful whether any meaningful amount of gas would flow from the Moomba to Sydney Pipeline (MSP) into Victoria with little gas flowing up the EGP.

The means of protecting Victoria against another significant Longford supply interruption is to increase the capacity for gas to flow from the Iona/Otway producers. Both Sydney (MSP and EGP) and Adelaide (SEA Gas and MAPS) have two large pipelines for the supply of gas. Victoria remains overly dependant gas supply from single pipeline due to the constrained SWP capacity.

Gas Storage appeals to the ACCC to reconsider how this compressor is allowed to remain effectively idle. It is increasing the capital base and therefore the cost of the PTS to consumers for little benefit. This makes little sense when a much needed upgrade such as compression at Stonehaven continues to be deferred.

This issue raises the question of whether there is an adequate process in place for determining whether particular assets in the PTS continue to be appropriately deployed.

Given the current long lead time on the ordering of compressors (our experience is approx. 70 weeks from placing the order), Gas Storage believes that the relocation of the Springhurst compressor to Stonehaven should be given urgent consideration. This could be achieved for winter 2009, and is definitely be achievable for winter 2010.

Gas Fired Generation

TRUenergy Gas Storage agrees with the conclusion of the ACCC in its draft decision that gas fired power generation is likely to remain significant, even if it does reduce from the unprecedented levels of 2007.

Is it a wise assumption that the current drought will end versus the belief of many that we are seeing the results of climate change? Given the proposed introduction of carbon trading as early as 2010, how likely is it that a new coal fired generator will be built? Many believe that gas will be the medium term generation fuel of choice, therefore greater investment in the PTS will be required to support this.

Gas Storage urges the ACCC to reconsider its decision not to agree to funding investigation works for the Brooklyn to Wollert easements so that further timely investment in the PTS is not unduly delayed.

Additional GasNet Revenues

TRUenergy Gas Storage is encouraged that the ACCC has identified that GasNet is receiving revenues from AMDQ Credits that are not included in its access arrangements.

Gas Storage believes that the financial impacts of congestion in the PTS need to be fully modelled by the ACCC. GasNet is receiving significant additional revenue from the auctions of LNG capacity and AMDQ Credits. The impact of this on the cost of gas to consumers needs to be fully understood.

During 2007 the cost to the market in capacity related charges due largely to transmission constraints and scarce LNG capacity has been over \$50 million. Many retailers and end use consumers would argue that this sort of money would be better spent on fixing the capacity problems in the PTS.

A handwritten signature in blue ink, appearing to read 'Matthew Clemow', with a long horizontal line extending to the right.

Matthew Clemow
Commercial and Allocations Manager
TRUenergy Gas Storage
14 December 2007