Revised Access Arrangement by GasNet Ltd for the Principal Transmission System

Draft Decision - 14 November 2008

A. Introduction

TRUenergy welcomes the opportunity to comment on the ACCC's Draft-Decision in respect of GasNet's proposed access arrangement (AA) for the period 2008-12 TRUenergy understands that the draft decision proposes to reject material portions of GasNet's original submission and the ACCC has requested amendments the before the revised AA can be approved under the *National Third Party Access Code for Natural Gas Pipelines* (the Code). Notwithstanding the recommendations made in the draft determination, TRUenergy requests that the ACCC consider the following key matters prior to final approval of GasNet's AA.

B. Stonehaven compressor

The ACCC's draft decision excludes the proposed $26.19M stonehaven compressor on the basis it is not expected to satisfy the requirements of the prudent investment test in s 8.16 (a) (i) of the Code. The ACCC considers GasNet has not demonstrated a specific case to approve the stonehaven compressor. Accordingly, TRUenergy supports the application of a full market benefit test by VENCorp that models the stonehaven compressor's market benefits and compares them to a range of alternative investment options. Following this, VENCorp can then accurately:

1. Capture market benefits of the stonehaven compressor's by calculating the combined reliability benefits, competition benefits and total benefits in terms of the unserved energy &;

2. Choose the project that delivers the highest benefits to the market from the range of options considered in the test.

Consequently, the ACCC can safely rely on the outcome of the full market benefit test in determining whether the preferred investment option satisfies s 8.16 (a) (i) (ii) (B) - system wide benefits test under the Code. Furthermore, TRUenergy fully supports the process of the revised test.

With regards to the current market report provided by VENCorp on the stonehaven compressor, the ACCC has raised a number of key concerns in the draft determination. The following information represents TRUenergy's response to these concerns.

Involuntary Load Curtailment associated with Corio Loop Report

VENCorp's current market benefit report assumes approximately half of the involuntary load curtailment associated with the Corio Loop report analysis could be derived from installing a compressor at Stonehaven. The ACCC observes the timing of the augmentation is sensitive to this assumption. A 10% reduction in the level of estimated benefits results in a negative market benefit. VENCorp concludes the analysis is only indicative and further analysis may produce different results.

In undertaking a full market benefit test on the stonehaven compressor, TRUenergy submits the following issues need to be factored into the analysis:

1. An increased gas demand required to facilitate additional gas fired generation will increase the stress on the Principal Transmission System (PTS) in the next regulatory period. Additional throughput achieved from the installation of the stonehaven compressor will provide further reliability benefits;

2. Increased Longford flows to NSW along the Eastern Gas Pipeline (EGP) that will reduce the availability of Longford gas in Victoria. TRUenergy notes that the EGP is constructing mid-line compression to increase pipeline capacity and through-put on the EGP. Augmented flows on EGP will result in reduced availability of Longford gas to the PTS. Given this, a full market benefit test should capture the added reliability benefits from the additional throughput of Otway gas achieved through the installation of the Stonehaven compressor.

Competition benefits

GasNet submits VENCorp's analysis does not account for the benefits of increased competition which would increase the benefits of the compressor without increasing the costs and bring forward the optimal timing of this proposal from winter 2013 to winter 2012.

TRUenergy believes that a full market benefit test will reveal greater competition benefits and from early commissioning of the compressor. We believe that the current analysis has been inadequate in capturing the extent of the competition benefits of the project. With additional Longford gas haulage on the EGP, the installation of the Stonehaven compressor will result in an increase in Otway gas on the PTS. In this configuration, Otway gas will compete directly with Longford gas and deliver significant competition benefits.

Longford Injections

VENCorp's analysis provided to the AER assumes the Longford injection pipeline at full capacity (1032TJ) and this delays the occurrence of supply shortfalls and moves the cost of not having Stonehaven compressor into the future. GasNet argues that supplies from Longford are likely to be more expensive than supplies from Port Campbell. On this basis, TRUenergy maintains that VENCorp's analysis understates the benefits of the Stonehaven compressor because no account is taken for the more expensive supply of Longford gas.

Furthermore, TRUenergy believes that a full market benefit test will reveal greater benefits when more expensive supply of gas from Longford is captured accurately. TRUenergy expects more expensive Longford gas to be modelled accurately in a full market benefits test.

Alternative options

The ACCC argues GasNet has failed to consider a range of alternative projects in its analysis of the stonehaven compressor. TRUenergy argues that a full market benefit test will:

- model the benefits of the Stonehaven compressor,
- consider demand side options, and
- evaluate the possibility of looping the existing Longford or SWP pipelines

Discount rate

TRUenergy notes VENCorp has applied a real discount rate of 7% in its current market benefit analysis of the Stonehaven compressor. TRUenergy agrees with GasNet that a discount rate of 7% is excessive on the basis it inaccurately reflects GasNet's cost of capital. TRUenergy submits GasNet should apply a real discount rate of 6.19% because it represents GasNet's cost of funding This funding rate is, we believe, consistent with the ACCC"s draft decision.

C. Revenue from AMDQ credit certificates

AMDQ credit certificates represent a service that falls within the ambit of the AA and revenue derived from the AMDQ credit certificates should be accounted for in the AA. The ACCC estimates that the sale of AMDQ will generate an over recovery of at least $5 M for revenues associated with GasNet's withdrawal tariff over the AA3 period. TRUenergy agrees that this revenue should be considered as part of GasNet's regulated revenues under the Code because it has been derived from the assets that relate to GasNet's ownership of the PTS.

D. Injection Tariffs – Tariff D 10 Peak day charge

The ACCC considers that maintaining a peak injection tariff will provide tariffs that are efficient in level and structure and not distort investment decisions in accordance with ss. 8.1(e) and 8.1(d) of the code respectively. Consequently, the ACCC proposes not to approve GasNet's proposal to change the peak injection charge to a winter period.

TRUenergy requests that the ACCC re-examine its draft recommendation to retain the structure of GasNet's injection tariff for D customers as a 10 peak day charge. The ACCC has indicated in the draft recommendation that the existing injection tariff regime is efficient and that it does not distort investment decisions. TRUenergy maintains that GasNet's proposal for injection charges based on a peak winter period equally satisfies ss 8.1(e) and 8.1 (d) of the Code. Further, we are of the view that the existing 10 day peak day basis for injection tariffs have not worked

Presumably, ACCC sees merit in retaining the existing 10 peak day base because it promotes appropriate user behaviour on days of system stress. TRUenergy maintains that it is unlikely (if not impossible) for users to respond to 10 peak day charges in a manner that enables discretionary withdrawals to respond on high injection days for the following reasons:

- For end use customers, it is difficult (without a close operational relationship with the supplying Retailer) to align load to the relevant injection source, since peak injection days are assessed separately for each injection point. Further, to take advantage of a reduction in injection tariff, end use customers would need to have a relatively sophisticated forecasting capability that relates the commercial characteristics of site load to anticipated injection behaviour for the Principal Transmission System (on a probabilistic basis). It is unlikely for end users to see a cost benefit from these facilities and TRUenergy has seen no evidence of end consumers responding to a 10 peak day injection charge over the five years of the current access regime.

- For Retailers with discretionary loads such as Gas Fired Generation (GFG), the alternative for demand side response on peak injection days (as a result of the 10 peak day charge) is equally unlikely to succeed. Apart from the fact that GFG needs to predict a system peak injection day, the substantive decision to generate (or not) invariably will be driven by perceived value of gas against spot prices in the NEM, rather than the likelihood that the day will be one of the ten peak injection days.

- For the wholesale Victorian gas market, GasNet's existing 10 peak day charge delivers a strong and perverse pricing signal. On these days, the cost of injections to supply high system demand rises by the value of the peak injection charge. This dynamic delivers a perverse market signal; prospective injectors are deterred from providing additional gas on days of elevated demand.

Because of the difficulties identified above, TRUenergy is of the view that an injection tariff based on 10 peak winter days has not succeeded in the past and it is unlikely to be effective in the 2008 access regime. We suggest that the ACCC adopt GasNet's peak winter period proposal.

Further, there are numerous precedents on other gas transmission pipelines for peak winter period charges. For example, both the Eastern Gas Pipeline (EGP) and the Moomba Sydney Pipeline (MSP) have recently bid and negotiated differential gas haulage services for the winter period. EGP tendered for winter haulage for 2008, which was priced higher than summer haulage. MSP has also negotiating higher winter haulage services for winter 2008.

In addition, the price of winter gas commodity is higher than summer gas pricing at all locations: Longford, Moomba or Otway.

Due to the higher gas usage for power generation in winter, we have now seen gas transportation and gas commodity with a winter seasonal generation peak. The GasNet PST System is an integral part of the link in South Eastern Australia. As we now see the winter seasonal pricing differential on the other pipelines TRUenergy believes that it is appropriate for the PTS system also to adopt this structure. Set pricing during the winter period will enable all gas customers and retailers to better plan their gas usage during the winter period.

E. Withdrawal tariffs – Tariff V

TRUenergy's submission to GasNet's revised AA for 2008-12 supports the introduction of postage stamp tariffs for V users in AA3. In our submission, TRUenergy argued that the market for gas reference services would develop and expend in western Victoria under tariffs proposed in AA3 consistent with Section 8.1 (f) of the Gas Code. Were zonal tariffs applied in AA3 which allocate a greater proportion of the direct costs to zones, then customers located in the western Victoria would be subject to extreme tariff increases. The increases would exceed the general price increase forecast for AA3 (Po 30%).

TRUenergy argues the extreme tariff increases under zonal gate tariffs for customers located in the west under zonal gas tariffs in AA3 would impact the market for gas reference services in breach of section 8.1(f) of the Code. TRUenergy expresses the view that the relatively elastic nature of gas in rural and regional areas combined with tariffs produced under zonal gate methodology in AA3 would lead to a substantial reduction in throughput volumes from assets located in western Victoria, as customers switch to substitute products.

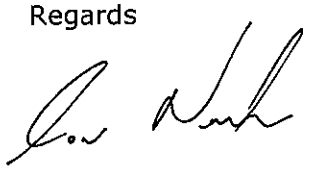
The ACCC responds to this arguing that the potential for under recovery on GasNet's assets located in western Victoria depends upon the assumption that gas demand in rural and regional Victoria is elastic. The elasticity of demand for gas it says is dependant on the price of substitute products such as electricity and bottled LPG. The ACCC concludes that demand for gas would be relatively inelastic in the short run given that switching costs are likely to be high.

Whilst the ACCC appears convinced that zonal tariffs will not lead to customers switching from gas to other substitute products, zonal tariffs will definitely not "develop" or encourage the market for reference services in gas. TRUenergy believes the country areas that have more recently been, and are being, converted to gas may need the greater price signals to switch and encourage gas development. The increase in transmission tariffs will eventually be passed through to customers and this is highly likely to discourage the take up of natural gas. Consequently, TRUenergy reasserts its position that the introduction of zonal tariffs for V users results in a breach of ss 8.1(f) of the Code.

E. Conclusion

GasNet has proposed substantive changes to its AA in AA3. These changes will significantly alter the terms and conditions of access to the PTS for all users. TRUenergy requests the ACCC consider to the matters raised in this submission before making a final determination regarding GasNet's AA.

Regards



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