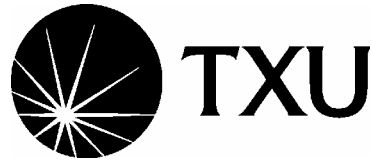


12/08/2003



Mr Russell Phillips  
Acting General Manager  
Regulatory Affairs- Gas  
ACCC  
PO Box 1199  
Dickson ACT 2602

Dear Sir,

**Re: EAPL Gas Forecasts for the Moomba- Sydney Pipeline**

TXU welcomes the opportunity to participate in the ACCC's Review of the EAPL gas forecasts for the Moomba to Sydney pipeline & offers the following comments.

- A response on the technical economic issues addressed by ACIL Tasman Pty. Ltd. in this consultation is beyond the scope of TXU. TXU is not sufficiently familiar with the arrangements to be able to add value to this debate at the detailed level
- However, TXU believes the very need for this consultation highlights the issue that the EAPL pipeline ought to be 'uncovered' and not subject to the regulatory oversight currently being imposed. We believe it is appropriate for us to outline our rationale in response to this consultation
- EAPL's act in resubmitting its 30 June, 2003 forecasts for the Moomba to Sydney gas pipeline represent a 30% reduction from those submitted as at 30 May 2002. This provides strong evidence of the development of a market that imposes competitive pressures on its participants. Thus, natural gas transmission pipeline owners best able to compete effectively in the competitive gas market will remain profitable. Factors that will influence EAPL's profitability in this competitive market include
  - The "take up" rates from the competing EGP Pipeline & the large contractual positions taken up by AGL in NSW via the EGP.
  - The ambiguity & uncertainty of where the basins from which future gas supplies will be sourced will have an impact of the gas flows & profitability on EAPL's pipeline. Competitive sources from the south, sources from the north & the implications of gas flow from these sources will have a competitive impact on EAPL & its profitability.
  - Technology such as Coal Seam Methane (CSM) & its take up will have implications for EAPL's profitability.
  - The development of a gas market in "SWAPS" & its implications for pipeline flows will also impact on EAPL's profitability.
- TXU believes this illustrates a key argument it has been making in the debate about the regulation of natural gas transmission pipelines in Australia. That is, pipeline owners in the south eastern Australian gas market are subject to the discipline of a competitive market. EAPL's 30% reduction in gas demand forecasts for the Moomba to Sydney gas pipeline as at the 30 June, provides evidence that a competitive market in gas exists.
- It is inevitable that EAPL's forecasts will change again, in response to the changing commercial dynamics of the gas market. They will continue to change. It is TXU's view that the regulatory environment will be unable to respond to such a constantly changing environment, and indeed this is exactly the environment that provides commercial disciplines on the pipeline operator.

- The variability of gas throughput on these natural gas transmission pipelines will increase in the future as competition continues to evolve. As such, natural gas transmission pipeline owners share of the market will grow according to how efficiently they compete in the competitive gas market.
- TXU believes it is important that natural gas transmission pipelines owners operating in this market are not subject to access regulation under the Gas Code. They should be free to respond to the commercial pressures of the competitive gas market without the added burden of access regulation under the Gas Code.
- TXU believes that regulation should only act as a surrogate for competition. As such, the commercial pressure of the competitive gas market should shape the behaviour of natural gas transmission pipeline owners in this market rather than the highly technical regulatory processes of access regulation under the Gas Code.

Please feel free to call me on Tel: (03) 8628-1240 should you have any questions.

Regards  
Con Noutso  
Senior Regulatory Economist