

RESPONSE TO DRAFT DECISION BY

**AUSTRALIAN COMPETITION
AND CONSUMER COMMISSION (“ACCC”)**

ON

**EPIC ENERGY SOUTH AUSTRALIA PTY LTD’S
PROPOSED ACCESS ARRANGEMENT**

FOR THE

**MOOMBA TO ADELAIDE PIPELINE SYSTEM
 (“MAPS”)**

SUBMITTED BY

TERRA GAS TRADER PTY LTD (“TGT”)

INTRODUCTION

Submission by Terra Gas Trader

This submission to the ACCC is made by Terra Gas Trader Pty Ltd (TGT):

- ?? TGT is the largest purchaser of natural gas from the Cooper Basin for consumption in SA, being the supplier of gas to the gas-fired electricity generators in SA.
- ?? TGT currently has a contract with Epic Energy for gas haulage from Moomba to Adelaide through the Moomba – Adelaide Pipeline System “MAPS”. Natural gas purchased by TGT is transported through the MAPS, and haulage tariffs paid by TGT to Epic Energy represent approximately 20% of TGT’s total costs and hence the haulage contract is a critical element of TGT’s business.
- ?? The Access Arrangement for the MAPS may impinge on TGT’s existing gas haulage contract; in addition, beyond 2005 the Access Arrangement for the MAPS is likely to be the basis for TGT’s continued use of the pipeline. Consequently the Access Arrangement is of significant relevance to TGT.

Background to and approach of submission

This submission is made in response to the ACCC’s Draft Decision on Epic Energy’s proposed Access Arrangement for the MAPS, released on 16 August 2000.

In October 1999, TGT made a formal submission to the ACCC in response to the ACCC’s Issues Paper on the proposed Access Arrangement. Many of the issues raised in that submission are not commented on further in this submission.

This submission seeks to:

- ?? clarify an apparent misunderstanding relating to the current allocation of available pipeline capacity; and
- ?? present arguments to support TGT’s view to modify the proposed access arrangements both prior to and after 1 January 2006.

Confidential Submission

Attached to the public submission is a confidential submission which contains commercially sensitive information.

TGT would welcome the opportunity to expand on, or further explain, any of the points made in this submission. Contact with TGT can be made as follows:

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SUBMISSION ON DRAFT DECISION

In this submission Terra Gas Trader (TGT) comments on the following matters:

- (i) System Primary Capacity;
- (ii) Allocation of revenue between FT and IT Services;
- (iii) IT Commodity Charge Rate;
- (iv) Surrender of Capacity;
- (v) Clearance of queue; and
- (vi) Incentive mechanism.

(i) System Primary Capacity

The Draft Decision is incorrect in stating on page 116:

“Origin has reserved 153 TJ per day of the system primary capacity of 323 TJ per day. As the only other firm service user, TGT has the rest, representing a primary capacity split of approximately 47:53 between the respective users. The Commission understands that TGT has reserved additional capacity pursuant to an agreement for enhancements to the system”.

The correct position is that the following firm reservations of the indicative capacity of the pipeline have been made in respect of the period up to December 2005.

	Prior to February 1999	Since February 1999
TGT	200	240
Origin Energy	153	153
Epic Energy		2
Indicative Capacity	353	395

It is also the case that TGT has contracted a service akin to FT Service for 40 TJ per day from January 2006. TGT assumes, but does not know, that National Power has contracted a similar service for 25 TJ per day of capacity, for the period up to, and subsequent to, January 2006.

Accordingly, TGT assumes that the current indicative capacity of the pipeline and the contracted System Primary Capacity is as follows:

	Indicative Capacity Prior to 1.1.06	System Primary Capacity After 1.1.06
TGT	240	40
Origin Energy	153	
Epic Energy	2	
National Power	25	25
	420	65

TGT assumes that following the second expansion of the pipeline the available System Primary Capacity is 343 TJ (ie 323 TJ plus 82% of 25 TJ).

It is important to note that the current indicative capacity of the pipeline (395 TJ) is available to the existing shippers in Winter subject to *force majeure* and allowable compressor outages. In Summer the capacity of the pipeline is reduced to 377 TJ due to ambient conditions and this capacity is effectively available subject only to *force majeure* and allowable compressor outages.

TGT is unclear as to the validity of Epic's classification of only 323 TJ of the 395 TJ (prior to expansion 2) as System Primary Capacity. However, if accepted, it must be clearly recognised that the remaining 72 TJ is, subject to Summer derating, capacity which is available almost all of the time. Moreover, revenue will be earned from this capacity in later access periods as shippers will contract IT (firm on the day) Service to meet their peak requirements.

(ii) Allocation of revenue between FT and IT Services

TGT endorses the ACCC draft decision as to Epic's Total Revenue although for the reasons stated in its earlier submission it remains concerned as to the level of non capital costs. However, TGT believes it is incorrect to allocate Total Revenue (after deduction of the revenue earned from the FT Commodity Charge Rate and the Whyalla Lateral Surcharge) to the FT Capacity Charge. Some of the Total Revenue must be allocated to the IT Service.

The purpose of the determination is to set a tariff for the FT Service and the IT Service for the period until December 2006. This can only be done fairly by allocating the Total Revenue to FT and IT Services on the basis of the existing shippers' requirements and new users' requirements for those services.

During the first access period it is correct to assume that System Primary Capacity of 323 TJ would be fully contracted if there were no existing agreements. It is incorrect to assume that revenue would not have been earned from IT (firm on the day) Service or would not be earned from IT (interruptible on the day) Service.

First, existing shippers utilise more than 82% of their current contract reservations. During the past 12 months Epic has transported for the existing shippers approximately 2 PJ of gas over and above a pro rata allocation of proposed System Primary Capacity between TGT and Origin of 198 TJ for TGT and 125 TJ for Origin.

Secondly, it is very likely that TGT will contract IT (interruptible on the day) Service to supplement its current haulage entitlements during the current access period.

Thirdly, a new 500 MW gas fired power station at Pelican Point which requires up to 90 TJ per day of gas is being progressively commissioned over the next four months. TGT can only assume that this will result in IT (firm on the day) Services and IT (interruptible on the day) Services being contracted notwithstanding the second expansion of the pipeline of 25 TJ.

In determining the allocation of Total Revenue between FT and IT revenue it is not relevant (even if it were true) that IT Services are unlikely to be sold during the first access period because of the existing haulage agreements. It is relevant that the existing shippers current contractual entitlements cannot be met through the provisions of the FT Service only. However, it seems clear that IT Services are likely to be sold during the first access period.

Epic's methodology in calculating the FT Capacity Charge Rate in the first access period by equating the reference service revenues with current contractual revenues (or the ACCC determined Total Revenue) is not appropriate. This is particularly true where the IT Commodity Charge Rate comprises the FT Capacity Charge Rate and the FT Commodity Charge Rate and the sum of which is escalated by a load factor adjustment.

TGT submits that the correct methodology in determining the FT Capacity Charge Rate in the first access period is to first determine what FT and IT Services would be contracted in the absence of the haulage agreements and to allocate Total Revenue accordingly. Alternatively, if Epic's methodology is accepted then TGT submits that either the IT Commodity Charge Rate should be reduced by deducting the capital component from that rate or a greater percentage of the IT revenue should be rebated (say 75%). Otherwise Epic are double dipping.

In summary, it is wrong to recover Total Revenue from the FT Service in the circumstances where:

- ?? the System Primary Capacity which is available for the provision of FT Service is only 323 TJ;
- ?? the existing shippers' current contractual entitlement cannot be met through a pro rata allocation of System Primary Capacity; and
- ?? TGT and others are likely to contract IT Services during the first access period.

(iii) IT Commodity Charge Rate

Epic have calculated the IT Commodity Charge Rate as follows:

$$\text{IT Commodity CR} = (\text{FT Capacity CR} + \text{FT Commodity CR}) \times 1.15$$

This formula is completely inappropriate where the Total Revenue is recovered from the FT Service as the FT Capacity CR for the FT Service has already ensured the full recovery of capital. In these circumstances the appropriate formula is:

$$\begin{aligned} \text{IT Commodity CR} &= \text{FT Commodity CR} \times \text{appropriate profit margin} \\ &= 9c + (\text{say}) 5c \\ &= 14c \end{aligned}$$

Alternatively, the IT Commodity Charge Rate can include a capital component but in these circumstances the Total Revenue less the likely revenue from IT Services should be recovered from FT Services.

In neither case is there much reason for the IT Service being a rebatable service provided the FT Capacity Charge Rate and the IT Commodity Charge Rate are set logically and fairly.

(iv) Surrender of Capacity

TGT contends that the principles which should be followed in relation to the surrender and utilisation of contracted capacity are:

- ?? a shipper (be it an existing shipper or an FT user) may offer to surrender capacity which Epic may in its discretion accept or not;
- ?? a shipper may seek to release firm capacity to another user possibly through a bidding process on Epic's Electronic Bulletin Board;
- ?? if it appears to Epic that there is unutilised capacity it may offer an interruptible service; and
- ?? there should be no ability to force a shipper to surrender capacity.

The ACCC has assumed that in losing a customer to another supplier an existing shipper no longer requires the capacity previously utilised to supply that customer. This is not correct.

Existing capacity in the pipeline is not sufficient to meet all the gas that can be sold in Adelaide on peak days. This is evidenced by the fact that more expensive fuel is used by power stations (in particular, oil firing at Torrens Island) and that customers are interrupted. If this were not so a customer who transferred to another supplier could always be supplied through what would, otherwise, be spare capacity. This position can only be exacerbated by the imminent commissioning of the Pelican Point Power Station (with a daily gas demand up to 90 TJ/day) notwithstanding the 25 TJ expansion in the capacity of the pipeline.

In short, it is not possible to argue that capacity no longer required for a lost customer is not required by the original shipper. Such capacity can be utilised to win new customers and, in particular, expand supply to customers (particularly electricity generators) who were being restricted. It is also possible that the lost customer was interruptible so that losing that customer does not provide spare firm capacity at least on peak days.

In summary,

- ?? the demand of all customers cannot always be met by the existing pipeline capacity;
- ?? the loss of one customer provides an opportunity to supply another customer or increase supply to an existing customer; and
- ?? accordingly, to force the surrender of capacity will entail the deprivation of contractual rights.

(v) Clearance of Queue

The Access Arrangements should implement the following principles.

- ?? Where spare capacity is available, requests should be addressed as soon as practical and priority provided to prospective users in order of receipt of requests.
- ?? Where construction is required but may be carried out in association with current capacity enhancements, requests should be addressed as soon as practical and priority provided in order of receipt of requests.
- ?? In all other circumstances, an initial advice should be provided as soon as practical but construction tasks should be aggregated on an annual basis or as agreed by Epic and those seeking an enhancement of the pipeline capacity.

(vi) Incentive Mechanism

TGT makes the following comments in relation to the proposed incentive mechanism.

- ?? During the first access period it is illogical and inequitable to deny an existing user a rebate when that user contracts for IT (interruptible on the day) Service. It is very likely that TGT will contract IT Service and the Epic proposal will provide Epic, particularly at the current IT Commodity Charge Rate, with a windfall gain even if a rebate is provided to TGT. Accordingly, TGT submits that a rebate should be payable where the FT user or the existing user (as appropriate) and the IT user are the same party or are related bodies corporate.
- ?? During subsequent access periods it appears to TGT that a rebate is only provided to a FT user if that FT user releases Primary Capacity Quantities at a Delivery Point. This would appear to be unacceptable as in later periods capacity at Delivery Points and laterals may not be fully contracted.

?? During subsequent access periods the effective rebate of IT revenue would appear to be a small percentage of IT revenue. In practice it is likely that the volume of gas delivered to an IT user at a Delivery Point will comprise a small percentage of the total volume of gas delivered at that Delivery Point. TGT assumes that in most cases a customer will meet its base demand through the FT Service but may meet its peak requirements through the IT Service.

Assuming that the volume of IT gas is 10% of the total volume of gas delivered at a Delivery Point the maximum rebate of the IT revenue earned from that volume of gas is 5%. This is unacceptable particularly given the Epic methodology in calculating the FT Capacity Charge Rate and the IT Commodity Charge Rate.

On the basis of the current Epic methodology for calculating the FT Capacity Charge Rate and the IT Commodity Charge Rate the appropriate rebate of the IT revenue derived from a relevant existing delivery facility is 50%. In short the formula should be:

$$FTIC = \frac{FTITR}{2}$$

and not

$$FTIC = \frac{FTITR}{2} \cdot \frac{FTVIT}{FTTVDP}$$

?? As stated earlier, provided the FT Capacity Charge Rate and the IT Commodity Charge Rate are set logically and fairly, there does not appear to be much (if any) reason for the IT Service to be a rebatable service.

