

9 December 2003

Mr Russell Phillips  
Acting General Manager  
Regulatory Affairs - Gas  
Australian Competition and Consumer Commission  
PO Box 1199  
Dickson ACT 2602

Dear Mr Phillips

### **Re Moomba to Sydney Pipeline – Proposed Access Arrangement**

Thank you for the opportunity to comment on the forecast volumes contained in East Australian Pipeline Limited's ("EAPL") revised access arrangement for the Moomba to Sydney Pipeline ("MSP") submitted on 17 July 2003. Given the short timeframe to respond to these revisions, The Australian Gas Light Company ("AGL") has limited its submission to aspects related to the forecast volume.

#### EAPL's Revised Forecasts

AGL supports EAPL's reasons for revising its volume forecasts, which reflect AGL's gas portfolio. In December 2002, AGL announced its new long-term gas supply portfolio, which secures 1,408 PJ of supply over 15 years. Under the new gas supply arrangements AGL has contracted to take up to:

- 563 petajoules from the BHP-Billiton/Esso Gippsland Basin producers
- 505 petajoules from the Santos-led Cooper Basin producers; and
- 340 petajoules from Origin Energy's interests in Queensland's Surat/Bowen Basins.

These contracts form the basis for AGL's supply for customers in NSW/ACT, SA and Victoria and therefore likewise form the basis for how AGL plans to transport gas via the MSP to meet forecast demand in NSW/ACT.

AGL believes it is necessary for the Commission to consider the impact of AGL's long term contracts on volumes being transported through the MSP. AGL's new supply portfolio reflect the current competition for supply of gas and gas transportation in which retailers like AGL are able to negotiate multiple gas supply and gas transportation contracts.

In addition, AGL has sourced coal seam methane gas from Sydney Gas Company. Subject to production, AGL has contracted to buy up to 14.5 PJ per annum from Sydney Gas Company over the next 10 years. This gas is supplied directly into Sydney eliminating the need for gas transportation services. Accordingly, the growth in coal seam methane from this source will displace some of the Cooper & Surat/Bowen Basin gas transported via the MSP. This change in the source of gas supply will impact on the daily profile of the gas delivered from the Cooper and Surat/Bowen Basin via the MSP. AGL notes that the load factor is forecast to remain consistent during the Access Arrangement period. In AGL's view, coal seam methane directly entering into Sydney will alter the load factor for gas transported along the MSP. AGL believes it is necessary for the Commission to consider the impact this change in the source of supply would have on the assumed load factor for gas transported along the MSP.

Though the access arrangement does not provide forecast volumes beyond 2008, AGL believes it is necessary for the Commission to consider the potential impact of PNG gas or other sources of gas from the north, being transported along the MSP beyond the access arrangement period. It is AGL's view that as the Cooper Basin supplies decline, subject to demand, it is likely that a new source of gas will be required around 2010. It is likely that this gas would be transported through the MSP into NSW.

On the other hand, the Commission should also consider other prospective fields in the Gippsland Basin such as Kipper, Sole and Golden Beach that may supply gas into NSW/ACT via the EGP, therefore reducing the volumes being transported through the EAPL pipeline.

There are a large number of industrial gas customers in NSW, some of which are sensitive to the gas price and others to world market prices. BHP shut its steel operations in Newcastle, and more recently Port Kembla Copper announced the closure of its operations. AGL is aware of one large user, which regularly evaluates its viability based on gas price and world commodity prices. A loss of a large industrial customer would have a significant impact on EAPL's forecasted volume for NSW/ACT.

#### Gas Fired Electricity Generation

On 31 July 2003, NEMMCo released its annual Statement of Opportunities ("SOO") which detailed expected generation growth. Given the timing of its release, AGL has not had an opportunity to model the forecast growth in gas fired generation and its impact on EAPL's forecasts. AGL believes it is necessary for the Commission to undertake this work prior to finalising its decision.

It is AGL's view that over the access period, the majority of the growth in gas fired generation will be in summer peaking capacity. As summer is the off-peak period for the gas industry, AGL does not believe that the growth in this type of plant will impact EAPL's original revenue forecasts for retailers with a winter demand requirement. This is because a shipper with a transportation contract would have contracted for a maximum capacity based on a winter peak profile. Any gas taken during summer would be unlikely to exceed this capacity, therefore minimal additional revenue would be earned by EAPL.

As mentioned, it is believed that the majority of future gas fired generation will be summer peaking. This will affect the load factor for gas transported along the MSP. AGL believes it is necessary for the Commission to consider the impact of gas fired generation on the assumed load factor for gas transported along the MSP.

#### Conclusion

There are a number of factors that the Commission should consider in assessing EAPL's forecasts. These include the effect of AGL's revised gas supply contracts, competition between existing pipelines, future gas fired generation in NSW or ACT and demand forecasts by large users.

AGL would like the opportunity to participate in the Commission's review of all other aspects of EAPL's Access Arrangement. If you have any queries in relation to this matter, please contact Stephen Dwayhe, on ph: 02 9712 6290.

Yours sincerely

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AGL Energy Sales & Marketing