

AgroEco Systems Pty. Ltd.

(ABN 97 284 188 651)

Ref: 6399
Date: 27/10/2009

Mr Mike Buckley,
General Manager,
Network Regulation North Branch,
Australian Energy Regulator,
nswactgas@aer.gov.au

Dear Mr Buckley,

SUBMISSION ON PROPOSED REVISION TO NSW GAS DISTRIBUTION NETWORK ACCESS ARRANGEMENT.

I attended the Public Forum held at the Menzies Hotel in Sydney on the 23rd of September 2009 and wish to make the following submission on the JEMENA NSW Gas Network proposal.

Background Information.

Climate Friendly Fertiliser (CFF) has been established to introduce into Australia the next generation of fertiliser products which will greatly assist Australian farmers to reduce their emission footprints whilst delivering more sustainable fertilisers usage. AgroEco Systems Pty. Ltd. is the major shareholder in CFF and I am writing this submission in my capacity as the Managing Director of the major shareholder in CFF.

CFF's first plant at Leeton in NSW completed its EIS in January this year. CFF's technology is a major user of natural gas and the viability of the CFF business model is dependent on being able to get a suitable gas supply to its plants at a market competitive rate.

During the permitting of this site at Leeton we had a very unsatisfactory interface with Jemena who very effectively held our project to ransom over the issue of gas supply.

Our Submission:

1. Independent Connection Costing.

When we put together the original business plan for the CFF plant at Leeton NSW in late 2006, we obtained two quotes for gas connection at the site from NSW gas retailers who were active in the market at this time. It was clear that the 3.5km pipe and hot point would cost about \$350-500,000 to install and that we would be able to buy gas (50-100Gj and hour) on a monthly contract with the ability to "stand down" our plant at 1 hours notice.

When our consultants GHD started the gas connection process in October last year they had to seek a price from Jemena for the gas connection and this came in as a 9.5km steel pipeline from the Jemena controlled hot point at Yanco for the sum of about \$3.5 million plus an enduring bank guarantee for \$5 million for gas supply. In addition, CFF would have to take the full contracted volume of gas from day 1 and there was no ability to ramp up gas supply during the "set to work" of what is a very complex plant or to suspend gas purchases when the plant was offline during its summer shutdown.

When CFF engaged an independent pipeline contractor to back cast the Jemena quote it was apparent that the pipeline cost was in the region of \$900,000 for a steel pipe and less for a plastic pipe and there was no valid reason why our plant would need to take gas from an exiting hot point (which was in need of upgrading) when the main pipeline was in fact only 3.5km away.

I traveled to Sydney to meet with [DELETED] from Jemena on the 15th of April 2009 at 0930am. At this meeting [DELETED] explained that "Jemena had to make full cost recovery on new connections and thus building the pipeline was only one part of the cost that they recovered through the process". I explained to [DELETED] that the project was only a \$20 million project and Jemena's actions had now increased the CAPEX by \$8.5 million - thus making the project unviable and discouraging my investor from investing in

NSW. I found the meeting with ~~[DELETED]~~ to be quite intimidating and the general tone of the meeting reminded me of similar meetings in China during the 1990's prior to the Chinese Government gaining an understanding of the impact of this sort of behavior on business development.

I believe that Jemena's actions in this matter are deceptive and misleading and constitute a misuse of market power. I would ask that AER forward this submission to the ACCC.

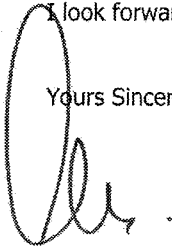
RECOMMENDATION:

1. AgroEco Systems request that the new pipeline access arrangements specifically prohibit Jemena from controlling connection costs and mandate that all connection matters are handled by independent contractors overseen by an engineering auditor appointed by the Australian Energy Regulator.
2. That the new access arrangements specifically prohibit JEMENA from prescribing gas sales prices and contract conditions for its sister gas retailing company.
3. That the Australian Energy Regulator set up an advisory desk under the control of the engineering auditor so that new entrants to the NSW gas market can get unbiased advice and costings so as to avoid the circumstances that CFF has found itself in.

The first 100,000 tonne train at Leeton would have been set to work on the 17th of October had CFF been able to get a gas supply to its site at the actual cost of construction. The first train at LEETON would have been in full operation on the 20th of this month. The company's losses going forward on this project are over \$1 million per month and the Leeton area has lost 42 jobs that would have been involved in the full time operation of this vital plant.

I look forward to seeing these recommendations incorporated into the revised access arrangements.

Yours Sincerely,



Andrew G. Helps
Managing Director

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