3 March 2017

Mr Chris Pattas
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Dear Mr Pattas

Lodged electronically: VicGAAR2018-22@aer.gov.au

APA Victorian Transmission System - Access Arrangement– Draft Determination

EnergyAustralia is one of Australia's largest energy companies with over 2.5 million electricity and gas accounts in NSW, Victoria, Queensland, South Australia, and the Australian Capital Territory. We also own and operate a multi-billion dollar energy generation portfolio across Australia, including coal, gas, and wind assets with control of over 4,500MW of generation in the National Electricity Market and an annual gas portfolio of over 100PJ.

We welcome the opportunity to provide a submission in respect of the access arrangement proposal from APA VTS Australia (APA). Ensuring adequate supply of gas is available for our customers is of fundamental importance and there is increasing risk of disruption of this gas supply. We support necessary augmentation of the existing network so these risks are minimised in an efficient and least cost manner. However, the proposed timelines for augmentation of the network may warrant further review to see if there is the opportunity to expedite this vital work.

We consider that in the short term there is a need to upgrade the Declared Transmission System's (DTS) capacity to allow increased transfer of gas from the major production hub at Longford to underground storage at Iona. This type of transfer through the non-winter months is necessary in order to enable that facility to store adequate supplies to assist with meeting demand in winter; the peak period for gas demand.

As a general principle we support those aspects of APAs proposal that seek to increase this transfer capacity. Compared to augmentations across the electricity networks, the total costs of the required upgrades in this case are relatively small. If augmentation is not undertaken, there is a risk of much greater cost outlays. To delay augmentation would increase the risk of curtailment due to a lack of gas in the Iona storage facility, particularly given the limits of production at Longford.

Additionally, the age of the production facility at Longford will inevitably result in a higher likelihood of production outages. In the current market, gas supplies that had previously flowed into the southern markets from production facilities at Moomba are now flowing almost entirely northwards. This places added burden on storage to meet any shortfalls in gas supply, in addition to providing some gas supply during outages at

Longford. System security is highly dependent on the market running smoothly with no significant outages. This lack of reserve in the system means that relatively short outages can result in the threats to supply, as evidenced by the outage at Longford in October 2016. Currently, there is minimal redundancy in the system, so any outage more significant than the event last year would likely negatively impact customers.

The imminent closure of Hazelwood Power Station has implications for the gas market, with a likely requirement for increased running of gas powered generators (GPGs). Not only does this mean that there will be an increased demand for gas, but that the consequences of curtailment are potentially far more serious. A significant outage will have impacts not only for consumers of gas, but also could seriously impact the ability of generators to meet electricity demand on a given day. These risks are likely to increase in the near term and need to be mitigated very soon. Additional redundancy is vital to provide adequate security of supply across both the gas and electricity sectors.

This increased use of GPGs, in an environment with declining production from Otway and Longford basins, will require either increased use of gas from storage and/or increased importation from northern markets. Even if it is possible to source this additional gas from the north, it is likely to come at a high cost due to LNG netback pricing and significant transportation costs. The advantage of having additional capacity within Victoria closer to the gas users is that response is more flexible to meet unexpected changes in demand or supply.

One of the proposed augmentations, the Western Outer Ring Main (WORM), provides additional benefits beyond the added transfer capability. As stated by AEMO, this additional network also provides additional linepack support. Such support provides greater flexibility in the operation of the DTS as well as ameliorating the possibility and consequences of unexpected events. Such events could be demand driven (e.g. an upswing in the drawing of gas by GPGs during times of tight electricity supply) or supply driven (e.g. unplanned Longford outage). This option would be part of any longer term development of a South West Pipeline (SWP) expansion strategy providing increased flow to Iona of up to about 300 TJ/day and also a substantial increase in the flow from Iona to Melbourne.

The WORM is likely to be essential in the long term, but it should not delay the progression of shorter term developments that are required as a matter of urgency. We recommend that AEMO's proposals be further investigated to ensure the options can be implemented soon to maintain system security in the near term. These options offer additional mechanisms to increase the flow capacity on the SWP for flows to Iona and for flow to Melbourne. The options comprise a combination of identified work that provide for increased flow on SWP are outlined below.

- Near term options:
    - operation of BCS Unit 10 (compressor works required);
    - reconfiguration of BCS to allow direct compression of units 11 and 12 into the Brooklyn-Lara Pipeline.
- Medium term options offering increased flow to Iona of up to about 150 TJ/day to 170TJ/day:

- making the Winchlesea compressor bi-directional;
- new bidirectional compressor(s) at Lara, Stonehaven or Wollert.

We reiterate that the total amount of the proposed spend is relatively small when smeared over the life of the asset. There are strong benefits across the entire gas and electricity market in terms of security. These benefits are also likely to apply to all consumers of both gas and electricity. As such we would support any augmentation costs being absorbed into the tariff that APA charges retailers for customer use.

EnergyAustralia are keen to continue engaging with the AER on this proposal to ensure the best outcome for customers. If you would like to discuss this submission please contact me on 03 8628 1393.

Regards

Chris Streets
Industry Regulation Lead