Access Arrangement proposed by Epic Energy South Australia Pty Ltd for the Moomba to Adelaide Pipeline System

Response to Draft Decision by Australian Competition & Consumer Commission

Dated 16 August 2000

PART C

RESPONSE TO PUBLIC COMMENT

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Introduction

Responses to the Commission's request for public submissions were received by Epic from 9 parties by 25 September; one of which was confidential to the Commission and Epic.

Responses range from the broad generic statement through to the highly detailed. It is not Epic's intention to negotiate terms in this response to the Commission's Draft Decision.

The following table summarises public comments considered to go to the core of the proposed Access Arrangement and Epic's response.

(References to particular respondents are for illustrative purposes and are not exhaustive.)

Abbreviations

"Origin" means Origin Energy Retail Ltd
"Santos" means Santos Ltd
"TGT" means Terra Gas Trader Pty Ltd

Item	Outline of Comment	Epic Response
Capacity – Maximum [Origin, 21 Sep, p. 5] [TGT, Sep, p. 4]	The Maximum Capacity of the System should be allocated to FT Users	The concept under the proposed access arrangement is for the provision of a “marketable parcel” of capacity for FT service which can be traded with the confidence that on a day, at any time in the year, (subject only to very limited circumstances) the capacity will be available to be utilised. This is not the case under the capacity allocation structure in the Existing Transportation Agreements. The quantity of “ guaranteed” capacity (for FT Service) is currently determined to be 323 TJ/day. Any balance of available Capacity on a day (up to the maximum Capacity of the pipeline system) will be available for other services. It is not appropriate to allocate the Maximum Capacity among FT users as this would provide a continuation of the existing situation where all capacity is held by existing users and third parties would be required to ‘deal’ with FT users to ensure reasonable access to any interruptible capacity. Terra Gas Trader (TGT) has indicated that the difference between System Primary Capacity (now to be called System Firm Capacity) and the current concept of indicative Capacity “is, subject to Summer derating, capacity that is available almost all of the time.” To ensure there is no misconception in the market, it must be recognised that to meet the indicative Capacity (or ‘nameplate’ capacity) of the Pipeline System) requires that each of the 15 compressor units operate at the same time. In particular, it requires that at each of the main 7 compressor stations on the main trunk pipeline, the two units at each station are operating in series (ie the output from one supplies the inlet to the next). The result of this is that there is no redundancy in the system.

		By way of illustration the probability of that level of capacity being available is calculated for levels of individual compressor unit availability as follows: Unit availability — Probability of Indicative Capacity being achieved 98% — 74% 95% — 46% 90% — 21% In addition, the calculation of indicative Capacity requires both favourable line pack and Moomba inlet conditions to apply. Such conditions have rarely applied at the same time.
Capacity – Spare [Origin, 21 Sep, p. 9] [TGT, Sep, p. 8]	The presence of ' Spare Capacity' (as defined by the Commission) in a lateral should not prevent an Existing User from receiving a rebate when capacity reserved by an Existing User is utilised by a third party	Epic proposed a mechanism to incent Existing Users to release unutilised capacity by the provision of a rebate to an Existing Use where capacity contracted by an Existing User is utilised by a third party. The Commission's proposed definition would appear to mean that such rebate would not apply
Queuing Policy for FT Service [Origin, 21 Sep, p. 10]	Competition between retailers and disaggregation of customer MDQ will lead to over-booking of capacity and inefficient expansion of the pipeline system	Under changes proposed by Epic to queuing and extension/expansion policy (refer response to the Commission's Amendment Proposal A3.34), capacity will be allocated on a ' first come – first served basis'. Where capacity enhancement is required, the parties will need to deal with it in a commercially sensible way on a case by case basis in accordance with the Code.

Receipt and Delivery Points – Obligations of Users [Origin, 21 Sept, p. 13]	As a User does not have control over the flow of gas at the Receipt Point, there should be no obligation to achieve a uniform rate of flow.	Epic is a transporter of gas received from the users and the more uniform the rate that the gas is supplied, the better able Epic is to deliver the requirements of all users. The only party that can have control over how that gas is to be supplied is the user through its contractual relationship with the upstream and downstream parties. Epic has no contractual nexus with those parties to enforce that compliance. It is for the user to ensure that its supplier(s) provide its requirements.
	As Users do not have the facilities to monitor their take of gas on an hourly basis, they should not be obliged to pay a charge where they exceed 1/24th of a Delivery Point's MDQ.	Epic must ensure that the requirements of all of its users are met, accordingly there must be controls and disciplines in place. If a particular user is to receive more than its allocation it must mean that if there were another user at the point, that user must receive less than its allocation. In addition, a high hourly draw rate from one user as a delivery point could cause a reduction in pipeline pressure in that region which then could cause a lower than contract pressure at another delivery point.
System Use Gas [Origin, 21 Sep, p. 18]	Epic should pay for System Use Gas	Epic's use of system use gas is under the constant scrutiny of executive management in order to ensure maximum efficiency is achieved. The only incentive Epic has to operate compression equipment is to ensure the maximum efficient capacity is available on a day. Needless and inefficient operation of compressor equipment would increase Epic's maintenance costs and increase frequency of overhauls. The imposition of a system requiring Epic to pay for this gas and in some way receive compensation from users could result in outcomes that are not in the interests of any party. Epic rejects the notion that its approach is not efficient.

Nominations – variation on a Day [Origin, 21 Sep, p. 21]	FT Users should have a right to vary nominations by 9.00 AM by up to 20% of MDQ	As indicated earlier, the ability of a user to modify its requirements must impact on other users and prospective users. If access to capacity is to be optimised for all, users must be required to provide their best estimates of their requirements. To incorporate the suggested 'on the day' variation would be a continuation of existing arrangements which would substantially reduce Epic's ability to offer an interruptible service that was <u>not interruptible on a day</u>.
Zone Variation [Origin, 21 Sep, p. 25]	For the purpose of Zone Variation Charge, there should be only one zone covering the Iron Triangle, the Barossa and Adelaide	Zone variation charges are intended to minimise the opportunity for gaming that could inhibit access to third parties, see also earlier comments regarding user discipline. Epic is prepared to discuss with Origin areas where Origin might be disadvantaged.
Variation & Imbalance Charge [Origin, 21 Sep, p. 25]	If System Use Gas is to be provided by Users at no charge, Variation and Imbalance Charges should not be paid to Epic	The charges are for disciplinary, not revenue purposes. The requirement for variation and imbalance discipline is to ensure one shipper is not disadvantaged by the behaviour of another shipper. Variation and imbalance by one shipper can cause increased fuel cost to other shippers as well as effectively consuming more capacity than other shippers.
Allocation at Delivery Points [Origin, 21 Sep, p. 26]	The procedure for allocation at Delivery Points is considered unworkable	Unless all users at a delivery point have meters suitable for real time data provision, Epic's preference is to be advised by either the downstream service provider or the users at a delivery point, what the allocation procedure is at a delivery point. We are prepared to discuss any clarification of the provision.

Curtailment [Origin, 21 Sep, p. 27]	The Curtailment provisions provide Epic with too much discretion in respect of the issue of Curtailment Notices	Epic agrees that such notices are a last resort and will be used in extremely limited circumstances. Epic requires the degree of discretion it has sought in order to ensure the integrity of the pipeline system is maintained for the good of all users and to ensure the behaviour of one shipper does not negatively impact on the service provided to other shippers. Epic rejects the notion that such notices could have the intent of revenue raising.
Receipt & Delivery Points [Origin, 21 Sep, p. 32, 33]	Meters should not be treated by Epic as if they were Epic's property The requirements of Schedule 8 should only apply to substantial delivery points	Existing contracts are not impacted by this provision. Epic has designed its access arrangement for the future where, for optimal service to all parties, all aspects of the pipeline system (including all receipt and delivery points) are under the control of the service provider (either through ownership or by arrangement). The accurate accountability for the gas transported for each shipper and integrity of the pipeline system is dependent upon the accuracy of measurement and the ability of the service provider to control the operation of the system. Epic is prepared to review on a case by case basis, subject to the rights of other users. However Epic believes that measurement standards should be non-discriminatory.
Market Competitiveness [Santos, 18 Sep, p. 1]	The purpose of regulation is to make access competitive and affordable, with all parties treated equitably. It appears that improvements to enable access are being resisted by Epic.	Epic does not agree with the comment. Epic unreservedly supports market competitiveness and looks forward to seeing incentives for growth in pipeline infrastructure across Australia to allow greater gas on gas supply competition.

Trigger Mechanism [Santos, 18 Sep, p. 3]	Support Commission's suggestion of a trigger mechanism in the event of a new gas supply to South Australia	In relation to a trigger, refer Epic's comments in its response to the Commission's Amendment Proposal A3.36. If TGT and Origin lose customers, the existing Transportation Agreements allow them to sell capacity. Review of the access arrangement at that point in time will not assist the development of the market as the substantive shift will have already occurred to create that situation.
Extension of Existing Contracts [Santos, 18 Sep, p. 3]	Concern that Existing Users may extend their contracts beyond 2005 without entering the queue	No party seeking access will be treated differently from any other. The majority of capacity in the pipeline system beyond 2005 is currently uncontracted and is available to be contracted to any creditworthy party at any time. Epic's proposed changes to queuing policy will address this concern.
National Gas Specification [Santos, 18 Sep, p. 4]	Concern that Epic will not be obliged to accept the National Gas Specification if it is introduced into Australia and conversely Epic must not force gas spec changes onto users.	Epic is only one of a number of stakeholders impacted by gas quality. Each party will have its own issues. Epic cannot be expected to allow gas to be supplied to the pipeline system that might have a deleterious effect on the physical integrity or the capacity of the system. Equally, Epic will not cut across existing contractual rights. Obviously, in situations where emergency legislation is enacted, Epic will fully comply with direction.
Pipeline Throughput Forecast [Santos, 18 Sep, p. 4]	Actual market growth is currently greater than forecast	Epic considers market demand for the pipeline system extremely difficult to forecast. Epic is uncertain of the point being made by Santos as Epic has only sought a tariff to continue its current revenue path. As the whole of the initial access arrangement term is fully contracted, any difference in revenue between forecast and actual demand will be realised through the commodity charge only. While current demand is ahead of forecast it is largely due to the

		delay in the construction of the NSW-SA electricity interconnector and the major and unforeseen availability of coal fired plant in Victoria. In addition, the effect on throughput from the new and more efficient Pelican Point power station will not be felt until end of 2000/beginning 2001.
Native Title Costs [Santos, 18 Sep, p. 4]	The costs related to Native Title cost should be included in the calculation of Optimised Replacement Cost	Epic agrees that realistic costs should be included for all aspects of the optimised replacement cost evaluation, including costs involved in the administration of native title considerations.
FT & IT Revenue [TGT, Sep, p. 5]	Total revenue should be allocated between FT and IT Service	FT Service only exists before 2006 if there is an enhancement of pipeline capacity. The tariff for IT Service must reflect the effective throughput charge that would be born by an FT user if Epic is to be kept whole in the event that there is uncontracted firm capacity in the pipeline. TGT's analysis appears to be confusing the current service definition that it enjoys with the service definitions in the Access Arrangement. Epic agrees with TGT's view that the access arrangement has little or no work to do in the first period. Given that Epic was required to produce an arrangement, an arrangement was produced with the intention to reflect the position that Epic sought to be in should there have been no existing contracts – including the approach to FT service. IT Service is opportunistic and can not be allocated defined costs of substance. In its submission, TGT uses the difference in System Primary Capacity (now System Firm Capacity) and indicative Capacity to identify the opportunity for Epic to earn IT revenue. TGT submits that in the first Access Period the Commission should determine the FT Capacity Charge Rate by considering what FT and IT services should be contracted in the absence of the Existing Transportation Agreements and allocate Total Revenue accordingly.

		This argument ignores the following: • That the existing Transportation Agreements are for the full initial term of the Access Arrangement, • The indicative Capacity is held by the Existing Users and therefore the Existing Shippers are in the best position to utilise that capacity in the first Access Period, • IT services therefore are offered on an interruptible on a day basis, and • The proposed incentive mechanism provides for a rebate to Existing Users where IT Service utilises an existing delivery facility (and a lateral for which the Existing Users have contracted all of the capacity), and so compensates the Existing Users for the contribution that they are making to the costs of the system, when facilities it has contracted are being used by the IT User. TGT argues that the IT rate is too high as the tariff should not contribute to the recovery of capital or should be calculated on the basis that a portion of the total revenue should be allocated to IT service. In response, Epic makes the following points. • Epic will not sell IT service unless there is an incentive to do so. Equally it will sell interruptible capacity at less than the IT rate if it is necessary to stimulate usage. • Where IT service uses Existing Delivery Facilities there is a rebate to Existing Users. • At this time there has been no interruptible service utilised and it is impossible to predict future utilisation and so attribute revenue. If uncontracted firm capacity became available, then until such time as firm capacity was again fully contracted, IT Service would effectively be a firm service and should contribute toward firm capacity costs.

Incentive Mechanism and Rebate to Existing User [TGT, Sep, p. 8]	A rebate should be paid where the FT User and the IT User are the same party	There may be a misunderstanding of the provision. A rebate will apply even if an IT User is the same party as an Existing User, provided that the IT User gains access to <u>another</u> Existing User's capacity. The point of Epic's incentive mechanism is to provide a rebate as an incentive for Existing Users to provide access to facilities for third parties. It is therefore illogical to rebate an existing user for access to their existing capacity.