



14 May 2010

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### **NIEIR demand forecast sensitivity analysis to GSP**

Dear Mike

In this letter, Jemena Gas Networks (NSW) Ltd (**JGN**) responds to your request on 10 May 2010 for JGN to provide the Australian Energy Regulator (**AER**) with a demand forecast that has been amended in accordance with the requirements of the AER set out in that request. On 11 May 2010 we agreed with you that, given the currently limited availability of NIEIR staff, the nature of NIEIR's modelling, and the short time in which the AER seeks JGN's response, JGN would provide the AER with sensitivity analysis in respect of NSW Gross State Product (**GSP**).

Accordingly, please find attached a letter from NIEIR with respect to the analysis of the impact of GSP for NSW on the gas demand forecasts produced by NIEIR for JGN. As the AER is aware, the NIEIR forecasting modelling is highly detailed and granular – and there is a high risk of error associated with adjusting individual inputs in the NIEIR forecasting model without having regard to the impact of any such adjustment on other parameters and / or the operation of the model in general.

In this letter, NIEIR has provided JGN with a sensitivity analysis of GSP on Volume market consumption, Demand market consumption and Demand market MDQ for the JGN base scenario. Given the tight timeframes and resources available to NIEIR this week, simplifying assumptions such as homogenous sectoral growth has been used, and as such the sensitivities produced are not precise.

In providing this material to the AER, JGN does not agree that it is appropriate to seek to amend the NIEIR forecast in the manner suggested by the AER. JGN is providing this material in response to the AER's request and in providing this material to the AER, JGN does not revise in any way the relevant forecasts as set out in JGN's revised Access Arrangement revisions.

If you have any questions regarding this letter please contact me on (02) 9270 4512 or [sandra.gamble@jemena.com.au](mailto:sandra.gamble@jemena.com.au).

Yours sincerely

A handwritten signature in black ink that reads "Sandra Gamble". The signature is written in a cursive, flowing style.

**Sandra Gamble**  
Group Manager Regulatory  
Jemena Limited



**NIEIR**

Thursday 13 May 2010

Mr. Peter Harcus  
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The trustee for the  
NIEIR Research Foundation

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Dear Peter,

I refer to your request for NIEIR to calculate the percentage impact on NSW gas sales from a 1 per cent increase in NSW gross state product. These are indicative impacts given the time constraints on this work.

NIEIR adopted to use its NSW gas forecasting model to undertake this assessment. In undertaking this assessment, NIEIR increased all its industry based gross product estimates so that the total increase in GSP was 1 per cent. NIEIR also increased real household disposable income by 1 per cent in order to capture the impacts on the residential sector.

In relation to the contract(demand market), higher GSP growth rates in NSW would most probably entail the tertiary sector industries growing faster, so this assessment will overstate the impact on the contract market (as this is dominated by the manufacturing sector). The tertiary sector has a lower gas intensity than the manufacturing sector.

The model results can be summarised as follows. The impacts of a 1 per cent increase in NSW GSP has the following percentage impacts on gas sales and MDQ.

<b>Energy</b>	<b>Percent</b>
Tariff (volume market)	0.33
Contract (demand market)	0.69
<b>MDQ</b>	<b>0.57</b>

That is, a 1 per cent increase in NSW GSP will increase tariff sales by 0.33 of 1 per cent. For contract, the increase in energy is 0.69 of 1 per cent, which as noted above is probably over-stated. If you want to adjust for this overstated contract impact, we suggest you discount the above contract impacts by 20-30 percent.

We trust this will be of assistance.

Yours sincerely,

**Antony O'Dwyer**  
Director