



8 March 2017

Mr Chris Pattas
General Manager, Network Regulation
Australian Energy Regulator
GPO Box 520
Canberra VIC 3001

Submitted by email: VicGAAR2018-22@aer.gov.au

Dear Mr Pattas

APA Victorian Transmission System – Access Arrangement 2018-22

Origin Energy Limited (Origin) welcomes the opportunity to provide comments on the APA Victorian Transmission System (VTS) Access Arrangement Revision Proposal for the period 1 January 2018 to 31 December 2022 (the Proposed Access Arrangement).

Under the fully regulated framework, it is essential the Access Arrangement addresses the needs of users and ensures all revenue requirements, associated tariffs and charges, and non-price terms and conditions are reasonable, justifiable, cost-reflective and transparently determined. Such outcomes are in the long-term interests of consumers and promote the National Gas Objective (NGO).

In this context, it is clear efforts have been made by APA VTS to account for changes in underlying gas demand and allocate network augmentation costs to those that benefit from the change. But Origin has identified a number of issues with APA VTS' assessment of these factors with respect to Culcairn. In particular, we believe the Culcairn withdrawal tariff (which is proposed to increase from \$0.80/GJ in 2017 to \$1.06/GJ in 2018) is significantly overstated due to: the underestimation of forecast gas flows out of Culcairn; and the apparent allocation of capital expenditure associated with the Winchelsea compressor expansion to the Culcairn tariff, despite the broader market benefits provided by the expansion.

These issues are discussed in further detail below and warrant further consideration by the Australian Energy Regulator (AER) to ensure tariffs are ultimately set at efficient levels.

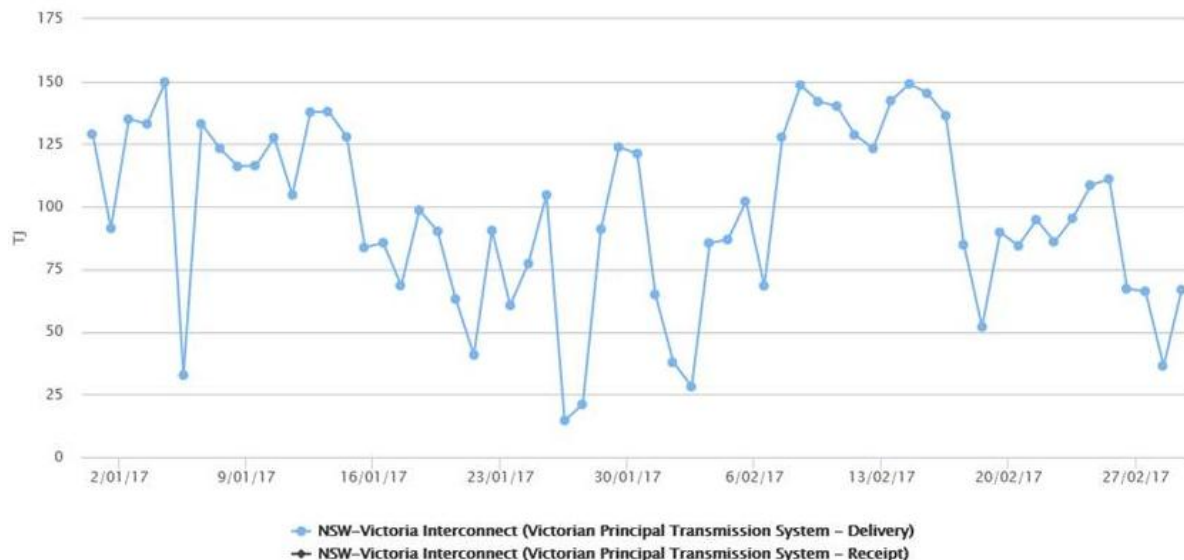
Forecast demand

APA VTS expects withdrawal capacity at Culcairn to increase to 201 TJ/day in 2017. Applying the proposed average utilisation rate of 39.5 per cent, this equates to average daily use of approximately 80 TJ/day. Based on observable market outcomes, this assessment appears to be understated.

Culcairn withdrawals have averaged 97 TJ/day¹ over the current calendar year. This is at a time when the maximum withdrawal capacity is only 148 TJ/day, the limit of which has been reached on a number of occasions over the current calendar year (see Chart 1 below). Further, the compressors supporting northbound flows out of Victoria have also been on periodic maintenance in both January and February, meaning Culcairn withdrawals could have been higher than observed during those months.

¹ Australian Energy Market Operator, Natural Gas Services Bulletin Board.

Chart 1 – NSW-Victoria Interconnect flows (TJ/day), 2017²



Origin fully expects average flows through Culcairn into New South Wales to be in the order of 150 TJ/day once the full capacity of the NSW-Victoria Interconnect is made available. While this is above historic levels, it should be noted that Culcairn withdrawal capacity was limited to 83 TJ/d (summer) and 46TJ/day (winter) prior to the recent expansion.³ Further, as noted by APA VTS, changing gas market dynamics have increased demand for northern gas flows out of Victoria. Under this increased utilisation rate the equivalent Culcairn tariff – assuming APA VTS recovers the same quantum of revenue as proposed – would be approximately \$0.5677/GJ.

Noting the above, it is important further consideration is also given to the underlying demand forecasts applied for the broader VTS, particularly with respect to demand for gas powered generation (GPG). The forecasts (developed by Frontier Economics) are generally lower than the Australian Energy Market Operator’s (AEMO) ‘weak VTS demand’ scenario, principally post 2020. As discussed at the Public Forum, the role of GPG in the electricity market is becoming increasingly more important and there is scope for increased demand from that sector. An expected update to AEMO’s gas market forecasts in early 2017 should be considered in this regard.

Capital allocation

The Access Arrangement Proposal notes that the ‘Gas to Culcairn’ project, later renamed the Victorian Northern Interconnect Expansion (VNIE), consisted of the Winchelsea compressor expansion and Wollert to Barnawartha looping.⁴ The capital expenditure incurred by APA VTS for these projects over the 2013-2017 period is estimated at \$40.3 million and \$298.9 million respectively, with some expenditure incurred in previous access arrangements.

As noted by APA VTS, the proposed increase in the Culcairn withdrawal tariff is largely linked to the recovery of the VNIE costs. While Origin does not dispute the allocation of the Wollert to Barnawartha looping project costs to the Culcairn tariff, we do not believe it is appropriate to allocate the full cost of

² Australian Energy Market Operator, Natural Gas Services Bulletin Board.

³ APA VTS Access Arrangement Submission, Table 3-3, pg 29.

⁴ APA VTS Access Arrangement Submission, Table 5-5, pg 67.

the Winchelsea compressor expansion to that tariff. The Winchelsea compressor station project benefits the entire market by allowing additional, lower priced gas to enter the VTS. The costs of this expansion should therefore be smeared across all users.

Given it is difficult to determine how capital expenditure costs have actually been linked to specific tariffs, it would be beneficial for the AER to examine the above issue and clarify how the costs of the Winchelsea compressor expansion have actually been allocated.

If you wish to discuss any aspect of this submission further, please contact Shaun Cole at shaun.cole@originenergy.com.au or on 03 8665 7366.

Yours Sincerely,



Steve Reid
Manager Wholesale Regulatory Policy