

**Amadeus Gas Pipeline**  
**Access Arrangement 2016-21**  
**Submission of Power and Water Corporation**  
**Public Version**

**1. Background**

Power and Water Corporation (**PWC**) is a multi-disciplined Government owned corporation responsible for provision of electricity transmission, electricity distribution, water supply and sewerage services within the Northern Territory.

PWC is also charged with purchasing and transporting natural gas to meet requirements for generation of electricity by Territory Generation (**TGen**) and, in competition with independent gas producers, for onsale to third party users.

PWC transports gas through the Amadeus Gas Pipeline (**AGP**) pursuant to a Gas Transportation Agreement (**GTA**) with APTNT. The GTA was entered into April 2011 and runs until early 2034. Tariffs under the GTA are not linked or related to Reference Tariffs for the AGP, and are not subject to review during the term of the GTA.

**2. Capacity of the AGP, and Services offered by APTNT**

Pursuant to the GTA, and as documented<sup>1</sup> by APTNT, PWC is contracted for and pays for the full firm capacity of the AGP. This means there is currently no firm capacity available for contract in the AGP<sup>2</sup>. Existing and prospective third party users of the AGP (ie, other than PWC) therefore have the following options available for transportation of gas:

- i) purchase interruptible capacity from APTNT - PWC understands this is the service presently used by all third party users of the AGP, with the risk of interruption being low since PWC does not presently use all of its contracted capacity;
- ii) purchase firm capacity from PWC; or
- iii) purchase firm capacity from APTNT, in which case an expansion of the capacity of the AGP would need to be carried out – leading to a reduction in the average cost of using the AGP.

Given the circumstances outlined above, the Reference Service and Reference Tariff set out in the "Access Arrangement 2016-21" appear inappropriate.

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<sup>1</sup> See page 108 of "Amadeus Gas Pipeline, Access Arrangement Revised Proposal, Response to Draft Decision – Submission – January 2016".

<sup>2</sup> APTNT acknowledge this. For example, see page 6 of "Access Arrangement for the Amadeus Gas Pipeline, 1 July 2016 to 30 June 2012".

To date, all third parties users of the AGP have accepted service on an interruptible basis. Logically the interruptible service should be a Reference Service at a tariff that reflects actual commercial arrangements.

The Reference Tariff for a Firm Service should be based upon the estimated costs of providing such service after allowing for the costs of expanding the capacity of the AGP. It is incongruous that the Reference Service as presently proposed is a service that is not available.

### **3. Impact of NEGI Project**

In December 2015, the Northern Territory Government (**NTG**) announced it had entered into arrangements for development of the North East Gas Interconnector (**NEGI**), a gas pipeline that will establish a link between the NT and Australian east coast gas markets. The NEGI will connect to, and receive gas from, the AGP at Warrego (just north of Tennant Creek) and will run to Mt Isa.

When the NEGI commences operation the AGP will effectively become three interrelated pipelines as follow:

- i) a pipeline delivering gas from Ban Ban Springs north to Darwin;
- ii) a pipeline from Ban Ban Springs delivering gas south to the NEGI; and
- iii) a pipeline delivering gas north from the Amadeus Basin to the NEGI.

The three 'pipelines' will be interdependent in that changes to the flow regime (and hence pressure profile) of one may affect the capacity of another. However, the aggregate capacity of the three 'pipelines', representing the new aggregate capacity of the AGP, will be materially increased from its present level of around 120 TJ/d. PWC estimates a capacity increase of the order of 50% will be realised and will be contracted. The capacity increase will be realised with little, if any, cost to APTNT.

PWC intends to increase its reservations of firm capacity under the GTA to reflect the abovementioned increase in the capacity of the AGP. PWC will use the additional firm capacity both to transport its own gas to the NEGI, and to transport third parties' gas on a firm basis.

Contrary to APTNT's suggestion<sup>3</sup>, this will lead to a material reduction of the Reference Tariff as it is presently calculated (that is, allowable revenue divided by forecast MDQ's).

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<sup>3</sup> See "Specification of the Trigger" at page 25 of "Amadeus Gas Pipeline, Access Arrangement Revised Proposal, Response to Draft Decision – Submission – January 2016".

#### **4. Capital Expenditure – Below Ground Station Pipework Project**

The following observations may be of assistance in assessing the Below Ground Station Pipework Project:

- i) The project is being fully funded, but not managed, by PWC.
- ii) While there may have been commercial merit in deferring<sup>4</sup> the project, deferral is no longer an option. PWC can confirm that at the end of 2015, 50% of the project (by number of stations) was complete.
- iii) PWC notes that APTNT has sought a provision of the order of \$13.2m<sup>5</sup> for completion of the project through a “fixed cost” tender. The “fixed cost” tender represents only [REDACTED] of this total amount. Other cost components known to PWC include [REDACTED] by way of contingencies (to address unexpected circumstances or extension of time), [REDACTED] for project management, and [REDACTED] for interest during construction.

#### **5. Channel Island Lateral**

The following observations may be of assistance in assessing the Channel Island Bridge Project:

- i) Overall, the project involves work to make the Channel Island pipeline lateral piggable, followed by repair of damage (if any) identified through pigging.
- ii) The entire project is being fully funded and managed by PWC<sup>6</sup>, although Front End Engineering and Design work was carried out by APTNT on behalf of, and at the cost of, PWC.
- iii) PWC is concerned that completion of the project as presently envisaged may not be commercially viable. Benefits that will flow from completion of the project may not justify the cost of making the lateral piggable plus the potential cost of carrying out repairs.
- iv) PWC notes that the key concern relating to the integrity of the lateral is the potential for corrosion under failed heat shrink sleeves. While this problem could lead to leakage of gas, it is unlikely to result in a burst failure.
- v) The Channel Island Lateral does not pass through any built-up areas. It is used solely for supply of gas to the Channel Island Power Station which is owned and operated by TGen. PWC understands TGen may make a submission setting out its views regarding the proposed project.
- vi) Given the observations set out above, PWC does not consider there is any imperative for the Channel Island Bridge Project to be expedited.
- vii) To ensure a suboptimal outcome is avoided, PWC proposes to investigate (in consultation with APTNT and TGen) alternatives to

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<sup>4</sup> Since no material pipeline defects were identified during the earlier work programme.

<sup>5</sup> Table 6.12 on page 71 of “Amadeus Gas Pipeline, Access Arrangement Revision Proposal - Submission – August 2015”.

<sup>6</sup> Confidential

completing the project as it is presently envisaged. Options to be investigated include, but are not limited to:

- as a minimum, undertaking dig-ups (including those on Channel Island that have been delayed) so that the condition of the lateral can be reliably predicted and potential future costs quantified;
- construction of facilities to allow pigging of the section of the lateral between Darwin City Gate station and the Channel Island Bridge;  
and
- construction of a new pipeline to replace the lateral (particularly if dig-ups reveal widespread problems).