

10 November 2009

Mr Mike Buckley
General Manager
Network Regulation North Branch
Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601

Dear Mike

Jamena Gas Networks (NSW) - Revised Access Arrangement - August 2009

Queensland Hunter Gas Pipeline Pty Ltd (QHGP) welcomes the opportunity to make this submission to the Australian Energy Regulator (AER) in relation to the Jamena Gas Networks Limited (JGN) proposed Access Arrangement for the NSW Network for the period 2010 to 2015 (proposed AA).

Background to QHGP and the Project

QHGP is a private company comprising prominent Australian businessmen with extensive experience in the resource industry. The company's business objective is to deliver competitively priced gas supply to NSW.

The QHGP is a critical energy infrastructure project that will deliver competitively priced gas to eastern Australia to meet growing demand for gas and improve security of supply.

The pipeline will be 831 km long, running between the Wallumbilla Gas Hub in Queensland and Newcastle in NSW. Around 611 km of the pipeline will be within NSW, with 222 km in Queensland. The estimated cost of the project is \$900 million. Construction of the pipeline is currently anticipated to be completed during the latter part of the five year term of the proposed AA.

Initially the pipeline will free flow 85 PJ per annum with the possibility of increasing to 160 PJ or more by the future installation of compressors. NSW currently uses 200+ PJ per annum.

There are a number of benefits to NSW, and the broader gas market generally to be gained by successful completion and operation of this pipeline. These include:

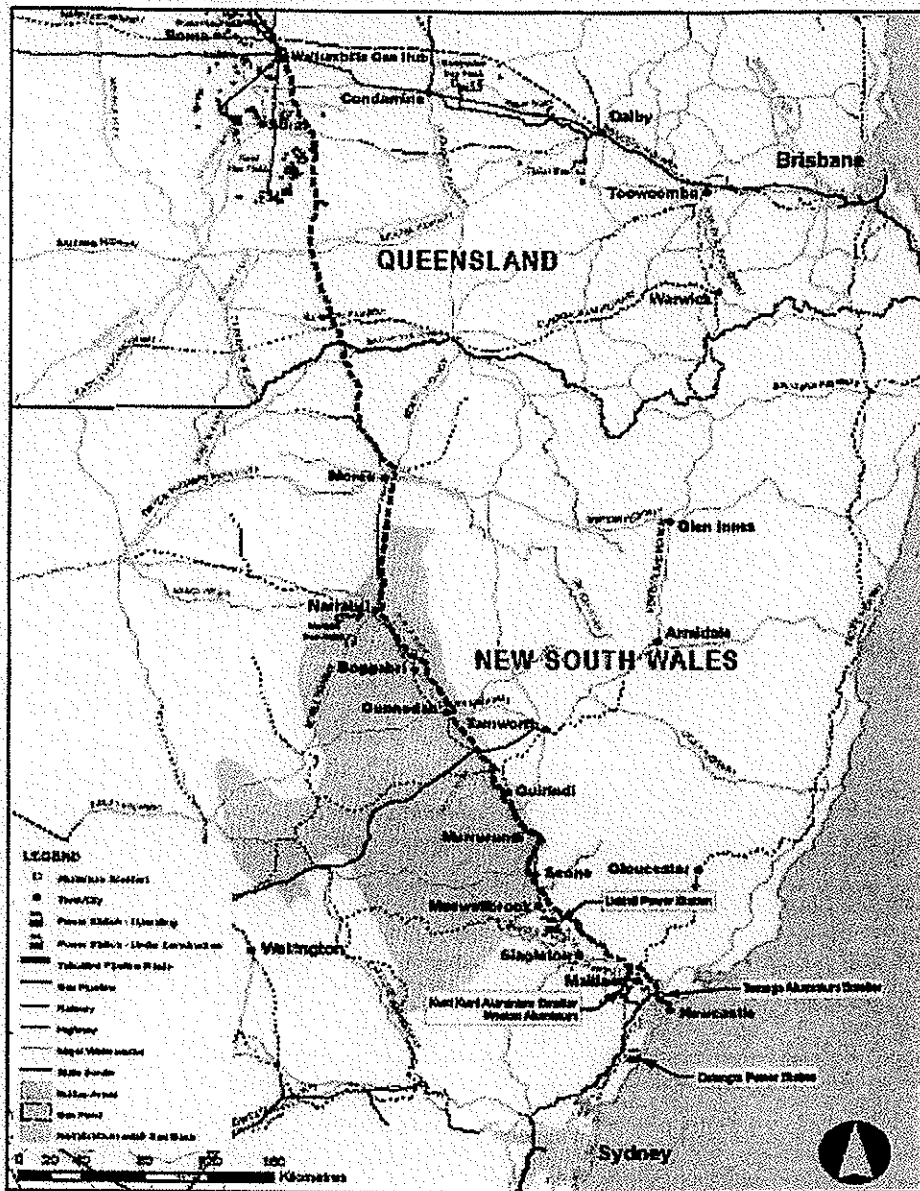
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- Improves security of gas supply by diversifying supply sources.
- Provides access to expanding gas reserves located in southeast Queensland and northern NSW.
- Stimulates exploration and development of prospective gas reserves in northern and central NSW.
- Makes possible the commercialisation of the Gunnedah gas field – estimated at 40,000 PJ.
- Significant royalty revenue to the Government as gas reserves are developed.
- Potential for development of a new liquefied natural gas (LNG) plant in the Hunter region.
- Increased gas capacities and lower fuel costs into NSW as existing Moomba to Sydney pipeline (MSP) and Eastern Gas Pipeline (EGP) capacities are near capacity.
- NSW gas transmission tariffs have tripled in last half of 2008 due to capacity constraints with existing pipelines. The QHGP will provide much needed new gas pipeline capacity and reduce cost pressures on tariffs.
- Facilitates the development of gas power plants for base load power along the route of the pipeline.
- Reduces greenhouse gas emissions as gas fired power stations produce around 60% less CO2 emissions and use 95% less water than coal fired power stations.

The Minister for the Hunter, Jodi McKay, stated recently that the pipeline is great news for the Hunter and NSW with the prospect of 600 jobs during construction, 25 jobs after construction and the significant amount of investment it will provide to the Hunter.

The Planning Minister, Kristina Keneally, said the Queensland to Hunter pipeline would make 'greener' electricity generation possible, with gas producing around 40 per cent less CO2 and using less water when compared to coal.

A map of the proposed pipeline route is shown below:



Key Issues for the QHGP in relation to the JGN gas network

The proponents of the QHGP see two distinct markets for gas supplied from the proposed pipeline:

- To fuel new gas-fired power stations to be located in the Hunter, Central Coast and Northern NSW regions; and
- To provide an alternative source of gas into the Newcastle and Sydney markets.

Whilst supply into the Hunter power stations is not anticipated to require connection to the JGN network, it is intended that connection would be required to facilitate gas supply into the Newcastle and Sydney markets.

Ultimately, the success or otherwise of QHGP's connection to the JGN network is completely contingent on access to the JGN trunk and local networks at fair and reasonable prices and on appropriate terms and conditions.

JGN has proposed a revised approach via "hub to point" pricing for gas delivered on the network. It is not clear whether "hub to point" includes only the existing Receipt Points (ie Wilton and Horsley Park) or whether it would include a new Receipt Point in the Newcastle region.

QGHP requests that the status of a new Receipt Point located in the Newcastle region be clarified in relation to the proposed "hub to point" pricing.

JGN has proposed a schedule of Demand Capacity Unit Rates which vary by Tariff Class and zone. It is noted that the proposed Unit Rates for DC-6 (covering the majority of major customer loads in the Newcastle region) are now substantially higher than would apply under the current AA, thereby almost certainly making it too costly to service the existing customers via the current JGN trunk and local network infrastructure.

QGHP requests that the Demand Capacity Unit Rates applicable for gas supplied into the Newcastle region from a northern Receipt Point be reduced to more appropriately reflect the actual cost of system use, else the only alternative for QHGP would be to avoid connection to the JGN network in relation to supply to Newcastle customers.

It is noted that if the proposed "hub to point" pricing includes a new Receipt Point in the Newcastle region, then gas supply into the Sydney market will become more attractive for shippers on the QHGP. This is positive for users across Sydney and Wollongong and other locations.

The key issue for QHGP in relation to the revised AA relates to the issue of access and network connection.

AER needs to ensure that the revised AA does not place any prohibitive barriers or restrictions to the connection of the QHGP to the JGN network.

It should be remembered that the EGP, under its initial owners, faced insurmountable difficulties in negotiating with AGLGN (the previous owners of the JGN network) for connection into their network. Whereas the EGP owners sought to connect to the network at Wollongong and via backhaul

arrangement ship gas through the network up to Horsley Park, the outcome was that the EGP was constructed through to Horsley Park. There was significant commentary at the time that the duplication of the pipeline essentially represented a failure of the parties to negotiate a commercially appropriate outcome, and delivered a sub-economic outcome for the NSW gas market.

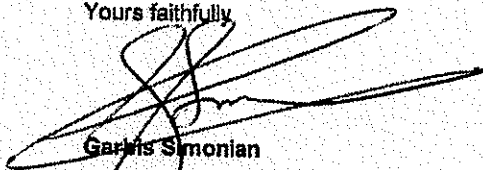
Particularly given the same ownership interests of JGN network and EGP, the QHGP is mindful that an appropriate outcome for connection to the network is required. QHGP wishes to state for the record that we would not anticipate connection negotiations to be undertaken in anything other than good faith by both QHGP and JGN.

However, from a regulatory perspective, in the event that there was a failure on the part of JGN to offer appropriate terms and conditions for connection, QHGP seeks to ensure that there are appropriate mechanisms in place – and approved by the AER – to ensure that a repeat of the failure of connection negotiations between AGLGN and EGP is not repeated.

QHGP seeks AER's comments and direction to JGN under this AA review in relation to the mechanism and appropriate terms and conditions which would apply in relation to the connection of an additional receipt point at the northern end of the JGN network.

Please note that QHGP would welcome the opportunity to further discuss this submission directly with AER.

Yours faithfully



**Garbis Simonian
Managing Director
Queensland Hunter Gas Pipeline**