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Mr Chris Pattas  
General Manager  
Network Regulation South  
Australian Consumer and Competition Commission  
GPO Box 520  
MELBOURNE VIC 3001

Dear Chris

**RE: ACCC's draft determination of GasNet's revised access arrangement**

VENCorp would like to thank you for the opportunity to make a submission on the ACCC's draft decision for GasNet Australia's revised access arrangement for the Victorian Principal Transmission System (PTS) for the access arrangement period 2008-12.

For the purposes of this submission, VENCorp has focused its comments on the following issues:

- The ACCC's definition of safety for the purposes of the system integrity test;
- The acquisition of easements for the Brooklyn to Wollert pipeline;
- VENCorp's proposed timeframe and analysis for a major system augmentation which has system wide benefits; and
- ACIL-Tasman's gas power generation (GPG) forecasts used by the ACCC.

**The ACCC's Definition of the System Integrity Test**

In section 3.3.4.2 of the draft decision, the ACCC considers that for GasNet's augmentation proposals where pipeline capacity is insufficient to meet anticipated demand, these proposals do not satisfy the system integrity test in section 8.16 of the Code. The main reason cited by the ACCC was that the underlying driver for these augmentations is not an anticipated breach of minimum system pressure requirements, but rather an anticipated increase of demand.

The ACCC also makes reference to the interpretation of the system integrity test and when assessing a capex proposal the application of the system integrity can be characterised as being of the purpose of:

*'maintaining the **continuity and reliability of services**'. [Emphasis added]*

VENCorp's 2007 Gas Annual Planning Report identified a number of areas where there is increasing load growth and current pipeline capacity may not be sufficient to meet anticipated demand. These



constraints were identified based on forecast projections and pipeline capacities were modelled based upon 1 in 20 day peak system demand forecasts. For the forthcoming access arrangement period in 2008-12, the results of VENCORP's modelling suggest that there may potentially be a number of breaches in minimum system pressure where pipeline capacity is insufficient to meet increases in anticipated demand.<sup>1</sup>

VENCORP would be concerned if these augmentations did not proceed.

VENCORP considers that the ACCC should reconsider how it takes into account these anticipated constraints and potential breaches in minimum system pressure and the likely impacts on the safety and security of the PTS and future gas supplies in Victoria.

VENCORP refers the ACCC to the Victorian Gas Safety Act 1997 which requires VENCORP to operate the PTS in accordance with a Safety Case.<sup>2</sup> This Safety Case lists the hazards and necessary controls associated with safe and prudent pipeline operations. The ACCC should note that Gas Demand is one of the key hazards outlined in the Safety Case and adequate pressures are required to control Gas Demand safely for Victorian consumers. The safe pressure limits are documented in the VENCORP System Security Guidelines, and are available on our website.

VENCORP considers that the ACCC should take into account the significant economic and social impacts to the community as a result of an interruption to gas supplies which may result in a critical public safety risk when it assesses an augmentation for the system integrity test.

### **The Brooklyn to Wollert Pipeline**

In section 3.3.4.3(vi) of the draft decision, the ACCC considered that based upon the information available the proposed \$5.37m to acquire easements for the Brooklyn to Wollert loop is not reasonably expected to satisfy the requirements of the prudent investment test in section 8.16 of the National Third Party Access Code (the Code).

VENCORP's Vision 2030 document identified the Brooklyn to Wollert pipeline as one of the future projects that will be needed to meet the additional capacity requirements on the PTS.

Following on from the Vision 2030 document, VENCORP is embarking on a sites and easements review which is designed to determine what is the current availability of easements, where easements will be required, and what the estimated costs and timing for acquiring potential easements and sites will be.

VENCORP is currently analysing the economic feasibility of acquiring easements for the Brooklyn to Wollert Pipeline using real-options theory as the basis for determining the likely need and timing.

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<sup>1</sup> See VENCORP network planning and timing reports for further information.

<sup>2</sup> VENCORP can make the Safety Case available to the ACCC.





Real-options theory is a valuation technique which is based upon discounted cash flow (DCF) analysis and is used to determine the option value and timing for potential projects.

At this stage, VENCORP is planning to release its findings on the economic feasibility of acquiring easements and sites for the Brooklyn to Wollert Pipeline in mid January 2008.

#### **Major System Augmentation**

In section 3.3.4.3 of the draft decision, VENCORP notes that based on the information currently available, the ACCC considers that the proposed augmentation for the Stonehaven compressor station was not reasonably expected to satisfy the requirements of the prudent investment test in s 8.16 of the code.

As was noted in our 2007 Gas Annual Planning Report (GAPR), VENCORP proposes to undertake an economic assessment of the likely system wide benefits associated with augmentations to the PTS to address the ongoing needs of the system. In that analysis the Stonehaven compressor station will be one of the alternatives considered.

At this stage VENCORP plans to release a major system augmentation report by the end of March 2008 but will continue to keep the ACCC informed of progress over the coming months.

#### **ACIL-Tasman's Gas Power Generation Forecasts**

In section 5.4.5.3 of the draft decision, the ACCC considers that ACIL Tasman's proposed GPG forecasts are more likely to represent best estimates arrived at on a reasonable basis than GasNet's forecasts before drought impacts were fully known.

VENCORP draws the ACCC's attention to its GPG forecasts set out in the 2007 GAPR.

VENCORP notes that the main differences between its and ACIL Tasman's modelling results are that ACIL Tasman's modelling is based on a market based approach to forecasting GPG demand, whereas VENCORP/NIEIR utilised a scenario-based approach to modelling GPG forecasts.

As a result VENCORP's medium case scenario is equivalent to ACIL Tasman's high case scenario.

Should you have any further questions in relation to this submission, please contact Louis Tirpou on ☎(03) 8664 6615.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'M. Zema'.

**Matt Zema**  
**Chief Executive Officer**