

Access Arrangement for the Principal Transmission System

Application for Revision by GPU GasNet Pty Ltd

Southwest Pipeline

TXU Australia Pty Ltd Further Submission in response to the ACCC Draft Decision

1 Introduction

TXU Australia Pty Ltd (TXU) wishes to make the following further statements with regard to the GPU GasNet Pty Ltd (GPU) application for revision to the Access Arrangement for the Principal Transmission System (PTS) and the Draft Decision by the ACCC.

TXU is an integrated supplier and distributor of gas and electricity, based in Melbourne. It also owns gas fired generation in Adelaide and the Western Underground Storage facility at Port Campbell.

This paper addresses the following issue:

- System wide benefits – system security and competition

2 System wide benefits

2.1 Requirement for 100% roll-in

The ACCC's Draft Decision states that GPU's access arrangements do not allow for part of a new facilities investment to be rolled-in under the system-wide benefits test but that it must be 100% of the investment. TXU notes that the GPU proposal seeks to recover only 60% of the cost of the SWP from increases in the Longford peak day injection charge with the remaining 40% being recovered from injections at the Port Campbell injection point.

TXU submits that the ACCC's decision on the level of system-wide benefits necessary to justify roll-in should be based, not on 100% of the cost of the SWP but on the 60% of costs recovered by the increase in the Longford injection charge. The remainder of the costs would be recovered by actual flows on the SWP.

2.2 System security benefits

TXU notes that VENCORP is currently reviewing system security guidelines. A document titled *Draft System Secure Guidelines* has recently been published with the final paper due out shortly. TXU's understanding is that preliminary results show that WUGS contributes significantly to the management of a number of emergency scenarios (safety related) as well as important security of supply benefits.

TXU would encourage the ACCC to consult with VENCORP representatives in order to gain a full understanding of the important role Port Campbell supplies play.

2.3 Gas supplies available at Port Campbell

TXU would like to clarify some of the assumptions used by the ACCC in the Draft Decision regarding the level of gas available at the WUGS facility for security of supply issues.

In order to maintain peak daily deliverability at the WUGS plant it is necessary to retain a significant quantity of gas as cushion gas in the Iona reservoir. This gas will remain in the reservoir indefinitely as it is not economic to produce that gas (at reducing daily rates) and then refill the reservoir each year. This is due to the transportation and handling costs involved. Consequently the minimum quantity available during the year at WUGS is this cushion gas. This would be during October or November when peak day volumes had been withdrawn. Depending on the individual Market Participants' requirements for peak day gas, this minimum would increase to a total of over 10 petajoules at the beginning of Winter.

Apart from the volume of cushion gas available at WUGS, there is also toll processed gas available at the Port Campbell injection point. Recently there have been further discoveries of gas onshore in the Port Campbell region. It is expected that these would be brought to market during the next two years. There is also further exploration being undertaken both onshore and offshore.

A combination of WUGS stored gas and toll processed gas totalling 200 terajoules per day could supply the Victorian Principal System for between one and two months. The number of days would increase as the volume of toll processed gas increases. It is submitted, therefore, that the SWP provides significant system security benefits justifying the roll-in of the SWP investment.

2.4 Competition benefits

TXU submits that there would be a significant loss of competition benefits if the peak day injection charges at the Longford and Port Campbell injection points were not set at the same level. As stated in TXU's initial submission, the WUGS facility and other supplies from the Port Campbell region provide significant competition to ExxonMobil and BHP Petroleum supply from Longford throughout the Winter. If the Port Campbell injection tariff was significantly higher than the Longford injection tariff (in addition to the incremental volume delivery costs of bringing the gas from Longford) then effectively, Port Campbell supplies would be limited to a very few peak days. Effectively, ExxonMobil/BHP Petroleum would add the difference between the two charges to its price for firm supply and capture that rent. This additional rent will provide a subsidy that will make it difficult for new capacity to enter the market in competition with incremental capacity at the Longford plant.

While unequal market access costs are reasonable based on a market pricing mechanism for transportation capacity, it is not reasonable for a Regulator to impose unequal market access costs for a monopolistic service that is not exposed to competitive pricing pressures. Without cost competitive access to the market there is a risk that retailers will not renew their WUGS and SWP capacity contracts.