

Access Arrangement for the Principal Transmission System

Application for Revision by GPU GasNet Pty Ltd

Southwest Pipeline

TXU Australia Pty Ltd Submission

1 Introduction

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

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 issues:

- Prudency of investment
- Economic feasibility
- Costs allocation
- Proposed tariff structure
- System wide benefits – system security and competition

2 Prudency of investment

TXU submits that the size of the SWP is appropriate given the current state of the Victorian gas market. The pipe allows for the delivery of 200 terrajoules (TJ) per day from Port Campbell to Melbourne. This quantity coincides with the capacity of the Western Underground Storage facility (WUGS) at Port Campbell. It is submitted that 200TJs per day is an appropriate quantity given the demand supply balance of peak day gas supply in Victoria.

WUGS was constructed between 1998 and mid 1999. The plant was designed to supply 200 terrajoules of gas per day. The role of WUGS in the Victorian gas market is to contribute peak day supply. That is, it stores gas during the off-peak Summer period and provides gas to the market during peak Winter periods. The decision to build 200TJs of capacity at WUGS was made after careful analysis of the demand for and supply of peak day capacity in Victoria. The following table and charts below outline the current situation. These are taken from the VENCORP Annual Gas Planning Review 2001 to 2005 published on 30 November 2000.

Table 2.1 Contracted Supply – Demand (TJ)

Year	Aggregate Supply incl LNG	1 in 2 Peak Day Demand	Surplus	1 in 20 Peak Day Demand	Surplus
2001	1,220	1,061	159	1,140	79
2002	1,220	1,078	142	1,159	61
2003	1,063	1,107	-45	1,190	-128
2004	1,048	1,139	-91	1,225	-177
2005	1,043	1,166	123	1,223	-210

Figure 2.1 Contracted Supply – Demand (TJ)

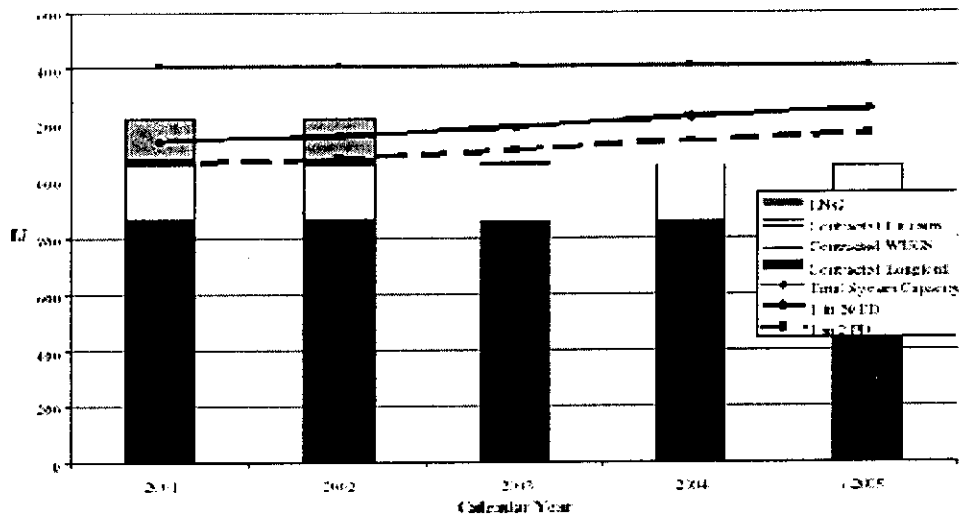
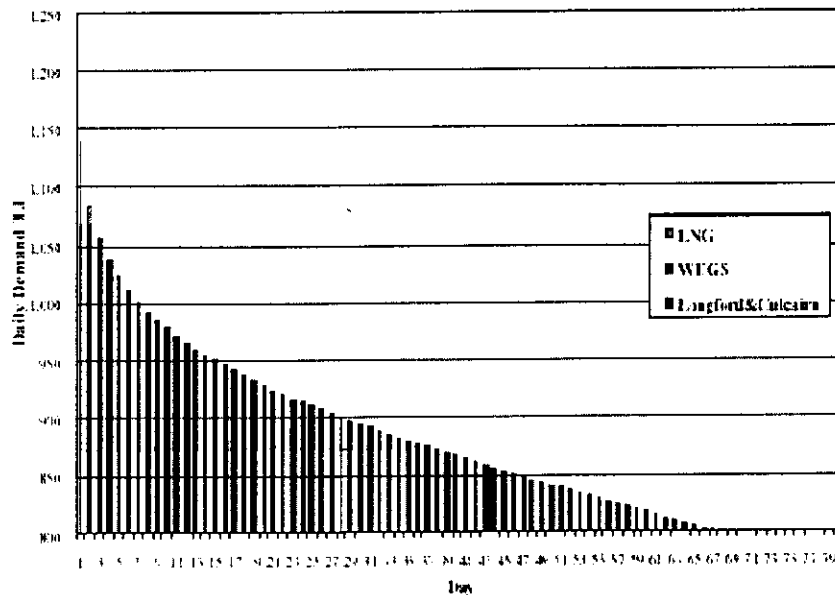


Table 2.1 and Figure 2.1 show that in 2001 the entire capacity of WUGS is required to meet not only a 1 in 20 peak day but also a 1 in 2 peak day. Further, Figure 2.2 shows that in a 1 in 20 Winter in 2001 WUGS capacity will be required on the 37 highest demand days. The reliance on WUGS becomes greater in the years 2002 – 2005.

Figure 2.1 1 in 20 Winter Supply - Demand



Given the requirement of 200TJs per day, it was essential that the SWP be constructed to allow the total capacity of WUGS to be delivered to the market. It is submitted that the construction of the SWP was a prudent investment.

3 Economic feasibility

TXU submits that the stand alone tariff for the SWP, as quoted by GPU in its submission, would materially affect the quantities of gas transported along the pipeline. The rate of \$7-\$10/GJ (p.21 GPU submission) is significantly higher than the rate of \$2.26 applicable at the Longford injection point (rates exclude GST). TXU understands that the actual rate would be at the higher end of the \$7-\$10 range unless major adjustments were made to the depreciation schedule.

TXU believes that the tariff would reduce flows for two reasons. Firstly, it would make supplies from WUGS less competitive as compared to other sources of supply. The incentive for participants would be to contract and schedule cheaper, more competitive supply sources.

Secondly, the tariff would act as a disincentive for new gas discoveries in the Port Campbell, Otway Basin area. Shippers of gas (of which TXU is one) need to compare the costs of getting alternative supplies to the market. A significantly higher tariff on the SWP as compared to the Longford to Dandenong pipeline makes new gas sources in the Port Campbell area relatively unattractive. Shippers would only be prepared to pay a proportionately lower price for the source gas. This in turn discourages producers from developing otherwise economic discoveries. Competition in the upstream gas industry would therefore be actively discouraged. For more details please refer to paragraph 6.2.

4 Costs allocation

TXU submits that GPU's proposed cost allocation methodology is appropriate. The proposed injection charge regime is consistent with the intended design and use of both the WUGS facility and the SWP. The facilities were built to provide peak day supply to the Victorian market. It is therefore appropriate that the tariffs relate to the quantities injected at Port Campbell and delivered to Melbourne at peak periods.

TXU believes that it is important that the injection charges at Longford and Port Campbell are equal. Equal charges allow both the WUGS facilities and Otway Basin producers to compete on an equal footing with the Longford processing facilities and Gippsland Basin gas. For more details please refer to paragraph 6.2.

5 Proposed tariff structure

TXU supports the proposed tariff structure. All consumers who use gas on the peak days in Winter gain a benefit from the SWP as it prevents the need for curtailment. It is therefore both efficient and equitable that the charges are levied on the volumes of gas transported on those peak days.

TXU also supports the concept of Port Campbell being one injection point. This means that any new supply in the area will be treated equally. A complicated, unequal tariff regime would have the effect of discouraging new supplies from being brought to market from the Port Campbell area.

Further, TXU supports the matched injection factor that applies to the entire charge where demand in the Western Transmission System is matched to injections at Port Campbell. It is appropriate that there is no charge for gas that is injected at Port Campbell and withdrawn in the Western System as the SWP is not required.

6 System wide benefits

6.1 System security benefits

It is submitted that the SWP provides important, if not crucial, system security benefits to the Principal Transmission System and therefore all consumers of gas. Before the commissioning of the SWP, Victorian consumers of gas were almost totally reliant on supplies from a single source – Longford. The explosion at Longford in September 1998 caused most gas consumers to be curtailed for at least two weeks. Recent problems with the Epic Moomba to Adelaide pipeline caused many large industrial customers, including gas fired generators to be curtailed. Any gas system that is reliant on a single transmission pipeline and a single processing facility is exposed to a serious risk position.

Today, if there is a problem with supplies from Longford, the extra 200TJ/day that is supplied by the SWP will ensure that essential services are not curtailed and that system pressures are maintained.

The combination of the WUGS facilities and the SWP provide an important balancing service to the PTS. The storage capacity at WUGS enables gas to be stored during Summer and then reinjected during the peak Winter period. This allows more efficient use of production, processing and transmission assets as it reduces the capacity required from the Longford processing plant and Longford to Dandenong transmission pipeline.

These system security benefits are especially applicable to consumers serviced by the WTS. The SWP enables alternative sources of supply to be delivered to these customers. Although it is expected that generally WTS customers will be supplied from fields in the Port Campbell region Longford gas may be needed to guarantee continuous supply. The Otway Basin contains many smaller sized fields (Reserves of 1PJ-10PJ). Consequently, it may be necessary to supply customers with Longford gas for a short period of time as certain wells are exhausted and new wells come on-line.

6.2 Competition benefits

TXU submits that the SWP provides competition benefits to all users of the PTS. Competition is enhanced in two distinct markets, the upstream supply and peak day supply markets.

Esso and BHPP gas from Bass Strait dominates gas supply to the Victorian gas market. The SWP enables Otway basin gas to be delivered to Melbourne and therefore provides real basin on basin competition to the Gippsland basin and the Esso/BHPP joint venture. Before the commissioning of the SWP the only market for Otway basin gas was the Western System. This market constitutes only 3TJ-4TJ per year. Since commissioning of the SWP there has been evidence of increased exploration and development of existing and new discoveries. Major producers such as Santos and Origin Energy have increased exploration and development of reserves. Fields such as Mylor, Fenton Creek, Dunbar, Skull Creek, North Paaratte, Wallaby Creek, Iona and Penryn have come on line or will soon be on line as a direct result of the construction of the SWP. Further production is expected. There has also been increased interest shown by smaller producers such as Beach Petroleum, Essential Petroleum and Strike Oil.

The SWP also enhances competition in the peak day supply or maximum daily quantity (MDQ) market. This market is quite distinct from the gas supply market. It is the market for capacity not annual volume. Before WUGS was connected to

Melbourne by the SWP, Esso and BHPP possessed a near monopoly in the MDQ market. The WUGS facility now provides 200TJ/day of MDQ. This provides real competition to the Longford plant.