



Victorian Energy Networks Corporation

2 May 2006

Sebastian Roberts
General Manager
Network Regulation South Branch
Australian Energy Regulator
GPO Box 520
MELBOURNE VIC 3001

Dear Sebastian

**Submission Major System Augmentation report
Corio Loop**

VENCorp welcomes the opportunity to comment on the Australian Competition and Consumer Commission's (ACCC) Corio Loop Draft Decision (Draft Decision). As the gas transmission system operator in Victoria VENCORP has an interest in the effective operation of the Principal Transmission System (PTS) and the outcome of the ACCC's decision. VENCORP supports the ACCC's draft decision on the grounds that it will continue to ensure the safe, reliable and efficient delivery of gas to Victorian consumers. It also provides certainty to investors of regulated pipelines, an outcome identified by VENCORP in its Pricing and Balancing Review as being necessary to guarantee the continued effective operation of the PTS¹.

Beneficiaries of the Corio Loop

While VENCORP supports the ACCC's findings, it has an alternative view to the ACCC on who the major beneficiaries of the Corio Loop will be. The AER states in its draft decision that

The benefits identified and modeled by VENCORP do not accrue to all users equally and simultaneously. As a consequence of the current curtailment tables in the Curtailment Guidelines, in the short term, large end users would be expected to benefit more than smaller users².

VENCorp contends that it will be smaller users (e.g. residential and small commercial) who will benefit significantly more than large users (e.g. industrial), particularly in the short to medium term. VENCORP recognises that the ACCC is likely to have formed its view based on the unserved energy benefits quantified in the report, which used an industrial Value of Customer Reliability, implying that these benefits accrue to large users. This is largely a function of the technical characteristics of gas markets. VENCORP

¹ VENCORP, Pricing and Balancing Review, 30 June 2004

² ACCC, Draft Decision, Major System Augmentation Report – Corio Loop, 5 April 2006, p 41



believes that it will be the residential consumers who will benefit from the augmentation to the PTS for a number of reasons:

- The curtailment tables are designed to ensure that the safety of the system is maintained in the event of a gas supply shortfall and do not relate to actual usage patterns at the time of the constraint;
- Residential and small commercial peak day consumption has grown at a faster rate than industrial peak day consumption and is forecast to continue for the next ten years creating system constraints; and
- The main benefits of the Corio Loop in the short to medium term arise from the increase in useable system linepack which is predominantly used to support the growth in residential and small commercial consumption.

These points are each discussed in detail below.

Curtailment tables

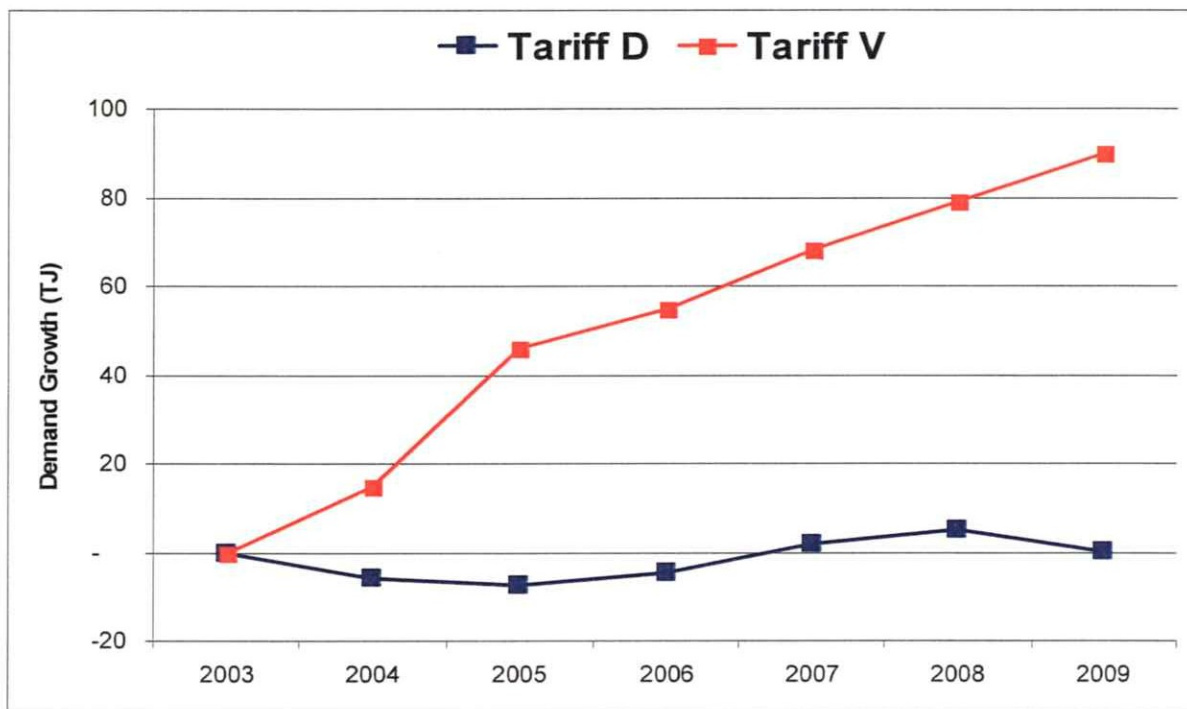
The ACCC has argued that the industrial loads are the biggest beneficiaries of the Corio Loop augmentation because of their location at the top of the curtailment tables. The curtailment tables have been designed to maximise the response effectiveness of the demand curtailment while at the same time ensuring the safety of the system is maintained in the event of a gas shortage. Unlike electricity, where curtailment can be achieved instantaneously and across all sectors without significant safety implications, the curtailment of a gas consumer must be conducted in a controlled manner. From this perspective, the curtailment of the larger industrial loads has a two-fold impact. It maximises the speed of the reduction of demand for gas in the event of a shortfall while at the same time minimises the number of consumers who are affected by the shortfall.

Growth in residential and industrial consumption

As noted in VENCorp's Major System Augmentation report, the forecast constraint in the Principal transmission System (PTS) will eventuate because of the growth in demand for gas by residential, small commercial and small industrial loads³. During winter peak days these users account for over 70 per cent of peak day gas consumption and this amount will continue to grow over time. It is therefore this sectors demand for gas that is increasing the requirement to augment the PTS. This is evident from the chart below.

³ VENCorp, Major System Augmentation Report for the Victorian Principal Transmission System, November 2005, p 2

Table 1 - Actual and Forecast 1 in 2 Peak day tariff D and tariff V consumption



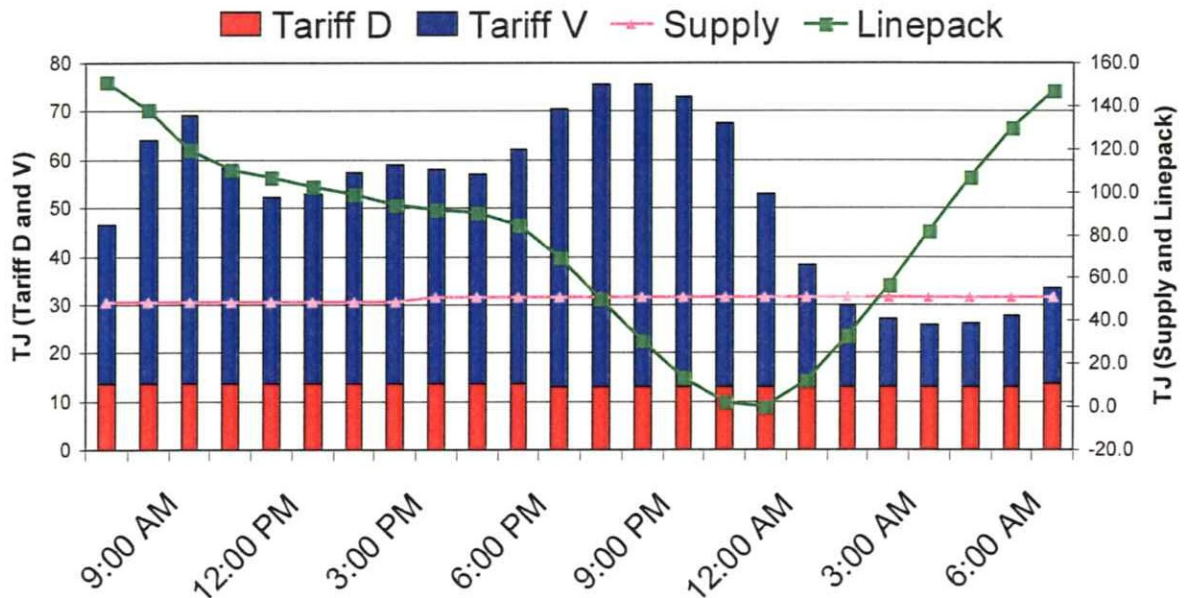
The chart compares the actual (for 2003 to 2005) and forecast (2006 to 2009) growth in industrial (tariff D) and residential and small commercial (tariff V) 1 in 2 peak day consumption. It is clear that peak day consumption for residential and small commercial consumers is forecast to increase whilst growth in industrial peak day consumption is expected to remain constant.

Useable System Linepack and residential consumers

As was noted in VENCORP's Major System Augmentation Report, the 500 mm extension of the SWP provides an increase in useable system linepack of between 20 TJ and 40 TJ⁴ with residential and small commercial users the primary beneficiaries. Graphically, this can be seen in the figure below.

⁴ Ibid, p 27

Figure 1 – Within day supply-demand and useable linepack



The figure provides a typical hourly supply-demand profile, with a flat injection profile for the 24 hours and demand peaks in the morning and evening. The figure also separates the demand profile into industrial and residential/small commercial loads. It can be seen that while the supply will match demand over the twenty-four hour period, throughout the day there will be an imbalance between supply and demand because of constant injections and variable demand. It is also evident that the cause of the variable demand is not the industrial load, which is flat throughout the day, but the residential/small commercial load which peaks in the morning and the evening. As a result, it is the residential and small commercial load which draws down system linepack throughout the day creating the system constraint.

In summary, while VENCorp supports the ACCC's draft decision, the evidence suggests that it is the growth in residential and small commercial loads which is driving the need for an augmentation to the PTS. VENCorp believes that it is an important distinction to make in light of the potential tariff implications for gas consumers at GasNet's regulatory reset in 2008.

If you have any questions about any of the above please do not hesitate to contact Louis Tirpcou on (03) 8664 6615.

Yours sincerely



Graeme Cook
General Manager Development