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Essential Services Commission of South Australia
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REVIEW OF SOUTH AUSTRALIAN GAS STANDING CONTRACT PRICES

Origin Energy (Origin) welcomes the review of South Australian gas standing contract prices and awaits the forthcoming Draft Decision of the Essential Services Commission of South Australia (Commission) with great interest.

Origin also notes that the Commission's public consultation process has engendered several submissions, the majority in support of Origin's proposed price path for gas standing contract customers.

However, Origin is concerned that several incorrect assumptions that are often made about the South Australian gas market have again been raised in this process. These assertions have been stated previously by energy market participants and consultants that are inexperienced with regard to the operation and history of the South Australia gas market and are repeated within the 'Simply Energy' submission to the Commission's Issues Paper.

They are that:

- there is a lack of access to network capacity in South Australia and Origin has historically contracted all capacity to the Adelaide city gates;
- any second-tier gas retailer seeking access through the city gates must contract with Origin for allocation of spare capacity;
- Origin remains the main user of the Moomba to Adelaide Pipeline (MAPS) and consequently, second-tier gas retailers must source gas through the SEAGas pipeline at a less competitive rate - sourcing gas through MAPS is more competitive than the SEAGas pipeline because the gas supply costs and the network tariffs are lower; and
- swing gas in the South Australian gas market is provided exclusively by Origin and this has the effect of increasing wholesale gas prices for second-tier gas retailers.

Origin would like to publicly correct these common errors of fact.

Access to South Australian network capacity and city gates

It is true that from 1995 to 2005, Origin, as the local supplier of gas to the South Australia market booked full capacity of the Adelaide city gates through necessity in order to ensure that all current and potential new gas customers could be adequately supplied. However, prior to the introduction of full retail contestability (FRC) in South

Australia, Origin entered into a Memorandum of Understanding (May 2004) with the South Australian Government that Origin would provide access to any other retailers seeking access until its agreement on the MAPS terminated at the end of 2005. During this period, Origin was approached by a retailer and provided them access to the MAPS accordingly.

Furthermore, since the termination of this contract at the end of 2005, Origin no longer has any control of access to the Adelaide city gates.

Consequently, since 1 January 2006, any retailer is free to contract directly with Epic Energy for access to the city gates and is not required to deal with Origin.

MAPS Shippers and Supply Competitiveness

First, with regard to the assertion that Origin is the main user on the MAPS pipeline, Origin understands that it is not and has never been the main shipper on the MAPS pipeline. While the details of other shippers' bookings are confidential, Origin understands that at least one other shipper has a greater booking of capacity on the MAPS than Origin. We have been advised that EPIC is willing to supply documentary support of this claim on a confidential basis to the Commission.

Therefore, Origin cannot countenance the assertion that its contract on the MAPS forces other retailers to utilise the SEAGas pipeline.

Secondly, Origin questions Simply Energy's blanket assumption that sourcing gas through MAPS is more competitive than through the SEAGas pipeline. Gas supply costs vary considerably depending on contract and source and Origin would advise that it is not possible to state that either Cooper Basin or Victorian gas is a more competitive supply source.

Similarly with regard to network tariffs, both SEAGas and MAPS supply the Southern and Central zones and there is no distinction between the pipelines for network tariffs. Envestra's network tariffs do not vary across SA gas supply regions for small to medium sized customers (ie "volume" or V tariff customers)¹. For larger customers on demand (D) tariff, the network rates are slightly lower for the Northern Zone which is supplied by the MAPS Elizabeth city gate. However, even here, the network rates are non-discriminatory and available to any retailer. Given that all retailers are free to negotiate with MAPS for transmission capacity, all retailers have potential access to customers in the Northern Zone.

South Australian Swing Gas

Finally, Origin must correct the assertion that South Australian swing gas is necessarily provided exclusively by Origin.

Under the Retail Market Rules, there are three tranches of swing gas;

- the first supply option is Off-Market swing gas. Any retailer is free to make an off-market arrangement with other shippers to obtain this swing gas;

¹ Envestra's has 2 "V" tariff classes, residential and commercial. However for each class of customer the network tariff is the same across all gas supply regions.

- when off-market volumes are exhausted then the next supply is for Swing Service Provider Umbrella Deed (SSPUD) gas. Any shipper can place bids on the bid stack to supply this Swing Service Gas; and
- finally, when off-market and then SSPUD swing gas availability is exhausted then the Swing Service Provider of Last Resort (SSPOLR) comes into play. In this situation, swing gas is provided by Origin which is currently the nominated SSPOLR. However, any other shipper is welcome to become the SSPOLR through a tender process.

Origin would also correct the assumption that Origin position as the SSPOLR increases wholesale gas costs for second-tier retailers.

Retailers swing gas costs by are caused by their own nomination error and these users can reduce their exposure to swing gas by nominating correctly or by contracting for off-market swing gas.

In contrast, Origin's responsibility to provide SSPOLR gas increases its standing MDQ exposure on its contracted pipelines and gas sources. The price of SSPOLR gas is intended to cover the costs of providing standing MDQ. However, to date, Origin has received only relatively small amounts of SSPOLR income. Origin asserts that its costs are actually higher than second-tier retailers because, as the SSPOLR, it is obliged to pay standing costs to cover potential and actual participants' nomination errors - a factor outside the control of Origin.

Origin would highlight that it is not aware of any moves by other shippers to become the SSPOLR which is a clear indicator that being the SSPOLR does not provide any competitive advantage.

Origin hopes that the information provided in this letter provides assurance to both the Commission and other retailers that possible historical barriers to access have been addressed enabling new entrant retailers to participate in a competitive gas market in South Australia.

Yours sincerely

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