

TRUenergy submission to Envestra's Access Arrangement for the South Australian Gas Distribution System

1. Introduction

TRUenergy (then TXU) previously made a submission in response to the ESCOSA 'Issues Paper' relating to the 2006 Review of Envestra's Access Arrangement. This 'Issues Paper' discussed the process and key issues that ESCOSA intended to consult on as part of the 2006 review. ESCOSA subsequently released a 'Guidance Paper' after responses from stakeholders to the original 'Issues Paper.' This present submission, in response to the Envestra Access Arrangement, should be read in conjunction with TRUenergy's original response to the 'Issues Paper.'

In summary, the main recommendations from that original submission were:

- The importance of Envestra providing access in accordance with the terms of the Gas Code.
- The importance of metering because of its impact on swing services in South Australia.
- The need to review Origin's monopoly over access to three MAPS city gates when the situation expires in December 2005.
- The need to address key network regulation issues in the following manner:
 - The continued use of the building block methodology to determine regulated revenues
 - Capital expenditure added to the regulated asset base to be economically efficient consistent with Section 8.16 (b) (i) of the Gas Code.
 - The determination of key WACC parameters in a transparent manner.
 - Rejecting the use of the tariff basket approach in setting network tariffs on the basis of the difficulty of incorporating these flexible arrangements in retail contracts

For reference, a copy of the original submission is included with the present submission to allow review of the detailed recommendations.

2. Limitations of Current Arrangements

TRUenergy has made substantial capital investments to develop its capability to compete as a retailer in the South Australian gas market. In particular, TRUenergy has invested in the construction of the SEAGas Pipeline, undertaken additional expenditure at its Iona gas storage facility, and contracted significant amounts of commercial gas to prepare itself for competition in the South Australian market.

Unfortunately due to physical constraints that have been claimed to exist within the SA gas distribution network, TRUenergy has been advised it will be unable to make the benefits of these investments available to all customers in the Adelaide network. In particular, large customers consuming in excess of 10TJ pa in the Taperoo and Elizabeth area cannot be guaranteed delivery of gas supplied from the SEAGas pipeline at the Cavan city gate station. According to Envestra's Annual report of 2002, this amounts to more than 75% of the total 42, 334 TJ gas sales in this customer class. As a result, TRUenergy is unable to offer gas supply from the SEAGas pipeline to customers in these market segments.

Envestra has provided information to TRUenergy showing areas where customers may be affected if retailers wishing to supply customers in key northern areas do not inject gas of the relevant quantities through the Elizabeth and Taperoo city gates. The network was not designed for gas to flow in significant quantities from Cavan and Gepps Cross to these areas. Envestra therefore believes that the haulage of gas from only Cavan and Gepps Cross to these areas could be affected by network constraints should a retailer deliver gas into the network for customers, particularly Demand customers, in these areas from the either of the Cavan or the Gepps Cross city gates.

Retailers considering supplying gas to such customers must contact Envestra for an analysis of the extent, if any, of the constraint. Where constraints have been identified, Envestra will be unable to guarantee firm haulage to the retailers due to possible shortfalls, in aggregate to Adelaide, in supply from the Moomba to Adelaide pipeline out of Taperoo and Elizabeth city gates. A queue may be formed for both firm and interruptible supply.

3. Recommended Action

In light of this, TRUenergy supports the inclusion in Envestra's access arrangement for the subsequent regulatory period of capital expenditure to provide satisfactory access for gas supply from the SEAGas pipeline to those areas to which it currently has limited access.

TRUenergy understands that Envestra's capital expenditure forecasts for the next regulatory period reflect the projects included in the 'Asset Management Plan' submitted to the regulator. The 'Asset Management Plan' is a 'confidential' document that belongs to Envestra. As such, whilst the access arrangement information provides some information of expenditure regarding asset categories, it does not supply detailed information of specific projects.

We believe that the appropriate capital expenditure involves enhancements of the distribution system, of which two specific examples are given below. Note that our support is not limited to these specific examples. In addition, there are certain enhancements to the transmission system, such as the interconnection of the SEAGas and Moomba to Adelaide pipelines, which would offer similar benefits.

4. Benefits to South Australia

Appropriate capital expenditure on enhancements to the distribution system and/or the transmission system would provide significant benefits to gas supply arrangements into South Australia. These include:

1. Increased competition in the South Australian gas supply market, as a result of the increased ability of TRUenergy, and other users of SEAGas, to compete in these otherwise inaccessible markets.
2. Improved stability and reliability of the South Australian gas distribution system
3. The security of gas supply to South Australia would be greatly enhanced by the potential interconnection of the SEAGas and Moomba to Adelaide pipelines.

5. Specific Projects

TRUenergy believes that the three projects described below are examples of projects that would contribute to addressing its concerns regarding access to the South Australian market. Note that there may be alternative projects to those identified below that may also address these concerns.

5.1 Additional capital expenditure that gives SEAGas greater access to the distribution system - " A connection at Elizabeth"

TRUenergy supports any additional capital expenditure projects forecast by Envestra over the next regulatory period that provide improved access of SEAGas gas to the South Australian distribution system. Not only will this improve the reliability and security of gas supply, but also provides an additional source of competitive gas to the state. In the past, SEAGas users have been restricted from servicing customers in the northern part of the state on the basis that Envestra can not guarantee the delivery of gas from the SEAGas Cavan City Gate Station to customers in the north of the state. This has prevented many gas customers (described above) from enjoying the potential benefits of more intense competition amongst gas suppliers.

TRUenergy would support the inclusion of capital expenditure to connect SEAGas to the northern part of the state, as a first step, via a connection at Elizabeth in South Australia if the technical solution proposed by Envestra ensures equality of access from both pipelines. Consistent with its submission to the ESCOSA's "Issues Paper" in this regard, it would expect that the connection asset be undertaken in a prudent manner consistent with Section 8.16 (b) (i) of the Gas Code. This capital expenditure should only be added to the regulated asset base on the basis that the expenditure passes the Sect 8.16 (b) (ii) of the Gas Code (the incremental revenue test) and the investment is economically feasible (NPV positive). Any part of the asset deemed inefficient by the regulator should not be added to the regulated asset base.

5.2 The re-enforcement of supply to the Northern Gawler region project (\$7.4M)

TRUenergy understands that Northern Gawler project may allow SEAGas delivered gas to penetrate the Northern region of the state (though discussions with Envestra indicate this cannot be guaranteed). If this project does allow better penetration of SEAGas delivered gas to the northern part of the state, then this would be beneficial to South Australia, through increased access to competitive gas supply and improved reliability of supply.

5.3 Interconnection of the SEAGas and Moomba to Adelaide pipelines.

Sections 5.1 and 5.2 of this submission discuss options to improve SEAGas gas access to specific areas of the South Australian distribution network. These address competition and day-to-day security of supply concerns. There remains a need to address security of supply for users outside of the Cavan/Gepps Cross area in the event that there is a supply interruption from gas delivered via the MAPS pipeline route. TRUenergy contends that investment in a MAPS/SEAGas interconnection is the only viable solution that provides complete redundancy.

There are a number of potential interconnection points between the two pipelines. We understand that the factors that determine the most appropriate interconnection point are complex and require further analysis. TRUenergy believes ESCOSA's support for investigation and resultant investment in such a project would ensure appropriate access arrangements be developed to maximise the potential value for the market.

EPIC has advised industry of its intention to mothball unutilised compressors on MAPS, this may be an additional factor in support of the MAPS/SEAGas interconnection to mitigate the implications for redundancy.

6. Conclusion

TRUenergy invested in SEAGas, upgraded its storage facility, and negotiated commercial gas contracts as part of strategy to prepare for competition in the South Australian gas market. We believe that increased competition in the South Australian gas market will ultimately lead to beneficial outcomes for consumers through price reductions and service improvements to customers. All this will lead to an improvement in resource allocation. However, it is the responsibility of the regulators, governments and relevant institutions to give gas suppliers the opportunity to compete on commensurate terms. If gas suppliers are not able to compete for all customers in the gas market FRC will not be effective in delivering the potential benefits to South Australia.

As a result, TRUenergy as an immediate solution supports

1. Capital expenditure for connection assets that give SEAGas greater access to the Distribution system including a connection at Elizabeth, given this leads to more competitive gas and improved security of supply to the state.
2. The re-enforcement of supply to the Northern Gawler region project (\$7.4M) on the basis that it may strengthen the supply of gas into South Australia from the SEAGas pipeline and provide more competitive supply of gas into the state;

However, to provide complete redundancy and maximise competition benefits TRUenergy believes that the interconnection of the SEAGas to Moomba to Adelaide pipelines is required.

TRUenergy will independently lobby Envestra to included the first two capital projects in its asset management plan going forward and will discuss the benefits of this to them. As such, we implore ESCOSA to give serious consideration to the issues we have raised in this paper.

Regards

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