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23 August 2013

The Hon Tom Koutsantonis MP
Minister for Mineral Resources and Energy
GPO Box 2832
Adelaide SA 5001

APPLICATION BY KIMBERLY CLARK AUSTRALIA (KCA) FOR COVERAGE OF THE SOUTH EASTERN PIPELINE SYSTEM (SEPS)

Origin Energy Limited (Origin) appreciates the opportunity to comment on KCA's application for coverage of the SEPS.

We note the National Competition Council's (NCC's) final recommendation that the Minister decide not to make a coverage determination in relation to the SEPS. This follows the NCC's assessment of the coverage application against the pipeline coverage criteria set out in the National Gas Law, supported by a public consultation process.

As part of this process, Origin lodged a submission on 29 January 2013 recommending that an important consideration for the NCC in its assessment of the coverage application is whether, on balance, end use customers would be better off with or without a coverage regime on the SEPS. For ease of reference, we have included a copy of that submission with this letter.

Origin supports the process undertaken by the NCC in its assessment of the coverage application. We consider its public consultation process has provided stakeholders with equal opportunity to comment and its assessment framework and methodology are robust.

Should you have any questions or wish to discuss further any detail of this submission, please contact Hannah Heath (Manager, Wholesale Regulatory Policy) on (02) 9503 5500 or hannah.heath@originenergy.com.au.

Yours sincerely,

Phil Moody
Group Manager, Energy Markets Regulatory Development
Energy Risk Management

Attached: Origin Energy submission to NCC re KCA Application to Cover SEPS - 29 January 2013

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29 January 2013

South Eastern Pipeline System
National Competition Council
GPO Box 250
Melbourne VIC 3001

Submitted in hardcopy and by email: gas@ncc.gov.au

APPLICATION FOR COVERAGE OF THE SOUTH EASTERN PIPELINE SYSTEM

Origin Energy Limited (Origin) welcomes the opportunity to comment on the application made by Kimberly-Clarke Australia Pty Limited (KCA) for full coverage of the South Eastern Pipeline System (SEPS).

Origin is a major Australasian integrated energy company focused on gas exploration, production and export, power generation and energy retailing. Listed in the top 20 on the S&P Australian Stock Exchange (ASX), Origin has over 5,600 employees. Origin retails energy to 4.4 million electricity, natural gas and LPG customer accounts and has one of Australia's most flexible generation portfolios with over 5,000 MW of capacity, through either owned generation or contracted rights. We are a significant investor in low emissions and renewable energy technologies, including gas, geothermal, wind, hydro and solar and are the largest retailer of green energy products in Australia. Through Australia Pacific LNG, our incorporated joint venture with ConocoPhillips and Sinopec, Origin is developing one of Australia's largest Coal Seam Gas (CSG) to LNG projects.

Origin is an energy market participant that contracts gas supply and pipeline services and participates in gas retail markets across the eastern seaboard of Australia. We are an interested stakeholder in this consultation as a gas shipper on the SEPS that delivers gas to our retail gas customers who are supplied by that pipeline. As noted in APA Group's (APA's) Background Material document, we have a Gas Transportation Agreement (GTA) with Epic Energy (now controlled by APA as of 17 December 2012) that provides for the transportation of 11.5 TJ/day of gas on the Katnook to Safries, Katnook to Snuggery and Glencoe to Mt Gambier laterals over the period of 1 January 2011 to 1 January 2014. This GTA covers approximately 55 per cent of the capacity of the pipeline.[1]

In this submission, Origin would like to make comments on the following:

1. how the SEPS sits within Australia's east coast gas market; and
2. the implications of full coverage of the SEPS.

1. Australia's East Coast Gas Market and the SEPS

The east coast gas industry operates as a strongly interconnected system, with a diverse range of existing reserves and potential future supplies physically connected to a number of demand hubs and retail markets. Different types of participants engage in this interconnected supply chain from the gas fields and gas producers to the transport through pipelines to retailers and, finally, end use consumers - both large and small.

In this system, retailers can procure a range of services from pipelines to ship gas to customers. These can be broadly split into transportation services (i.e. transporting gas

[1] APA 2013, *Background Material - SEPS Coverage Application*, January, p. 7.

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from one point to another) and ancillary services (i.e. services offered to assist shippers to manage differences between supply and demand given gas production facilities tend to have a relatively flat supply profile, whereas gas demand tends to fluctuate over daily, weekly and seasonal periods).

It is important to understand this framework in order to situate where the SEPS sits within it. The SEPS is a transmission pipeline located in the south eastern corner of South Australia. It transports gas from the pipeline connection at Katnook to end users in the Penola, Snuggery, Mt Gambier and Nangwarry regions. Gas from different sources is injected into the SEAGas Pipeline, which then flows into the South East South Australia Pipeline and finally into the SEPS.

Competition across the gas supply chain is vital for delivering competitively priced and reliable supply to end use consumers. For the customers supplied by the SEPS, enhanced end use competition and other consequential benefits, as is envisaged by KCA, depend on effective competitive pressures along the supply chain from producers to pipelines (both the SEPS and others) and to retailers[2].

2. Full Coverage of the SEPS

KCA is seeking full coverage of the SEPS. In its Application, KCA states that Epic Energy is using its monopoly position to set tariffs that include a significant monopoly rent.[3] Consequently, it considers that full coverage is the only feasible way to establish fair and reasonable shipping rates and new connection costs for the SEPS, which do not contain monopoly rents.[4]

Under the National Gas Law and National Gas Rules, full coverage requires a pipeline provider to periodically submit an Access Arrangement to the Australian Energy Regulator (AER) for approval. An Access Arrangement sets out the terms and conditions under which third parties can use a pipeline. It must specify at least one reference service likely to be sought by a significant part of the market and a reference tariff for that service. The AER assesses the revenues needed to cover efficient costs and provide a commercial return on capital, then derives reference tariffs for the pipeline.

When making its coverage determination, the National Competition Council (NCC) needs to consider whether, on balance, end use customers would be better off with or without a coverage regime on the SEPS.

a) Assessing the Benefits of Full Coverage

The AER's approach for developing an Access Arrangement must be consistent with and promote the National Gas Objective (NGO). The NGO is:

> *To promote efficient investment in, and efficient operation and use of, natural gas services for the long term interests of consumers of natural gas with respect to price, quality, safety, reliability and security of supply of natural gas.*[5]

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[2] Note there are also 'self-contracting users' who are large users who choose not to access supply through a retailer.
[3] KCA 2012, *Application for Coverage of a Pipeline*, October, p. 8.
[4] *Ibid*, p. 10.
[5] National Gas Law, s. 23.

The AER's established methodology and approach for assessing the terms and conditions contained in an Access Arrangement must deliver an outcome that is in the long term interest of consumers.

Given this context, the question for the NCC is whether end use consumers are, on balance, better off with an Access Arrangement in place on the SEPS compared to the arrangements available today. Under an Access Arrangement, all current and perspectives users could contract the same standard conditions for access to the pipeline. This includes an 'efficient reference tariff', determined by the AER, for the defined reference service. If these terms and conditions - including the reference tariff rate - are more efficient than those available today, then end use customers could be deemed to benefit from the SEPS being covered. The prospective benefits of regulation appear dependent upon the actual terms and conditions available under the Access Arrangement.

b) Considering the Costs of Full Coverage

An assessment of the coverage application for the SEPS also needs to consider the costs of the regulatory regime being introduced. While end use customers may have access to more efficient terms and conditions, the costs of regulation also flow through to end use customers. This means the terms and conditions under an Access Arrangement may not necessarily provide a lower tariff compared to an unregulated environment. Should the increased cost of regulation be disproportionate to the potential benefit, the decision to cover the pipeline is unlikely to promote the NGO and is therefore, unlikely to be in the long term interest of gas consumers.

Generally, the current cost of using the SEPS is the negotiated tariff plus the cost of undertaking negotiations. With the introduction of an Access Arrangement, there is an additional regulatory cost for APA and market participants; APA, as the pipeline owner, must develop and periodically revise the Access Arrangement while market participants have a vested interest in participating in the periodic consultation process for the Access Arrangement.

The benefit of full coverage then depends on whether the combined cost of regulation, the reference tariff (as a minimum price for negotiations) and the cost of still needing to undertake negotiations for non-reference services are less than the comparative costs faced today. It is important that the NCC takes this into consideration in its assessment of the coverage application as it may ultimately impact prices for end use customers and competition in downstream markets.

c) Services covered by an Access Arrangement

Both KCA's Application and APA's Background Material detail KCA's previous negotiation with Epic Energy. These negotiations covered a number of different services on the SEPS: a firm transportation service; an interruptible transportation service; and a pressure service.[6]

As we understand it, an Access Arrangement is only required to specify at least one reference service likely to be sought by a significant part of the market and a reference tariff for that service. Existing Access Arrangements for transmission pipelines (e.g. the Roma to Brisbane Pipeline) generally include only one reference tariff (e.g. a firm forward haul service). Current practice suggests an Access Arrangement for the SEPS is unlikely to detail tariffs for the other services sought by KCA. As a result, additional services would continue to be negotiated services outside of the Access Arrangement.

[6] APA 2013, *Background Material - SEPS Coverage Application*, January, p. 8.

This is an important point to note as it relates to the net benefit of introducing an Access Arrangement and highlights that some issues, including ones of concern for KCA, are unlikely to be addressed though full coverage of the SEPS.

3. Further Information

Thank you for the opportunity to provide a submission to this consultation. Should you have any questions or wish to discuss this submission further, please contact Hannah Heath (Manager, Wholesale Regulatory Policy) on (02) 9503 5500 or hannah.heath@originenergy.com.au.

Yours sincerely,

Phil Moody
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