

29th January 2013

Mr Ross Campbell
Director
National Competition Council
GPO Box 250
Melbourne, Vic. 3001

By email to: Ross.Campbell@ncc.gov.au

Dear Ross

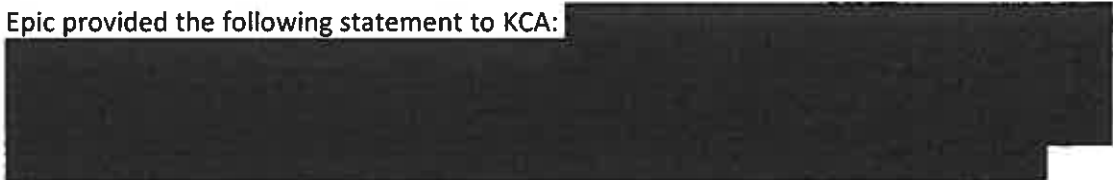
Application for Coverage of the South Eastern Pipeline System (SEPS)

KCA notes with interest that APA Group has provided a letter to the NCC in response to our application for coverage of the South Eastern Pipeline supposedly to provide background “to assist in the assessment of the application.” Whilst KCA does not, at this stage, seek to comment on the bulk of the information provided in the letter, it is particularly concerned with the comments made in section 4.1 of the letter relating to KCA and the Epic Energy negotiations.

The letter contains some statements which may mislead the reader. The following points are made to provide the full factual background:

- KCA has and still does take gas from Envestra at 850 kPA; this gas is from the SEPS. There is a pressure regulating and metering station owned by Epic at Snuggery which delivers gas to an Envestra pipeline serving KCA. However the gas upstream of this meter/regulating station was (and still is) delivered at a pressure of some 4000 kPA even when KCA was taking delivery of 20-30% more gas than the levels it now seeks. We are concerned that the implication of the APA comment is that higher pressure gas from SEPS might not be readily available. This is not the case and is liable to mislead the reader.
- APA comments Epic was of the view that the amount of gas transport available to others will be reduced if KCA takes delivery at the higher delivery pressure. This observation implies that there will be a loss of transport capacity available (“sterilisation” of capacity) and therefore result in a loss of revenue. APA makes the comment in earlier sections of the letter that SEPS is operating in an uncompressed state and adds that its current agreement with Origin is for the transport on SEPS of 11.5 TJ/day of which nearly 70% is used by KCA at Snuggery (using only 43% of the pipeline capacity) and that usage of the other sections of the pipeline is only 15-17% of their capacities.

Epic provided the following statement to KCA:



However Epic (or APA) did not address the fact that 11.2Tj/day is considerably higher than the total SEPS gas demand after KCA advised Epic of its revised transportation needs of a lower demand and higher pressure. [REDACTED]

Further, Epic knew that usage of all elements of the SEPS had generally fallen in recent times rather than increased, especially with the fall in demand from KCA.

In its regulatory approach, the AER builds reference tariffs based on actual and likely volumes of gas to be transported; this approach does not make provision for payment for "sterilisation of capacity".

The need to impose a "sterilisation payment" is not supported by the facts APA provides and is misleading.

- APA states that Epic offered gas transport based on the same conditions as the 2011-14 gas transport agreement with Origin. What is not stated is that the price for this gas transport agreement is more than a 50% increase on the gas transport price that applied from 2006 - 2011. This 2011-14 agreement reflected, in our view, an outcome of a monopoly using its powers to set a price for transport and is part of the reason for KCA seeking coverage. The statement by APA is liable to mislead the reader as it does not provide all the facts.
- APA comments that KCA suggested Epic commit to building the new meter/regulating station for a fixed \$2m. [REDACTED]

[REDACTED] KCA sought an independent assessment of the costs which indicated that the costs would be \$2m or lower and advised Epic of this. The implication of the APA comment is liable to mislead the reader.

- Epic did advise that one of the reasons for the high cost for the new meter/regulating station was the cost of engineering. [REDACTED]

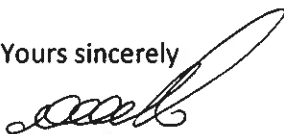
[REDACTED] In contrast KCA already had such work by its own consultant for considerably less than this figure and APA itself had quoted a figure of \$125k to KCA to carry out a FEED study for the identical work scope. The failure to include this information is liable to mislead the reader.

- APA does not include in its "background information" that Epic refused to carry out any FEED or meter/regulating station work until KCA agreed to the high (in KCA's view) transport tariff and the sterilisation charge. This oversight is liable to mislead the reader.

APA has attempted to present a view that Epic was equitable in its dealings with KCA. In doing so, it has implied that KCA has made statements in its application which are either false or misleading. KCA rejects this and has advised APA directly that it is prepared to provide it with the source documents proving support for all of the observations made by KCA in the application and in this response.

The fact that KCA has commenced such a major step as seeking coverage is a clear indication that Epic has not been equitable in its approach and has used its monopoly position to maximise its benefits.

Yours sincerely



Darren Williams
Operations Manager