



16 October, 2015

AEMC
Mr John Pierce
Chairman Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

By email: aemc@aemc.gov.au

Dear Mr Pierce,

RE: GPR0003 Pipeline Regulation and Capacity Trading Discussion Paper

Thank you for the opportunity to respond to the Pipeline Regulation and Capacity Trading Discussion Paper as part of the East Coast Wholesale Gas Market and Pipeline Frameworks Review.

Epic Energy South Australia Pty Ltd (EESA) is the owner the Moomba to Adelaide Pipeline System (MAPS) and the South East Australian Pipeline System (SEPS) and is a member of The Australian Pipelines and Gas Association (APGA). Through its position on the APGA Policy Committee EESA, together with other transmission pipeline operators, has actively participated in the development of the APGA submission to this Review.

APGA Submission Summary

EESA fully endorses the APGA position reflected in its submission and will not revisit the issues raised in that submission.

MAPS Market Position

The South Australian market for natural gas is a unique mix of industrial, domestic and power generation load. In respect of power generation, South Australia has the largest amount of wind capacity installed in Australia as well as the highest penetration of solar PV installation per household

MAPS delivers gas to the regional areas of South Australia through its key Port Pirie/Whyalla and Angaston laterals whose loads are primarily underpinned by large industrial users.

Adelaide STTM loads are contestable between MAPS and SEA Gas deliveries; although with MAPS being the pressure controlled pipeline, it provides the gas which balances the AGN

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network and tends to be the provider of MOS to the STTM; which drives a level of retail service requested by Shippers.

Power generation loads have changed significantly over time due to the loss of energy to wind and solar whilst peak hour capacities have remained at similar levels over time. This has driven a change in the service being requested for generation loads to better meet the changing needs of generators in the electricity market.

Finally, as of July 1, 2015, MAPS has commenced the provision of contracted services for deliveries from a newly commissioned connection at Pelican Point Power Station to a newly constructed delivery point at the Moomba Processing Plant.

This brief description is to highlight the varied uses for which MAPS services are applied; each of which has a different value driver for shippers.

EESA Response to changing market and competitive impact

EESA has responded to the changing needs of shippers by developing more flexible services, including changing the paradigm of MAPS deliveries to bi-directional. The capital investment required to meet these challenges has been provided within the existing regulatory and contract carriage framework.

The Executive Summary of the Discussion paper states that the "The Council's Vision can be broken into three outcomes:

- Establishment of an efficient and transparent reference price for gas.
- Participants able to readily trade gas between hub locations.
- Investment in infrastructure that responds to market signals and is facilitated by a supportive regulatory framework."

These three outcomes are all supported by the project converting MAPS to bi-directional as this project:

- Facilitates the transportation of gas from Victoria to Moomba and then into Wallumbilla which promotes liquidity for gas markets as well as allows for the ability to readily trade gas between locations; and
- Highlights investment in transmission services that has responded to market signals.

Given these outcomes occurred within the existing regulatory framework, this demonstrates that the existing regulatory framework is very supportive of the Council's objective.

As highlighted in discussions with the AEMC, MAPS is currently in a unique position of possessing excess capacity so is not contractually constrained; whilst the generation aspect of its load is facing a continual worsening of load factor as its peak hourly capacity requirements remain constant whilst volume of energy decrease.

MAPS has addressed these changing market conditions through the provision of more flexible services both on a Firm and As Available basis; however these As Available services are provided out of uncontracted capacity rather than unutilised capacity; the costs bases for which are different.

One of the significant costs to an infrastructure company is funding cost; where this cost is minimised through the securing of long term, fixed capacity contracts. Excess capacity therefore drives a higher cost for the whole pipeline through higher funding costs and therefore needs to cover that cost in any contracts.

As Available contracts in an Excess Capacity scenario, therefore need to reflect a higher price than firm, as its cost base is necessarily higher.

The driver for such services is also dependent upon the segment they service; with the primary demand for them coming from the increasingly peak driven generation load. The balance required is for the generator's need for certainty in peak hours (where those hours of generation are falling reducing the volume of energy to recover the option cost over) against the pipeline's need for certainty in contracting. The price for these services is therefore very dependent upon the specific circumstances of the individual shipper, resulting in the need for bespoke contractual arrangements to be agreed which reflect the value of the service to each generator.

With the reliance on gas generation in SA to meet peak needs (and cover for wind volatility), these services are essential for SA generation to be available to meet market needs at a negotiated price that maintains their profitability.

In respect of industrial and retail segments, these services are more standard by nature, so arrangements are similar; although integrated parties have unique mixes of demand and therefore require tailored arrangements that reflect their demand profile balances.

The regional laterals, unlike the mainline, are fully contracted. EESA has engaged with a number of shippers on these laterals to provide As Available services to maximise the outcomes from retail competition in these areas. The As Available service on regional laterals is therefore priced to ensure competitive neutrality in those markets; which outcomes appear to have been achieved.

EESA has also provided delivery and receipt point flexibility services to shippers to facilitate the trade of such capacity between shippers to optimise the flow of gas between markets and into regional areas

New flexible services provided on MAPS, provided reflective of the value to Shippers and EESA, can therefore be seen to have:

- promoted the Council's key objectives;
- promoted retail competition;
- provide significant opportunities for capacity trading on the line; and
- enhance regional retail contestability in a competitively neutral fashion.

Flexible Services and Regulatory Impact

All of these outcomes have occurred within the existing regulatory framework. From a MAPS perspective therefore, the need for Approach C would appear to be minimal as the outcomes are being achieved without the costs associated with such a change.

Given the presence of excess capacity on the pipeline, no hoarding value is present on the mainline; whilst the provision of As Available services on fully contracted services (at

competitively neutral prices) ensures there is no technical ability to hoard capacity on those laterals. The case for Approach B is therefore not relevant to MAPS.

As highlighted above and in previous submissions, as well as in discussions with the Commission, the actions of both EESA and its shippers to promote capacity trades suggests that there would be minimal incremental value in proposals to facilitate trading; as these trades are already occurring. Transaction costs therefore do not appear to be a constraint to trades on the MAPS.

Conclusion

MAPS is in a unique market position due to the existence of excess mainline capacity supplying a uniquely volatile demand profile driven by power generation which has resulted in negotiated, bespoke bilateral arrangements which:

- deliver significantly increased level of capacity trades between shippers;
- provide delivery and receipt point flexibility to shippers to enhance these trades;
- provide flexibility for peaking power reflecting the value of the service in the power market; and
- promote contestability in regional markets based on competitively neutral pricing.

These arrangements have been provided within the existing Regulatory framework and reflect a negotiated trade-off between EESA's need for long term revenue security to minimise its funding costs against the shippers need for short term flexibility given the changing nature of electricity generation markets.

This suggests the value of any change to the existing framework would be limited from the MAPS perspective, as the outcomes are all being achieved.

EESA recognises that its unique positioning in the market as a single asset owner of MAPS which possesses unique market characteristics is a likely driver for this outcome. However, because of these unique factors and the conclusion of limited value on MAPS for any changes, EESA is not in a position to support any of the approaches as their value would arise in circumstances foreign to EESA.

Thank you for the opportunity to comment on this Framework Review and should you require any further information, please do not hesitate to contact me on the numbers below.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Jonathan Teubner', with a horizontal line underneath.

Jonathan Teubner
Manager Commercial