DAMPIER TO BUNBURY NATURAL GAS PIPELINE

PROPOSED ACCESS ARRANGEMENT UNDER THE NATIONAL ACCESS CODE

Submission 6: Reference Service and Other Services
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1. Introduction

1.1 On 20 April 2000, the Office of Gas Access Regulation ("OffGAR") released a further four submissions in respect of the proposed Access Arrangement for the Dampier to Bunbury Natural Gas Pipeline (the "DBNGP") lodged, by Epic Energy, on 15 December 1999. In a notice accompanying the release, the Western Australian Independent Gas Access Regulator (the "Regulator") advised that he would open a further period during which submissions might be made to him concerning the proposed Access Arrangement and, in particular, matters raised in the four submissions.

1.2 One of the four submissions released by OffGAR was a submission from Epic Energy ("Epic Submission 1"), which among other things, described in some detail the process of the sale through which it acquired the DBNGP from the State of Western Australia. The version of that submission released by OffGAR is a modified version of the submission lodged with the Access Arrangement on 15 December 1999, which has not been released by OffGAR. The modifications are the deletion of certain information covered by confidentiality obligations. The submission sets out Epic Energy's arguments as to why the Regulator should consider, in his assessment of the proposed Access Arrangement, the way in which the DBNGP sale process was structured and executed. This has been added to by a third submission ("Epic Submission 3") which was lodged with the Regulator on 17 March 2000 and has only recently been made public.

1.3 Two of the other submissions were from AlintaGas, the Government's agent in the sale process, and the third was a joint submission from State Treasury and the Office of Energy. These three submissions tend to cover the majority of the points raised by other interested parties in submissions filed with the Regulator. Therefore by commenting on them Epic Energy believes it will be able to also cover most of the points raised in the other submissions. Where they have not been covered by Epic Submission 3, Epic Energy will endeavour to cover them in other submissions.

1.4 Epic Energy's further comments are made in six separate submissions, each dealing with a particular set of issues. Those submissions are:

4 regulatory compact;
5 capital base, depreciation and WACC;
6 the reference service and other services;
7 the reference tariff and incentive mechanism;
8 the offer of a T1 Service; and
9 gaining access to the DBNGP.

1.5 This submission examines issues arising in respect of Epic Energy's proposed reference service, and in respect of the other services proposed in the Access Arrangement. It deals with:

- balancing;
- nominations;
- overrun;
- peaking;
- secondary market

2. Balancing

2.1 A large number of submissions have raised the issue of the balancing limits Epic Energy has proposed in the Access Contract Terms and Conditions for the DBNGP. For example, Western Power, in its Submission Number 5, argues:

> *"The tolerance limits for imbalances are substantially more restrictive (2% for Firm Service versus 8% for GTR services) and will be applied daily in the proposed arrangement. . . . The proposed regime does not provide scope to balance over a number of days, as is presently the case.*
>
> *Epic Energy has not recognised the value of the shippers' load diversity, whereby, the combined effect of all shippers' balance positions may be that the pipeline is in overall balance. Furthermore, the proposed Access Arrangement does not allow shippers to trade imbalances."*[1]

2.2 Epic Energy acknowledges that the proposed imbalance tolerances are more restrictive than those that applied under the access regime of the *Gas Transmission Regulations 1994*, and that apply under the current regime. Moreover, Epic Energy understands that pipeline modelling to support the setting of imbalance tolerances immediately prior to the introduction of the access regime of the *Gas Transmission Regulations* indicated tolerances close to the 2 per cent currently proposed, but were not acceptable to a "regulations committee" dominated by pipeline users. Major problems have not arisen with the wider limits because pipeline capacity has not been fully utilised for a significant part of the time since the *Gas Transmission Regulations* came into effect. That is probably an outworking of the tranche methodology used in those regimes.

2.3 Subsequent studies of imbalance tolerances have continued to show the need for tighter imbalance limits as pipeline use approaches the available capacity. These studies have recognised the impact of shippers' load diversity. They have also recognise that, with a distribution of loads, there is a probability that coincident imbalances will prevent Epic Energy from delivering its contract entitlements if imbalance tolerances are too high.

2.4 The fact that the proposed DBNGP Access Arrangement does not allow shippers to trade imbalances has been recognised by Epic Energy. Epic Energy is prepared to propose amendments to permit shippers to trade imbalances.

2.5 WMC Resources has compared the imbalance tolerance proposed for the DBNGP with the imbalance tolerances on other transmission pipelines:

> *"At just 2%, the allowance for imbalance is much less than is allowed on other transmission pipelines (where up to 8% is allowed and some accumulation is also possible). The Goldfields Gas Pipeline offers much greater tolerances and a more acceptable penalty regime than is offered by the DBNGP proponents."*

2.6 Epic Energy can equally point to examples in the USA where tolerances are 2%.[2] However, Epic Energy would caution against comparing imbalance tolerances across gas transmission pipelines. Differences in facilities, differences in utilisation, and differences in shipper load patterns all contribute to differences in tolerance to shipper imbalances.

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[1] Epic Energy Access Arrangement for the DBNGP, Western Power's Submission Number 5, Other reference Service Issues and Policies, p. 5.
[2] Eg Kern River Gas Transmission.

Furthermore, larger imbalances can be tolerated if the total capacity available for use by shippers is reduced. However, reducing the available capacity will have the effect of increasing the price paid for that capacity.

2.7 Epic Energy has commented on the proposed excess imbalance charge in Epic Submission 7.

2.8 Epic Energy notes the comments regarding no provision for trading imbalances. That omission was not intentional (and one in which the Secondary Market could have a role) and therefore would not be averse to a requirement to include such a provision.

3. Nominations

3.1 At least six submissions to the Regulator have raised as an issue the reduced flexibility that shippers would have under the nominations arrangements proposed in the Access Arrangement Terms and Conditions.

3.2 Western Power stated, in its Submission Number 5:

> *"GTR services allow shippers to renominate within a gas day, whereas the proposed Firm Service excludes this flexibility. A new nomination penalty of $15/GJ may be imposed in some circumstances under the Firm Service. . . .*
>
> *To a significant extent, variations in Western Power's gas usage within a gas day (such as might cause gas consumption to depart from nomination levels) are driven by customer load, and on occasions, by unplanned outages of generation units. Both of which, are factors not within Western Power's immediate control. The imposition of very large nomination penalties is unfair in this circumstance."* [3]

3.3 AlintaGas and Worsley Alumina also raised the issue of reduced flexibility to renominate during the day. Robe River Mining was of the view that the proposed nominations process is unduly inflexible.

3.4 Epic Energy is puzzled by these assertions. Epic Energy is of the view that the new nominations process proposed for the DBNGP is considerably more flexible than the existing process. Under the scheme of the proposed Access Arrangement, nominations no longer have the importance they have under the current access regime. Under the new scheme, a shipper is entitled to take, subject to conditions governing relocation of delivery point MDQ, up to its MDQ on each day regardless of what they have nominated. Epic Energy has no entitlement to "unnominated" capacity, as it has under the current access regime, where a shipper is locked into its nomination regardless of its contracted capacity.

3.5 There are no restrictions placed on renominations during the day, apart from the requirements that:

- the shipper's nominations across all receipt points on a day do not (subject to a requirement for imbalance correction) exceed the shipper's MDQ;
- the shipper's delivery point MDQ at each delivery point is not exceeded; and
- the shipper's MDQ, not be exceeded.

[3] Ibid., p.8.

If a shipper anticipates a nomination that would cause its MDQ to be exceeded, it should obtain additional capacity in the secondary market before renominating.

3.6 Nominations facilitate the efficient operation of a pipeline and Epic Energy requires weekly nominations submitted prior to the start of each week. Epic Energy requires that these nominations (and any daily nominations a shipper may submit) be made in good faith. However, in imposing this requirement, Epic Energy fully understands that nominations are forecasts, and that circumstances beyond a shipper's control may cause those forecasts not to be realised. The proposed nominations surcharge is intended to apply only in extreme circumstances where there is a clear breach of the obligation to nominate in good faith. The circumstances that Western Power indicates would cause its gas consumption to vary from nominated levels are not circumstances that Epic Energy would normally consider as justifying a variation notice and the subsequent imposition of a nomination surcharge.

4. Overrun

4.1 Comments have been made by a number of interested parties that the Access Arrangement is inflexible and provides a mechanism for overcharging.

4.2 Under the current regime, generally two forms of overrun are recognised – authorised overrun and unauthorised overrun. The difference between the two is that the former is additional capacity taken during the day with the prior approval of Epic Energy while the latter is additional capacity taken during the day without Epic Energy's approval.

4.3 Generally authorised overrun is charged at the highest spot market price or the minimum spot price posted by Epic Energy. The position varies in relation to unauthorised overrun, particularly when an unavailability notice has been issued.

4.4 The Access Arrangement only deals with unauthorised overrun. It contemplates an active Secondary Market in which a shipper will be able to acquire additional capacity needs at any time during the day and in most cases far cheaper than Epic Energy's floor price. In a sense the Access Arrangement is no different in this regard to the current regime.

4.5 In the area of unauthorised overrun, a sliding scale is applied in the Access Arrangement reflecting the severity of the shipper's action. The issue of the level of the surcharge payable is dealt with in other Submissions. The charges are not out of the ordinary for this industry. However, what is important to remember when comparing with the current regime, is that the revenue received by Epic Energy from overrun charges is rebateable revenue. Under the current regime, Epic Energy keeps all such proceeds.

4.6 In the circumstances, Epic Energy believes the overrun provisions are reasonable.

5. Peaking

5.1 A number of shippers have advised the Regulator that the peaking obligations proposed in the Access Contract Terms and Conditions for the DBNGP are more restrictive than the obligations imposed under the access regime of the *Gas Transmission Regulations 1994*, and under the current access regime. In particular:

- the hourly peaking limit is to be 120% where previously it was 120% in summer and 125% in winter;

- the hourly peaking limit is to apply at each delivery point where previously it applied across all delivery points at which a Epic Energy was to deliver gas to a shipper; and
- a surcharge of $15.00 per GJ is to apply where the hourly peaking limit is exceeded even though no surcharges currently apply.

5.2 Epic Energy is aware that peaking limit proposed is somewhat tighter than the current winter limit. Peaking limits are set using pipeline simulation modelling to determine perturbations that can be sustained, given current operating conditions, without impairing delivery capability. The previous limits were set in 1994. New simulation studies were carried out to ascertain limits appropriate, given the operating conditions of the Stage 3A enhanced pipeline, during the period of the Access Arrangement given.

5.3 Epic Energy notes that proposed peaking obligations do not include a requirement to comply with a daily peaking limit as is required under the current access regime.

6. Secondary Market

6.1 Submissions to the Regulator have asserted that the proposed secondary market is ill-defined and inflexible.

6.2 WMC Resources has asserted:

> *" . . . the proposed Rules for the Secondary Market are lacking necessary detail and confer some privileges on the proponent. For example, it is far from clear as to the priority to be accorded to the holders of contracted capacity seeking to sell on the secondary market as against uncontracted capacity to be sold by Epic. Holders of existing contractual rights should be afforded priority in the sale process as they have entered into binding longer term commitments with large financial obligations."* [4]

6.3 Western Power was similarly concerned about Epic Energy's role in management of the Secondary Market. It was also raised the issue of the Secondary market limiting the ability of shippers remaining on contracts entered into under the access regime of the Gas Transmission Regulations 1994, and under the current access regime, to access interruptible capacity.[5]

6.4 AlintaGas has argued that:

> *" . . . the Secondary Market appears to be complex and inflexible. Epic Energy will gain most from an inflexible Secondary Capacity market because users will not be able to sell or buy Secondary Capacity in an effective manner. Some users will have an excess of unused firm capacity whilst other users will have purchased overrun capacity from Epic Energy. In both cases, Epic Energy benefits at the expense of users."*

6.5 Epic Energy intends to give further consideration to these and other issues raised in respect of the proposed Secondary Market. Epic Energy has, however, sought to structure the

[4] WMC Resources, Submission on the Proposed Access Arrangement for the Dampier to Bunbury Natural Gas Pipeline, p. 4.
[5] Epic Energy Access Arrangement for the DBNGP, Western Power's Submission Number 5, Other Reference Service Issues and Policies, p. 10.

Secondary Market as a market which facilitates the short term transfer of capacity through competition between itself and shippers.