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29 May 2009

Goldfields Gas Pipeline, Gas Access
Economic Regulation Authority
PO Box 8469
Perth BC WA 6849

by email: ggp@era.wa.gov.au

**RE: SUBMISSION - GOLDFIELDS GAS PIPELINE - ISSUES PAPER ON THE
PROPOSED REVISIONS TO THE ACCESS ARRANGEMENT**

Dear Mr Rowe,

Synergy is pleased to provide this submission to the Economic Regulation Authority concerning the proposed revisions to the Goldfields Gas Pipeline Access Arrangement.

If you have any questions concerning the submission please do not hesitate to contact Catherine Rousch, Manager Wholesale Gas Regulatory & Compliance, on 6212 1125 or at catherine.rousch@synergy.net.au.

Regards,

Trevor James
Head of Wholesale
Synergy



Goldfields Gas Pipeline
Issues Paper on the Proposed Revisions
to the Access Arrangement

Submission
to
Economic Regulation Authority

29 May 2009

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1. Introduction

Synergy is pleased to provide comment on the *Goldfields Gas Pipeline Issues Paper on the Proposed Revisions to the Access Arrangement* (**Issues Paper**¹), recently released by the Economic Regulation Authority (**ERA**).

Since entering the retail gas market in 2003, Synergy has become the second largest gas retailer in Western Australia (**WA**). Synergy currently supplies gas to one industrial customer in inland WA via the Goldfields Gas Pipeline (**GGP**); the gas is used for electricity generation. As such, Synergy has a current gas transportation agreement with Goldfields Gas Transmission Pty Ltd (**GGT**), the owners of the GGP.

2. Summary

In this submission, Synergy raises a number of concerns that the ERA should be particularly mindful of when forming its decision on the proposed Access Arrangement². Specifically:

- The GGP, whilst well-utilised, may benefit from being more carefully regulated to encourage greater access.
- A limitation on capacity available for reference services may result in pipeline users having to retain surplus capacity at a cost and may severely reduce competition in the market as others are unable to obtain capacity.
- The quantity of spare capacity on offer is of concern. Synergy considers 4.12 TJ/day to be far from sufficient for a pipeline with a nominal fully expanded capacity of 167 TJ/day.
- Tariffs need to be fair and transparent to all pipeline users; any elevated reference tariffs associated with covered capacity will reduce gas market competition. Synergy would support closer scrutiny of GGT's election to exclude any capacity from coverage so as to determine whether covered assets are contributing to uncovered assets.
- Any changes to the gas specification of the GGP need to ensure that competition in the gas market is not lessened as a result.
- Any investigative costs that are passed on to prospective users must be transparent, fair and reasonable.

¹ *Goldfields Gas Pipeline Issues Paper on the Proposed Revisions to the Access Arrangement*, Economic Regulation Authority, Western Australia, 22 April 2009.

² *Goldfields Gas Pipeline Proposed Revisions to Access Arrangement*, Goldfields Gas Transmission, 23 March 2009.

3. Detailed Comments

3.1. Spare Capacity

The Issues Paper notes that the proposed Access Arrangement significantly changes the current approach towards the provision of spare capacity.

Whilst the approach of covered capacity, comprising a reference service and negotiated services, will be maintained, a reference service will only be offered for spare capacity in the pipeline as at 23 March 2009 - an amount of approximately 4.12 TJ/day. Any spare uncovered capacity will not automatically be available to users.

Synergy is concerned with this approach for two reasons:

- Whilst there is a need for foundation customers that underwrite firm capacity, it is not efficient to require parties to obtain surplus covered capacity that could remain largely unutilised. Synergy understands that there is currently a great deal of unused capacity in the GGP that is contracted, but never utilised; and
- Limiting access to capacity reduces competition at the retail end of the market, which ultimately leads to higher gas prices.

Synergy also questions the quantity of spare capacity that will be made available via the reference service. With a nominal fully expanded capacity of 167 TJ/day, limiting spare capacity to 4.12 TJ/day means that just 2.5% of the total capacity of the pipeline will be made available under the proposed Access Arrangement. Synergy considers this quantity to be far from sufficient for a pipeline supplying a region of considerable industrial growth with no alternate gas supply infrastructure.

3.2. Reference Tariffs

The proposed Access Arrangement notes that total revenue is allocated between the reference service and other services such that the reference tariff reflects costs (including capital costs) that are:

- (i) Directly attributable to the provision of the reference service; and
- (ii) Attributable to providing the reference service jointly with other services.

That is, the reference tariff is designed to recover the reference service revenue from users of the reference service.

The Issues Paper notes that the terms and conditions for any expanded capacity will be negotiated as uncovered capacity and hence fall outside the Access Arrangement. This means that any incorrect allocation of costs could see users of covered capacity paying more for reference tariffs than they should.

Synergy believes that, in order to determine whether covered assets are contributing to uncovered assets under the proposed Access Arrangement, there needs to be a proper examination of GGT's election to exclude from coverage a capacity of 42 TJ/day. Any elevated reference tariffs associated with covered

capacity will reduce retail gas market competition in central WA. Reference tariffs need to be fair and transparent to all pipeline users.

3.3. Gas Specification

Synergy supports, in principle, the WA Government's current proposal to broaden the state's gas specifications. This proposal is aimed at reducing barriers to entry for new gas fields and facilitating gas flow between major pipelines which currently impose different specifications.

The proposed Access Arrangement includes changes to the gas specification of the GGP to bring it in line with the gas specification of the DBNGP. Synergy is supportive of this alignment but only to the extent that it does not act to lessen competition in the gas market.

3.4. Investigations

The Issues Paper notes that, under the proposed Access Arrangement, a prospective user must agree to bear the costs if an investigation is required to determine whether capacity is available in the pipeline. Whilst Synergy acknowledges that an investigation may accumulate expenses, any costs that are passed on to prospective users must be transparent, fair and reasonable.