

15 April 2004

Productivity Commission
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Collins Street East
Melbourne VIC 8003

Email: gas@pc.gov.au

Dear Sir/Madam

Review of the Gas Access Regime – Public Hearings

I refer to the Productivity Commission's Review of the Gas Access Regime, and more particularly, the Public Hearing held by the Commission in Adelaide on 31 March 2004. After reading the transcript of these proceedings it is clear that it is important for DEI to respond to a number of the statements made in order to set the record straight.

In particular, DEI refers to the following observations by the Secretary of the Electricity Consumers Coalition of South Australia and the representative of the Chair of the Energy Users Coalition of Victoria (the Coalitions):

*'During a recent Moomba crisis, the cost for delivered gas in New South Wales and South Australia increased dramatically. The main beneficiaries of these rises were the SEA Gas and EGP pipelines. This provides a clear example of the market power that the gas pipelines have and the rents they can extract.'*¹

*'... the gas transport industry has strong market power, and we could actually see the rent-taking during the recent Moomba crisis – the cost of transport on SEA Gas and EGP went up quite dramatically during those two months.'*²

*'There was a lot of gas available out at Longford. There was a lot of capacity on the SEA Gas and on the EGP pipelines and that's where we actually saw that there was monopoly pricing on those pipelines.'*³

DEI is not in a position to comment on pricing by the SEA Gas pipeline during the Moomba crisis, however, as owner of the Eastern Gas Pipeline (EGP) DEI is in a position to publicly inform the Commission regarding EGP pricing over that period.

The above statements imply that once DEI became aware of the Moomba crisis it put to the market new and more expensive transportation tariffs for haulage from Longford to New South Wales. This is simply incorrect.

¹ M. Aamo, Energy Users Coalition of Victoria.

² D. Headberry, Electricity Consumers Coalition of South Australia

³ *ibid*

At the time of the Moomba crisis the EGP was offering two forms of forward haulage into the NSW market: “Firm” and “As–Available”. For those customers with pre-existing Firm Forward Haulage contracts the applicable tariff for contracted volumes during the Moomba crisis did not change. However, as the Moomba crisis resulted in significant additional gas flows along the EGP there was a need for additional contracted capacity to meet those flows. As would be the case for all short term one-off transmission capacity arrangements in Australia (that DEI is aware of anyway), these additional flows were contracted through As-Available contracts. Presumably it is the tariffs for the As-Available Forward Haulage that the Coalitions were referring at the Public Hearing. DEI advises that the tariff for As-Available Forward Haulage did not change as a result of the Moomba crisis.

Since commissioning of the EGP in 2000 DEI (in accordance with its Non-Discriminatory Access Policy) has posted on its web page tariffs applicable to As-Available Forward Haulage. These tariffs have not changed since EGP commissioning, other than with movements in CPI. In fact, As-Available Forward Haulage tariffs have, in fact, reduced in real terms since 2000 as the annual tariff increase is limited to 75 per cent of CPI.

As such, DEI believes that the actual behaviour of the EGP (as opposed to the behaviour implied at the Public Hearing) belies the statements made by the Coalitions that EGP price movements during the Moomba crisis evidenced monopoly pricing. There were no price changes on EGP and therefore no rent seeking by the EGP during the Moomba crisis.

I also refer to the following statement made at the Adelaide Public Hearing:

‘... you should have been able to say, “Oh, no, for the good of the country we’ll [the EGP] just put the extra gas through”...’⁴

This is exactly what the EGP did. Every shipper’s request for additional capacity was accommodated at the pre-existing and prevailing tariff. DEI further advises that the EGP flowed substantial additional gas volumes on the basis of good faith informal arrangements, with formal contracts entered into days after the event, to ensure an immediate response to the emergency and to minimise disruption of gas supply into NSW. DEI points out for the record that this behaviour is not consistent with the behaviour of a rent-seeking monopolist.

Should the Commission require any clarification on the points made in this letter please feel free to contact me on (03) 9685 1061).

Yours sincerely

Stephen Livens
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⁴ D. Headberry, Electricity Consumers Coalition of South Australia