

29 October 2004

Manager – Energy Market Reform Team
National Energy Market Branch
Department of Industry, Tourism and Resources
GPO Box 9839
Canberra ACT 2601

Dear Sir/Madam,

Re: Submission on National Gas Emergency Response Protocol Issues Paper

Response from Terra Gas Trader (TGT)

TGT is a specialist trading organisation with expertise in contract-based wholesale and retail gas sourcing and delivery for long-term and spot purchases and sales.

TGT holds long term gas supply contracts with Santos and its joint venture partners in the Cooper Basin. In addition, TGT holds long term haulage contracts with Epic Energy to ship gas through the Moomba - Adelaide Pipeline System (MAPS). In the period to 2006, those haulage contracts account for over 60% of the capacity of the pipeline.

TGT's major customers are the largest gas-fired electricity generators in South Australia. These include:

- TXU's 1280MW Torrens Island Power Station;
- International Power's 487MW Pelican Point Power Station and their peaking generators at Mintaro (90MW) and Dry Creek (156MW);
- the 190MW co-generation plant at Osborne which is jointly owned by Origin and ATCO.

TGT also supplies gas and haulage capacity to gas retailers and is a registered shipper and swing service provider in the SA Gas Retail Market.

TGT is a 100% owned subsidiary of Tarong Energy Corporation, a Queensland Government Owned Corporation.

Moomba Incident of January & February 2004

The impact of the Moomba Incident of January 2004 was keenly felt at TGT. While some of TGT's customers were able to access gas supplies via the SEA Gas pipeline, other significant customers were fully dependent on the MAPS. As a result, TGT's contracts were largely overridden during the shortfall period in deference to arbitrary SA Government allocation of available Moomba gas.

General Comments on the Issues Paper

TGT welcomes the identification of gas fired power stations, the ability of the market to manage shortfalls within existing contractual arrangements and the timing of Government involvement as crucial concerns in the formation of a National Gas Emergency Response Protocol.

▪ Gas Fired Power Stations

78% of the nameplate capacity of generators in SA is gas fired meaning that the bulk of gas consumed in this state is done so in the production of electricity. Once this fact is acknowledged, the importance of considering the unique requirements of gas fired generators in any National Gas Emergency Response Protocol becomes self-evident.

While it may be expected that during gas crises in SA, electricity prices in the region would most likely rise to reflect restricted fuel supplies for the state's generation plant, the interconnected nature of the NEM could lead to a situation where prices interstate are higher than those in SA. Without intervention, this would cause electricity to flow east across the interconnectors putting more strain on gas supplies in SA. TGT proposes that an approach limiting the occurrence of such counterproductive results be considered in the development of the Protocol.

Other issues to be considered include but are not limited to:

- minimum gas requirements for stable output in individual generators;
- the impact of abrupt stopping and starting of equipment, particularly on base-load plant;
- minimum gas requirements to maintain adequate spinning reserve (given that considerable spinning reserve is provided on a national level by gas-fired plant in SA);
- availability of electricity interconnection capacity and availability of interstate generation;
- minimum gas pressure requirements;
- Ability to burn alternative fuels and the associated cost (e.g. some power stations can generate electricity using alternative fuels but at a significantly higher price than they can using gas. Who should pay the premium if alternative fuels are used to alleviate or avoid a gas crisis?);
- Heat rates and the most efficient use of available gas.

▪ Existing Contractual Arrangements

Prudent operators in the national gas market will already have in place robust contractual measures for dealing with both minor and major curtailments. TGT has such measures in place that delineate between firm and non-firm gas and firm and non-firm haulage. These measures allow TGT to allocate restricted quantities of gas between customers according to contractual entitlements during gas supply/delivery interruptions. If Government intervention did not occur in a gas crisis, TGT would have the contractual means to manage its portfolio of customers.

▪ Government Intervention

TGT proposes that Government intervention should be used as a last resort measure that is undertaken only after all contractual alternatives have been exhausted. The danger inherent in early intervention by Government is that those market participants who have enough firm contracts in place to satisfy their customers and contractual rights to manage interruptions are disadvantaged when allocations are made to end-

users without regard to the supply and haulage contracts supporting each market participant. A market participant who is able to successfully lobby Government to intervene when their contractual situation becomes untenable will have no incentive to back up their gas sales with firm supply and haulage contracts when they can use cheaper, non-firm contracts with a Government safety net.

According to the definition of a gas emergency under 2.1 of the Issues Paper, Government intervention can be justified thus:

“A gas emergency is any gas-related event that... threatens the ability of the gas delivery system to meet customer demand...”

While this remains the case, gas market participants may not feel the incentive to fully match firm customer demand with firm supply and haulage contracts.

On those extreme occasions when Government intervention is deemed necessary, TGT proposes that curtailments be conducted in accordance with a load shedding register of specific metered sites. The register envisaged would list specific metered sites in order of curtailment. While certain industrial processes lend themselves to curtailment, lead times may be required to minimise plant and/or stock damage. Conditions such as this and others would be included in the register and considered before curtailment notices are issued.

A thoroughly researched register prepared well in advance of any crisis that was widely debated and publicly available would lend transparency to the curtailment process. It would also eliminate the problem of lobbying by particular industry groups interrupting the processes of crisis management.

TGT hopes that the comments contained within this submission prove helpful in the formation of the National Gas Emergency Response Protocol. We look forward to responding to the Options Paper in December.

Yours faithfully



Rod Phillips
General Manager
Terra Gas Trader Pty Ltd