



28<sup>th</sup> June 2016

BRIEFING NOTE

TMEC – Gas issues

Overview

TMEC remains concerned with the status of the roll out of natural gas as an additional supply of energy in Tasmania. Currently in Tasmania only a threshold cumulative volume of gas is being used by gas customers who share the fixed cost transmission of gas to Tasmania as charged by the current pipeline owner. There is a significant risk that gas transmission costs could increase to the remaining users should one or more the major users initiate a substantive reduction in the volume which they currently consume. The subsequent increase in transmission costs - created when the same fixed/standing cost is redistributed across a lesser number of consumers and/or volume offtake - may serve to tip the economics of gas as an alternate energy source to unviability. In the event gas is not able to be used as a competitive alternate energy source, it is highly likely the ongoing viability of the respective business/s will be seriously threatened.

TMEC believes the State Government has a social and economic leadership role to play in ensuring the demand for gas as an alternate source of energy remains both viable, competitive and a secure over the longer timeframe in which businesses compete for returns on the investments which they have made.

TMEC strongly believes gas can play a critical role as an additional source of energy in the State, ultimately reducing Tasmania’s historical heavy dependence on hydro generated electricity. The immediate strategic use of gas as an energy source will provide diversification in energy options, increase competitiveness in existing industry and provide industry/commercial attraction of new business to the State. To date gas has been underutilized in the economy and there are no strategic objectives or plans voiced or evident to use gas as a lever to broaden Tasmania’s industrial base to one based on advanced manufacturing and grow the economy over time.

TMEC holds a strong view that the Tamar Valley Power Station is a critical strategic asset for Tasmania, both in terms of backup security for hydro generated electricity as well as being a cornerstone in securing competitive transmission and supply costs for its own requirements and in partnership with industry in the longer term.

TMEC members and all gas users are concerned that there is no certainty on gas transmission pricing beyond 2017.

TMEC’s position is that a long-term gas transmission agreement for TVPS provides certainty for all users and also underwrites the position of TVPS as a critical asset to maintaining energy security. A short to medium term rollover of the TVPS gas transmission agreement is not a satisfactory outcome.

TMEC considers the certainty of a long term gas transmission contract as a key enabler for retaining existing and attracting new manufacturing businesses to Tasmania.

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## Key Points

1. TMEC believes there is a critical role for gas as an **additional source of energy in the State, ultimately reducing Tasmania's historical heavy dependence on hydro generated electricity. The immediate strategic use of gas as an energy source will provide diversification in energy options, increase competitiveness in existing industry and provide industry/commercial attraction of new business to the State.**

However, the growth in gas consumption and utilization of key gas infrastructure assets such as the TGP transmission line is poor. There does not appear to be a strategy for gas in the State and whilst gas was part of the Government's Energy Strategy as a source of energy to TVPS for electricity generation, there does not appear to be any strategic objectives for gas as an energy source per se.
2. Many of the TMEC members were key foundation transmission customers for the TGP asset in concert with TVPS. TMEC members who rely on gas as a key and competitive energy source for their business are now at significant risk of increases in gas transmission pricing as a result of a potential de-contracting of transmission capacity by the largest gas user in the State, viz. TVPS.
3. TMEC members and all gas users are concerned that there is no certainty on the pricing of gas transmission pricing beyond 2017. On the basis that the TGP asset is privately owned by Palisade Investments who is a monopoly provider of an unregulated asset, TMEC members are concerned that without a major underpinning gas transmission agreement with sufficient tenure, gas providers and users alike will be exposed to uneconomic (and uncompetitive) transmission pricing as a result of a transmission revenue shortfall to Palisade.
4. Palisade has indicated that as an investor, they quite reasonably expect a commercial return on the TGP asset and as such there does not appear to be significant headroom to impair the asset. This appears to be driven by an upcoming re-financing for Palisade.
5. The earlier decision by Hydro Tasmania and the State Government to decommission the Tamar Valley Power Station Combined Cycle Gas Turbine (CCGT) and sell it was a poor decision. TMEC members were not consulted on this divestment, and this raises concerns over the due diligence and risk assessment undertaken at the time. Furthermore, this decision is concerning in light of the Hydro Board Risk Committee's assessment of a Basslink failure that was undertaken as a result of failure which occurred months prior to the very recent Basslink failure.
6. TMEC holds a very strong view that the TVPS is a key strategic asset for Tasmania and is a core element of Tasmania's energy security portfolio.
7. TMEC is concerned that the protracted nature of negotiations between Hydro and Palisade does not support longer term de-risking of gas transmission issues, and does not appear to look to the overall energy security issues and an overall energy strategy for the State.
8. TMEC's position is that a long-term gas transmission agreement provides certainty for all users and also underwrites the position of TVPS as a critical asset in maintaining energy security. A short to medium term rollover of the gas transmission agreement is not a satisfactory outcome. TMEC considers the cost of a gas transmission agreement (for example a 10 year contract) is circa \$100 to \$150 million. This is not excessive and serves to meet the core objectives – economic transmission priced at a competitive rate, certainty for existing businesses and users in the State, able to be used

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as a lever to attract investment to the State, and a vital element in the State's overall energy supply and security of supply capability.

9. Whilst the recent ACCC East Coast Gas Market Review has provided recommendations in relation to gas transport which may assist in reducing market power for monopoly gas transmission assets – these recommendations will take time to develop into policies and new rules if they progress. It is not inconceivable that they may take 2 years or longer before they may be implemented. This timeframe does not provide any comfort to TMEC members in the medium term as they have long life assets – often competing for funding within their own business hierarchy as boards evaluate and prioritize their long term investment decisions. Other more immediate actions and options are clearly needed.

**TMEC respectfully suggests the following options/recommendations be on the table for consideration:**

- **The Tasmanian Government**
  - adopt an energy security strategy which recognizes that TVPS is a critical element in the infrastructure used in providing energy security;
  - support or direct the negotiation of a timely agreement for the transmission of gas between Hydro Tasmania and Palisade to end the uncertainty on gas transmission (with sufficient commercial tenure – at least 5 to 7 years);
  - seriously considers acquisition of the gas transmission asset and incorporate into Tas Networks business or the State Government makes an equity investment in the asset to provide some ownership and pre-emptive rights;
  - consider 'regulatory coverage' of the asset (noting point 9 above);
  - incentivize Palisade to divest the asset to another entity which may include the State Government as part of a consortia;
- **TasGas or Aurora** become the 'transmission facing counterparty' with Palisade for all transmission capacity in the State thereby removing Hydro from the negotiation processes for the large capacity agreement for TVPS (subject to competition issues).

TMEC remains committed and willing to work openly with the State Government to develop and implement strategies which will confirm gas as a strategic core element in Tasmania's energy portfolio.

Wayne Bould

CEO - TMEC