

18 May 2009

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JGN application for pipeline reclassification

AGL refers to the application before the National Competition Council (NCC) by Jemena Gas Networks (NSW) for the reclassification of its trunk pipelines as distribution pipelines.

AGL's position

AGL supports the NCC approving the application by Jemena Gas Networks for the reasons set out below.

National gas objective test

JGN's application before the NCC is an application under s128 of the NGL. In making its decision, the NCC must have regard to (a) the national gas objective and (b) the pipeline classification criterion.

The national gas objective is set out in s23 of the NGL:

"The objective of this Law is to promote efficient investment in, and efficient operation and use of, natural gas services for the long term interests of consumers of natural gas with respect to price, quality, safety, reliability and security of supply of natural gas."

AGL is of the view that JGN's application makes a credible case for why the reclassification of the trunk mains would satisfy this test. Their case rests on the following arguments, with which we fully concur:

- Operational efficiency through treatment as a single distribution network
- Administrative simplicity for Users who retail gas in the Sydney Hub through of a single reference service
- Operational separation will require considerable outlays on the establishment of 21 custody transfer metering arrangements at existing off-take points along the trunk mains, but with no corresponding benefits associated with this expenditure.

Pipeline classification criterion

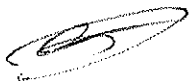
The pipeline classification criterion is set out in s13 of the NGL. The first (and major) leg of the criterion, described in s13(1), is whether the primary function of the pipeline is to reticulate gas within a market (which is the function of a distribution pipeline) or to convey gas to a market (which is the function of a transmission pipeline). What the STTM describes as the Sydney Hub (Sydney, Wollongong, and Newcastle) has been operating as a single retail market for regulatory purposes. There are well-defined custody transfer stations that serve as city gates to the market downstream of these gate stations. AGL sees no merit in overturning this long-standing arrangement by requiring further segmentation through the treatment of the trunk mains as transmission pipelines.

Secondary criteria for drawing a distinction between distribution and transmission pipelines are described in s13(2). Many of these relate to technical characteristics (diameter of pipe, operating pressures, linear or dendritic configuration, etc) and are not overly relevant to the economic character of a pipeline. It needs to be remembered that the concept of a licensed pipeline arises from technical safety concerns relating to pressure vessels (in the case of natural gas, any operating pressure in excess of 1,050kPa). There is, quite appropriately, a prescriptive regime of licensing and monitoring to ensure public safety. It does not follow, however, that every licensed pipeline is a transmission pipeline in its function.

A distribution network is essentially a hierarchy of pipes of decreasing pressure and diameter, with field and district regulators performing the function of managing pressures downward to feed the next level down. Within such a hierarchical structure, it is the case that some pipes at the upper end of the system design may have some of the point-to-point features and related technical characteristics of transmission pipes. However, these pipes are carrying (or conveying) gas that has already been delivered to the city gates.

Should you have any queries, please contact George Foley on (03) 8633 6239.

Yours sincerely



Alex Cruickshank
General Manager Energy Regulation

- > Being selected as a member of the Dow Jones Sustainability Index 2006/07
- > Gaining accreditation under the National GreenPower Accreditation Program for AGL Green Energy®, AGL Green Living® and AGL Green Spirit
- > Being selected as a constituent of the FTSE4Good Index Series