

24 March 2006

The Chief Executive
Queensland Competition Authority
GPO Box 2257
Brisbane QLD 4001

Email: gas.submissions@qca.org.au

Attention Mr John Hall

Dear Mr Hall

**Additional Gas Volumes - Toowoomba Network
Cogeneration Plant at KR Castlemaine, Mort Street Toowoomba**

Origin Energy (Origin) and Ergon Energy Utility Services (Ergon) would like to bring the QCA's attention to additional new volumes in the Toowoomba network due to a substantial project that reached financial close after Allgas submitted its volume forecasts for the current Access Arrangement review. We believe that this additional MDQ and associated volumes should reduce default tariffs in the Toowoomba region.

Origin Energy and Ergon Energy have agreed that the QCA may publish this letter on the QCA's website if it so chooses.

Origin and Ergon have entered a 15-year conditional contract to supply gas to a proposed co-generation plant at the KR Castlemaine premises in Mort Street, Toowoomba.

Origin and Ergon are keen to see this project progress to viable completion since it would be expected to provide a number of environmental advantages, assist in reinforcing the Toowoomba electricity network, potentially reduce the gas network tariffs paid by other customers in the Toowoomba region and support regional employment and development in Toowoomba. The Minister for Energy, John Mickel attended a ceremony on the 23rd of January 2006 in Toowoomba signifying the contractual close of this project (which occurred on 8th December 2005) and is very supportive of its progress to development.

Plant Details

The relevant details of the cogeneration plant's requirements are;

Maximum Hourly Quantity (MHQ)	75 GJ
Maximum Daily Quantity (MDQ)	950 GJ
Minimum Annual Quantity (Min AQ)	240 TJ
Maximum Annual Quantity (Max AQ)	300 TJ

Based on Access Arrangement review documents¹ on the QCA website we note the following;

- Allgas and MMA forecast (Table 4-6 on page 38)² a gradual decrease in MDQs for the Toowoomba region (due to the likely loss of one customer).

¹ McLennan Magasanik Associates Pty Ltd, Final report to Queensland Competition Authority Demand forecasts for Allgas, 22 November 2005

² ibid

- MMA³ notes (page 9) that “Although consumption by demand customers in Toowoomba has grown at over 3% pa over the period as a whole, over recent years it has shrunk due to the loss of volume of one large customer” (we assume this is the same lost customer as above).
- Based on the Allgas forecast for 2006 of 3,419 GJ, the proposed cogeneration plant would add a further 27.8% of MDQ to the Toowoomba network.
- Based on the default network tariffs for Zone 7, the cogeneration plant at the KR Castlemaine site would yield an annual revenue to Allgas of around \$135,000 (2005/06 \$s). If there were no further capital upgrades required to supply this site, this revenue would represent an increase in revenue for this section of the network over the 15-year life of the project in excess of Allgas’ expected revenue using the current forecasts.

This project utilises network assets that would otherwise have been stranded by virtue of the loss of volumes mentioned in the Allgas and MMA forecasts.

The gas supply arrangement between Origin and Ergon for the cogeneration project has a duration of 15 years and represents a significant long-term increase to the MDQ of the Toowoomba network, which has not been allowed for in the current forecasts. In light of this additional long-term gas volume, we believe that the default tariffs for the Toowoomba network should be significantly reduced.

Indeed, Allgas had previously stated that an increase in MDQ and volumes in the Toowoomba region should yield a reduction in network tariffs.

We look forward to discussing this matter further with you and if required would be willing to forward you copies of correspondence between Ergon and Allgas relating to this matter.

Please don’t hesitate to contact Simon Middleton of Ergon Energy on (07) 3023 2535 or David Grove of Origin Energy on (02) 8345 5481 to discuss further.

Yours Sincerely

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³ ibid