Energy for the Regions

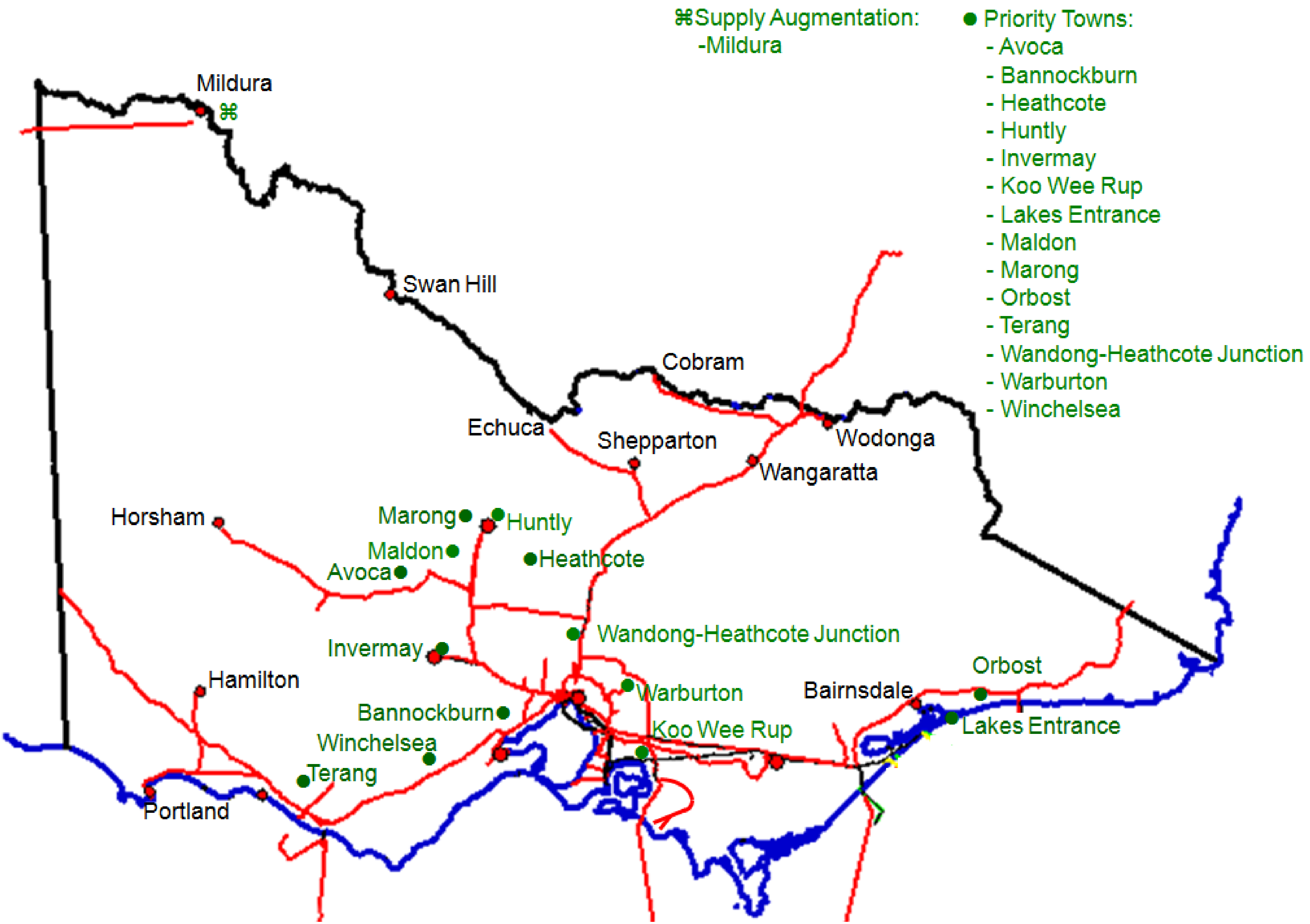
Energy for the Regions

Good morning and welcome.

- Presentation will provide:
  - Program context;
  - An overview of the implementation strategy;
  - Alternative supply opportunities;
  - Current status

Energy for the Regions Program

- The Energy for the Regions Program commenced in March 2011
- It will deliver $100 million over four years to help expand natural gas to communities across regional and rural Victoria.
- The Program focuses on an upgrade to Mildura’s natural gas supply capacity and the delivery of gas to 14 priority communities
- Up to a $1m feasibility study into supply of natural gas to Murray River communities (conventional pipeline)


⌘Supply Augmentation:
-Mildura
● Priority Towns:
- Avoca
- Bannockburn
- Heathcote
- Huntly
- Invermay
- Koo Wee Rup
- Lakes Entrance
- Maldon
- Marong
- Orbost
- Terang
- Wandong-Heathcote Junction
- Warburton
- Winchelsea
Mildura
Swan Hill
Cobram
Echuca
Shepparton
Wodonga
Wangaratta
Horsham
Marong
Huntly
Maldon
Heathcote
Avoca
Wandong-Heathcote Junction
Invermay
Orbost
Hamilton
Warburton
Bairnsdale
Bannockburn
Koo Wee Rup
Lakes Entrance
Winchelsea
Terang
Portland

Program Context

- The provision of natural gas infrastructure is a privatised business in Victoria.
- To extend the natural gas pipeline network to new towns or areas, gas distributors are required to demonstrate that investments are economic.
- There are two main drivers that determine whether new areas will meet this economic requirement:
    1. distance from the existing network; and
    2. and the potential load profile including residential, commercial and industrial customers.

Other local and environmental factors will also impact on project economics.

Program context

- Previous Natural Gas Extension Program delivered natural gas to 34 regional communities ($70m budget)
- RDV adopted a two stage procurement model that it had successfully applied previously:
  - a direct negotiation process with gas distribution businesses to capture early opportunities; and
  - a centralised tender process to supply the balance of towns.

Response of gas distribution businesses to the Program

- The DNP did not elicit a strong response from the gas distribution businesses.
- Distributors identified capital constraints as a key obstacle to Program participation:
  - gas projects compete for internal resources;
  - regional towns are seen as ‘small’ and ‘difficult’; and
  - competition for skills and resources is strong.

Response of gas distribution businesses to the Program

- At the close of the direct negotiation stage RDV was able to reach agreement on two regional gas projects in Mildura and Huntly.

- There was a significant risk that continuation of existing strategy would not result in bids capable of acceptance.

Broadened Strategy

- RDV implemented a broadened approach to Program implementation in order to:
  - favourably change the market dynamics with Victorian gas distribution businesses by introducing (real or perceived) competitive tension into the process; and
  - reduce the capacity of gas distributors to bid an unrealistic cost (and hence higher contribution).

REGIONAL GROWTH FUND

State Government Victoria

Broadened Strategy

- The strategy has three overlapping work streams:
    - the offering of a fixed subsidy or 'bounty' to gas distributors to connect remaining priority towns using conventional pipeline technology;
    - the design of a tender for the development of a delivered gas capacity for regional Victoria utilising CNG or LNG facilities; and
    - the facilitation and establishment of local reticulation networks in towns where gas distributors are not willing to deliver gas to these communities via conventional pipeline technology.

Fixed Subsidy or Bounty

- What is a ‘bounty’?
  - An offer of a fixed subsidy amount to gas distributors to connect priority towns using conventional pipeline technologies.
  - Offered for a specified coverage and design of a distribution network.
  - Bounty offers were made to all three Victorian gas distributors

Bounty

- How did RDV calculate the bounty amount?
  - RDV's technical advisers developed and costed detailed network designs for each of the priority towns.
  - This involved discussions with distributors on network parameters, physical survey of towns and the application of accepted industry unit rates.
  - Revenue forecasts assumptions took into account climate, ABS data and industry accepted consumption and up take profiles.
  - Specific bounty amount were determined for each priority town.

Bounty - Example

Bannockburn

Fixed subsidy offer

$6,640,000

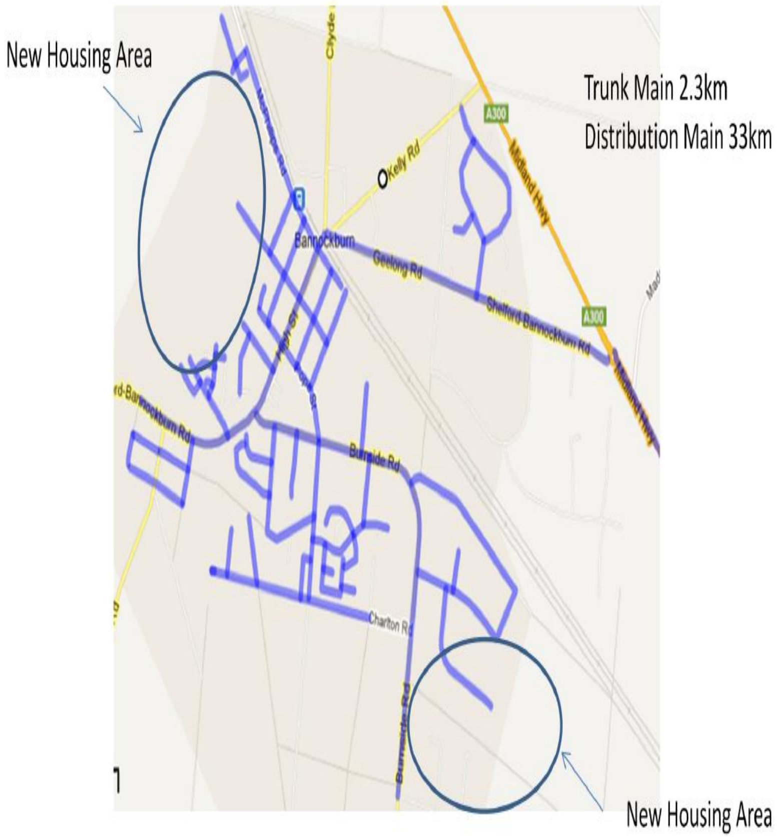
Premises passed

Customer type	Premises on RDV designed gas network
Residential	1,177
Small I/C	30
Med I/C	2

Infrastructure required

Infrastructure	No	Size (mm)	Length (m)	Material
City gate	1			
Field regulators				
Supply main		150	500	Steel
		180	5,500	PE
Distribution				
125mm PE 80 trunk		125	2300	PE
Reticulation main PE80		63	33,057	PE

Bannockburn distribution mains



Bounty

- Why does the bounty offers value for money?
  - The bounty offer is set at a level that makes gas reticulation of each town economically viable for private sector developers of gas distribution networks.
  - It provides gas distributors an appropriate return on investment and value for money for the State.
  - It offers distributors Government committed funding for the reticulation of priority towns on terms which are commercial.
  - It provides gas distributors with flexibility in relation to how this funding can be applied – capital offset subsidy or marketing subsidy.

Bounty outcomes

- The Bounty process resulted in the Government reaching agreement with gas distributors for the connection of six towns:
  - Avoca
  - Bannockburn
  - Winchelsea
  - Koo Wee Rup
  - Wandong-Heathcote Junction
  - Warburton

Alternative delivery solutions

- The high cost of laying pipe has resulted in an increasing incidence of ‘virtual pipeline’ solutions for the transmission of natural gas
- CNG/LNG economic and technical feasibility study confirmed the merits of these options to supply regional Victoria
- Government objective is to ensure towns are supplied at a comparable price and level of service and convenience to natural gas sourced from a conventional pipeline
- Provides an opportunity to capture broader energy security benefits for the State.

CNG and LNG

- What is CNG and LNG?
  - CNG and LNG is natural gas at a different density and is transported to end users / distribution points by road tankers, in much the same way as other transport fuels.
  - CNG is natural gas stored under pressure. It is compressed to a volume less than 1% of natural gas and an energy density of around 200:1.
  - LNG is natural gas chilled to a temperature of less than -160o C to form a liquid. It has an energy density of around 600:1.

CNG and LNG

CNG/LNG Tender Process

- CNG/LNG economic feasibility study
- Expression of Interest process shortlisted energy companies
- Tender released on 3 September 2013
  - $55 million for the remaining seven priority towns
  - $30 million for the connection of Murray River communities ($15m Federal funding from the Murray-Darling Basin Regional Economic Diversification Programme)
- Tender evaluation process shortlisted two companies
- RDV is currently negotiating on the Tender
- Expected outcome in coming months

Discussion

energyfortheregions@rdv.vic.gov.au

energyfortheregions@rdv.vic.gov.au