



Attachment

Whilst it is understood that the Varanus Island explosion constituted a major disruption to the supply of gas to the state of Western Australia it is not widely appreciated that Alinta suffered significant economic loss in managing the supply of gas during this disruption.

Alinta's efforts to manage the supply shortage resulted in it suffering gross losses in the order of \$39 million. This information was publicly disclosed to the market in August 2008.

Following the Varanus Island explosion, Alinta acted swiftly to achieve the following outcomes:

1. Re-establish balance to its own portfolio to ensure that Alinta was not compromising the security of WA's energy infrastructure;
2. Allocate the available gas supply as fairly as possible across Alinta's customer base (having regard the "Guiding Principles for the Allocation of Available Energy" established by the Premier's Gas Supply Coordination Group); and
3. Mitigate the impact of the Varanus Island explosion to Alinta's customers as much as possible.

The above points are described in more detail below.

In the period immediately following the Varanus Island explosion, Alinta engaged with its largest customers to reduce demand and restore balance to its portfolio so as not to jeopardise the security of either the DBNGP, the gas distribution network or the SWIS.

Subsequent to this, Alinta instigated a range of measures to ration available gas supplies to its customers. This included implementing the gas allocation process to industrial and commercial customers and the dissemination of a broad media campaign to encourage reduced consumption by residential customers. The aim of these measures was to spread the burden of reduced supply across as much of Alinta's customer base as possible and in a manner consistent with the "Guiding Principles for the Allocation of Available Energy" established by the Premier's Gas Supply Coordination Group.

Concurrently, Alinta sourced additional supplies of gas at significantly increased costs to mitigate the impact of the Varanus Island explosion to its customers.



Despite these additional costs Alinta continued to supply all gas it was able to procure to its customers at existing contract rates.

The net result of this was that Alinta incurred significant losses; it did not profiteer or increase its energy prices to account for its increased energy costs.

A number of Alinta's commercial and industrial customers' contracts expired within the two month period following the Varanus Island explosion. Alinta offered new contracts to these customers on terms and pricing similar to that which had been offered to other renewing customers prior to the Varanus Island explosion. Most of the customers whose contracts expired during the period of the supply disruption churned to other retailers. Churning customers advised that their reason for leaving Alinta was the greater surety of supply they were able to obtain from other retailers for the balance of the disruption period caused by the Varanus Island explosion.

The Bulletin Board and private negotiations resulted in a number of Alinta's customers successfully sourcing additional supplies of gas in their own right to supplement the gas they were receiving from Alinta. Alinta assisted these customers by making its transport and distribution available so that customers could deliver this additional gas. Such transport and distribution was priced at the same rate as spot transport, but provided a firm service, as opposed to the non-firm service provided by spot transport.

In addition to the above and in relation, specifically, to comments made by other parties in the Inquiry relating to Alinta's behaviour following the Varanus Island explosion, Alinta makes the following comments by way of response:

- Allocations of available gas were made by Alinta in line with the "Guiding Principles for the Allocation of Available Energy" established by the Premier's Gas Supply Coordination Group.
- The contractual structure and physical nature of the WA gas transportation and distribution systems under which Alinta operates restricted its ability to provide guidance on gas availability for customers as follows:
 - Alinta is the supplier of the residential gas load, which is highly variable during winter;
 - Residential load accounted for up to 65% of gas available to Alinta following the Varanus Island explosion;
 - Alinta needed to determine how much gas residential customers had used each day before they could allocate gas to its other customers for the next day;



- Alinta only received this information at approximately 2pm in the afternoon for the previous gas day;
 - This uncertainty meant that Alinta was only able to allocate gas to customers on a day by day basis and inform them of their allocation late in the afternoon of the day prior to the gas delivery day;
 - Alinta acknowledged that for some customers this constituted a significant operational difficulty, but was unable to overcome this until partial supplies were restored and the winter residential gas load become more stable.
- At no time did Alinta collude with Synergy or other retailers as to the terms or pricing offered to customers.
 - Alinta consistently informed its customers that it was acting in line with the “Guiding Principles for the Allocation of Available Energy” established by the Premier’s Gas Supply Coordination Group. Alinta provided regular updates regarding the Varanus Island explosion, both directly and via its website. Alinta also directed customers to the Office of Energy website, which contained details of these principles. Alinta advised customers of the reasons for the timing and duration of gas allocation notices.

In summary the Varanus Island explosion has had a significant impact on Alinta’s reputation, financial position and staff who have experienced significant additional workload in managing the supply disruption. Alinta has also lost a number of long standing and valued commercial and industrial customers as a direct result of the Varanus Island explosion.

In light of the above, Alinta respectfully requests that it be afforded an opportunity to address any misunderstandings or errors of fact that may have arisen out of the hearings. In the absence of such an opportunity, Alinta would be forced to correct such misunderstandings or errors of fact in a public forum.

Alinta would also like to take this opportunity to acknowledge the spirit of cooperation that has been exhibited by its customers and suppliers to assist it in managing the impact of the Varanus Island explosion and sincerely thanks all those parties for their efforts.