

## Case Study

### Underground Gas Storage for TXU Jan99 – Mar99

**Context:** TXU Australia already owned electricity and gas supply and distribution businesses in Victoria. They would have liked to acquire a wholesale business, but this was totally locked up by Esso/BHP who owned the only processing plant in the State. Unfortunately, a fatal accident at the plant meant that supply in Victoria was totally cut off for twelve days. The State Government was under pressure to improve security of supply, and resurrected old plans for an underground gas storage facility in the West of Victoria.

**Our Role:** We persuaded TXU to approach the Treasury, and offer to buy the project and guarantee completion on time. TXU would develop the facility at its own expense, and then operate it as merchant plant, buying gas during the summer and selling it during the winter. While the Treasury were relieved that the project would now be commissioned on time, the Regulator considered that we might be 'hold to ransom' the other gas suppliers at periods of peak demand, and so asked us to make 50% (5PJ) of the storage capacity available to the other suppliers for the first five years.

**Result:** We calculated the projected revenue from 50% of the facility, converted this to an annual fee, and asked the Regulator for this amount. He agreed that we would be paid this sum for the first five years, if we made 5PJ of storage available to the other suppliers. The CFO in Dallas was delighted – he had been somewhat concerned that the project economics were built on an unsupported view of the likely spread between peak and trough gas prices, and was reassured that now at least half of the projected revenue was now secure.

TXU Australia completed the facility on time and it currently operates as a separate profit centre within the TXU Australia portfolio.