The Regulation of Access to Gas Pipelines

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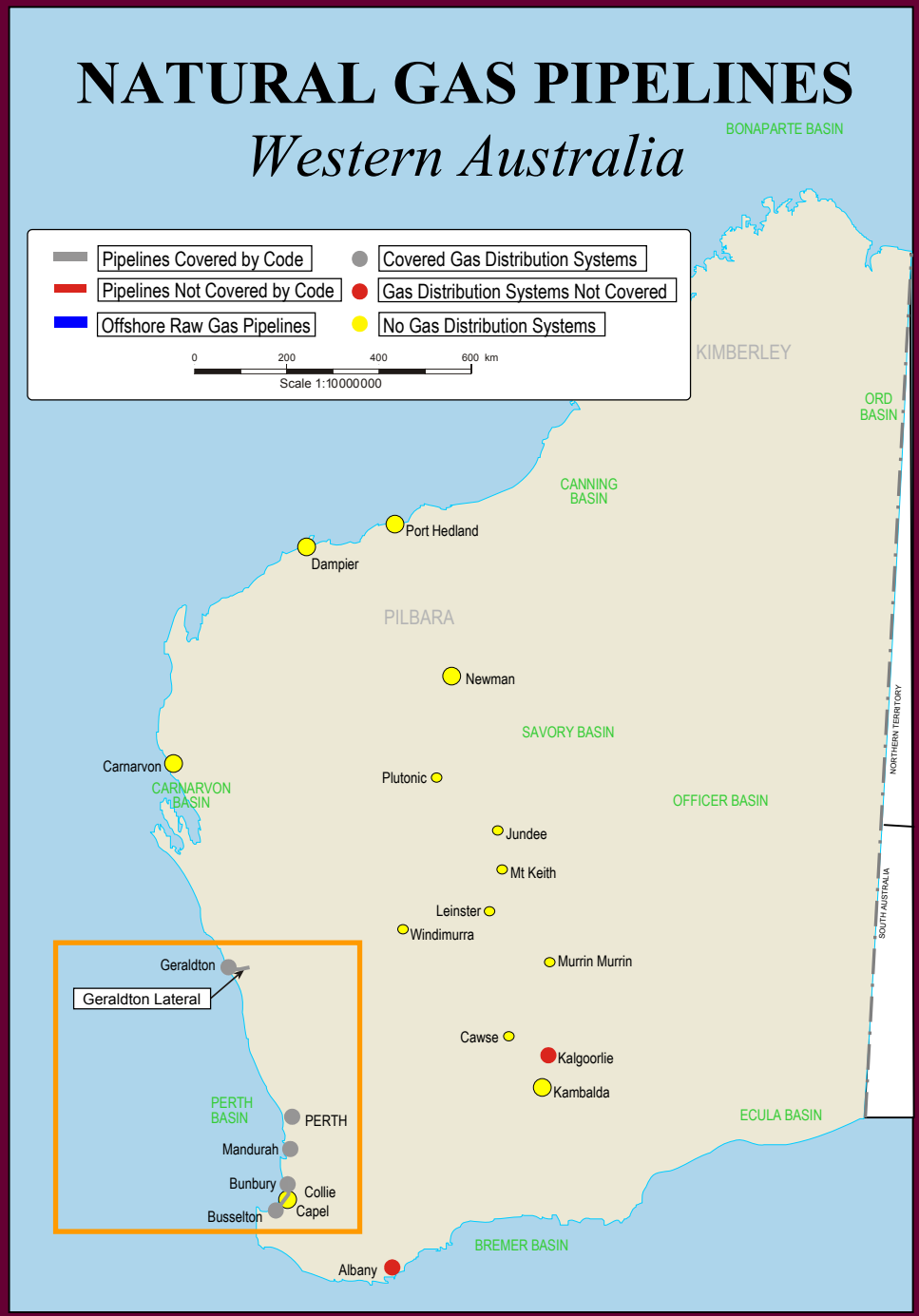
Overview

- Status of gas access regulation in WA
- The Gas Access Code
- Rate of return
- Asset valuation
- Experience with the Code
- Conclusions

AlintaGas Distribution Pipeline Networks



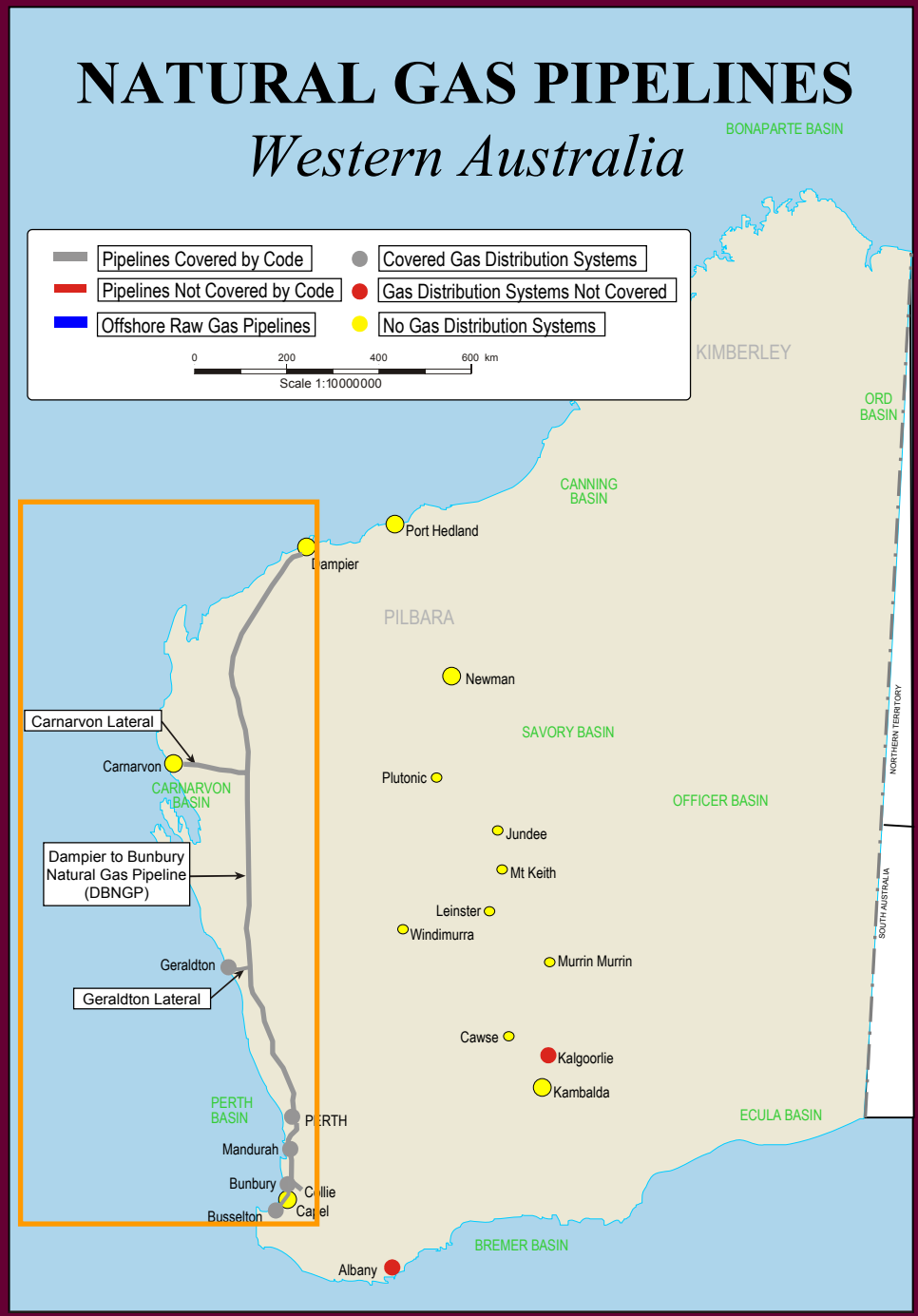
Owner: AlintaGas Networks Pty Ltd

Comprises approx. 10,500 km of Gas distribution pipelines and associated facilities.

Access Arrangement Approved 18/7/2000

There are two networks in Albany and Kalgoorlie that are not covered by the Code.

Dampier to Bunbury Natural Gas Pipeline



Owner: Epic Energy (WA) Transmission Pty Ltd

Commissioned: 1984

Length: 1845 km

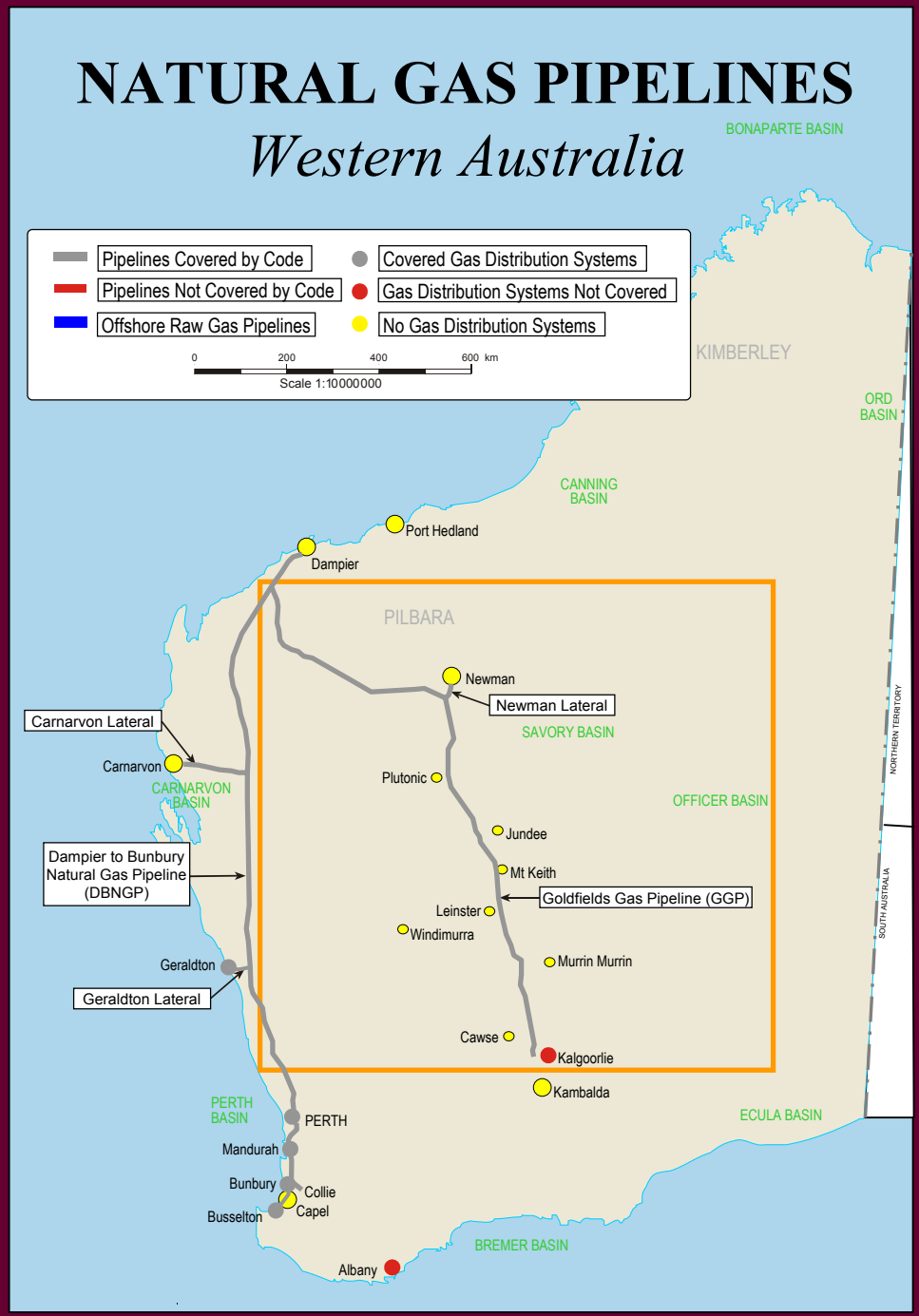
Diameter: 660 mm

Capacity: 600 TJ/d

Average MDQ: 530 TJ/d

Draft Decision on Proposed Access Arrangement issued 21/6/2001

Goldfields Gas Pipeline



Owners: Southern Cross Pipelines Australia Pty Ltd, Southern Cross Pipelines (NPL) Australia Pty Ltd and Duke Energy International

Commissioned: 1996

Length: 1378 km

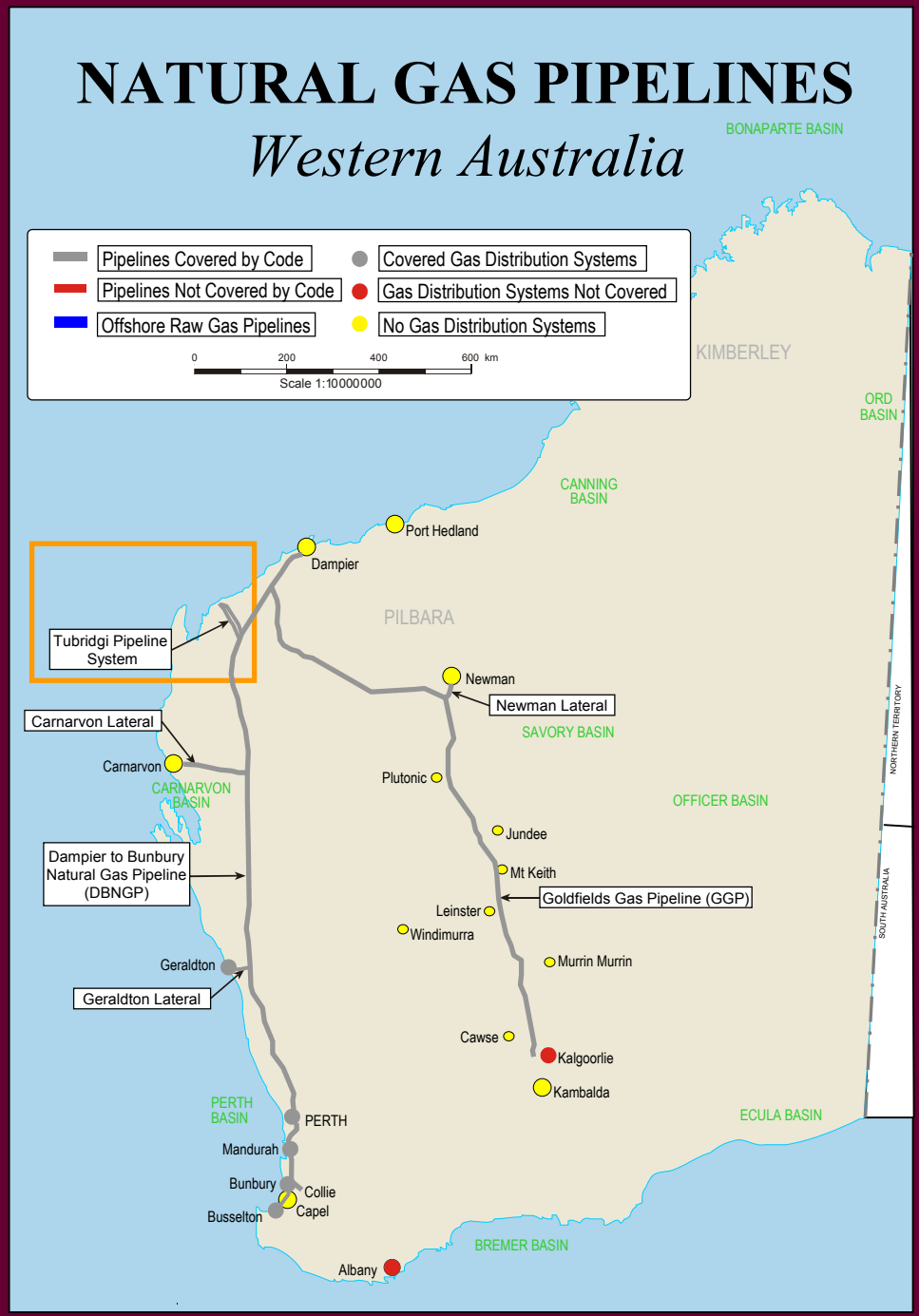
Diameter: Telescopic 400 mm to 350mm

Capacity: 100 TJ/d

Average MDQ: 98 TJ/d

Draft Decision on Proposed Access Arrangement issued 10/4/2001

Tubridgi Pipeline System



Owner: SAGASCO & Pan Pacific Petroleum

Comprises two pipelines the Griffin and the Tubridgi Pipelines.

Tubridgi Pipeline

Commissioned: 1992

Length: 87.5 km

Diameter: 168 mm

Capacity: 30 TJ/d

Griffin Pipeline

Commissioned: 1993

Length: 87 km

Diameter: 273 mm

Capacity: 90 TJ/d

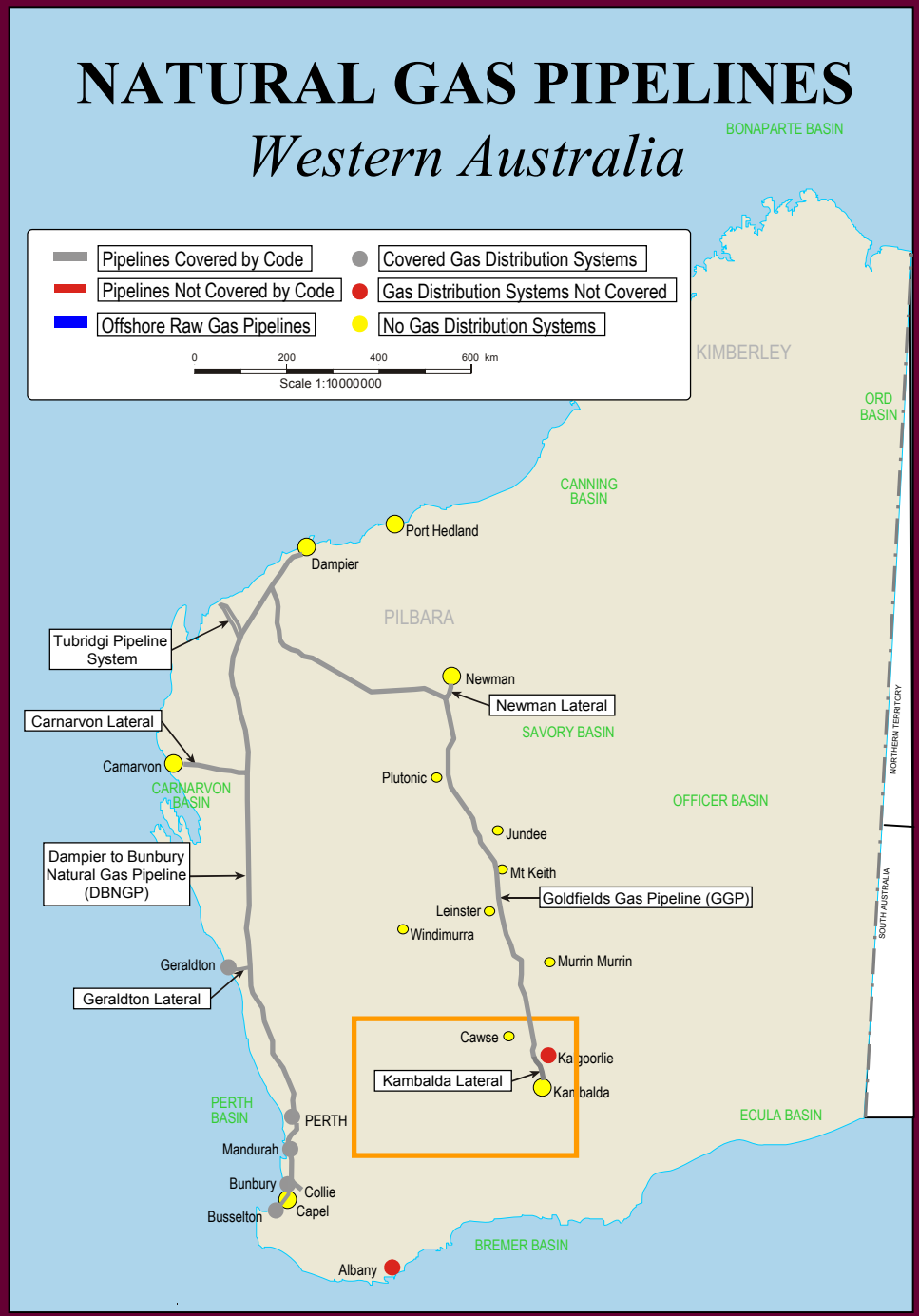
Combined Average MDQ

of about 30 TJ/d

Access Arrangement Approved in 19/10/2001

Review due 19/1/2006

Kambalda Lateral



Owner: Southern Cross Pipelines Australia Pty Ltd

Commissioned: 1996

Length: 44 km

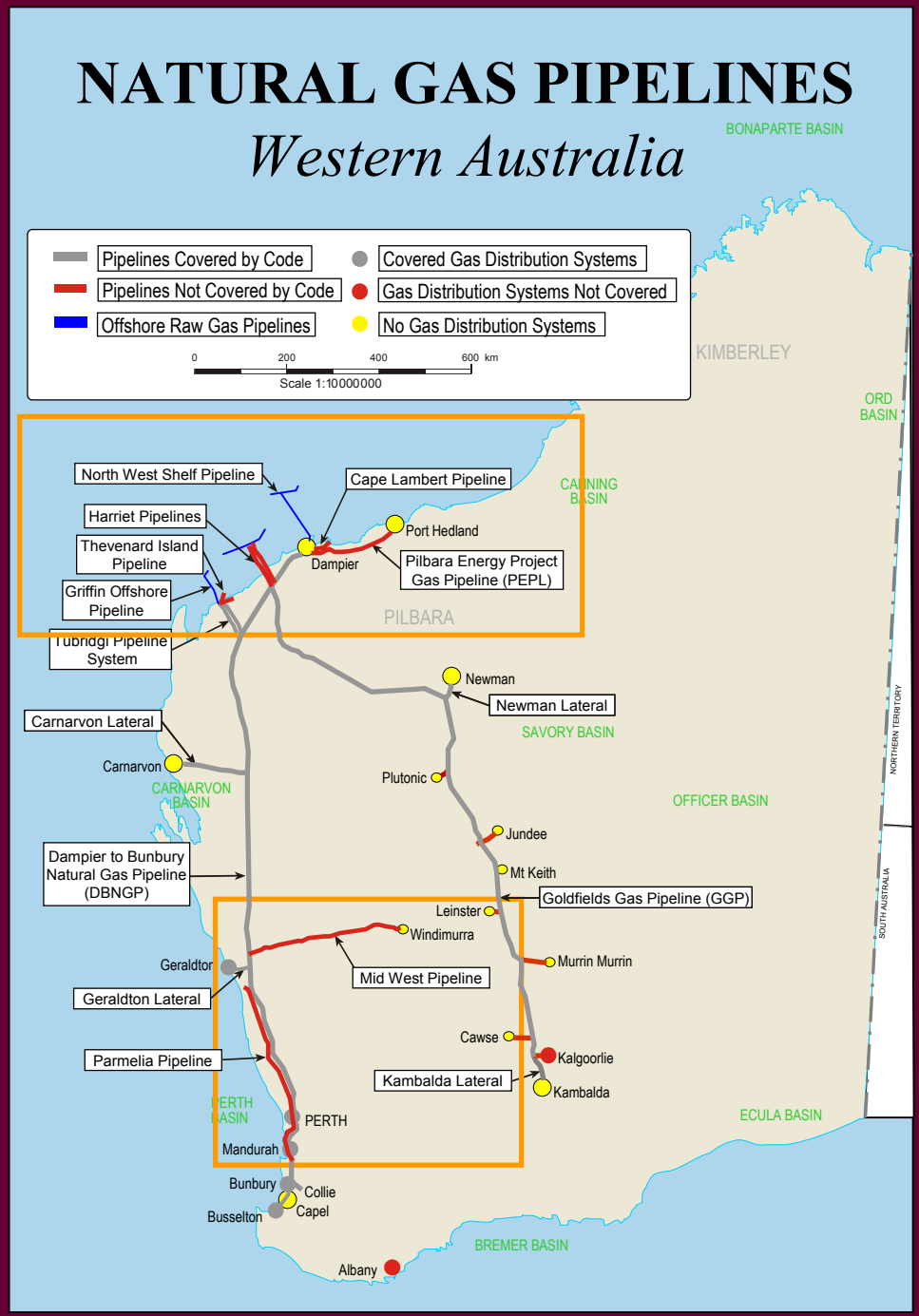
Diameter: 219 mm

Capacity: 15 TJ/d

Throughput: 12 TJ/d

Extension of time to July 2004 given for owner to submit an Access Arrangement

Pipelines not covered or regulated by the Code



Pipelines Not Covered:

- Parmelia Pipeline
- Mid West Pipeline
- Harriet Pipeline
- Pilbara Energy Project Pipeline
- Cape Lambert Pipeline
- Various GGP laterals
  - GGP to Mt Keith
  - GGP to Leinster Power Station
  - GGP to Kalgoorlie Power Station

Unprocessed gas pipelines are not regulated by the National Gas Agreement.

Status – Access Arrangements

- 3 Access Arrangements approved:
  - AlintaGas Distribution Pipeline Networks
  - Tubridgi Pipeline System
  - Parmelia Pipeline (now revoked)
- 2 outstanding – DBNGP & GGP
  - Both subject to court proceedings
  - Progressing the drafting of elements of Final Decisions
- Kambalda Lateral Access Arrangement
  - Subject to an extension of time 1 July 2004

Status – Other Activities

- Pre-approval of Full Retail Contestability costs – AlintaGas Networks P/L
- Member of the National Gas Pipelines Advisory Committee
- Currently preparing an information paper on rate of return for pipelines in WA

The Gas Access Code

- Why regulate?
- What type of regulation?
- Issues relating to RoR & capital base
- Experience with Code

Why Regulate?

- Market failure
- Maintain social and economic outcomes
- Facilitate private sector participation

What Type of Regulation?

- Industry self-regulation
  - Codes of conduct
- Light handed regulation
  - Negotiate/arbitrate model (Rail Access WA)
- Incentive/benchmark regulation
  - National Gas Code
- Prescriptive regulation
  - Price control, revenue control, RoR control

Issues Concerning RoR and Capital Base

- Capital base and RoR are the main determinants of tariff
- Regulators have been quite consistent in their approach to capital base and RoR

RoR

- CAPM most relied on approach
- Most parameters exogenously determined
- Beta is the main parameter open to discretion
- Beta determined by systematic risk
- Other risk diversified or mitigated
- Diversification generally cost free (not intuitive)
- Mitigation may involve cost (insurance premium)
- Cost of mitigation a cash flow issue

Capital Base

- Valuations include DAC, DAHC, DORC and ODV
- These differ by impact of inflation, technology, consumer preferences, etc.
- Code requires ICB to “normally” lie between DAC & DORC
- What is meant by normally?

Experience with the Code

- Initial approval sets the initial capital base
- Subsequent reviews likely to be less onerous
- Information and consultation critical
- Draft decisions offer full scope for review
- Litigious processes costly, but can be necessary

Outcomes

- Balance competing interests
- Promote competition
- Encourage economic development
- Ensure reasonable rate of return to service providers
- Provide value to users of pipelines and gas

Economic Regulation Authority of WA

- Covers access to gas, electricity, rail and water
- Other functions include licensing, pricing and tariffs for certain services
- Proposed 1 Jan 2003 start

General Conclusions

- Regulation is complex and time consuming
- Differing interpretations of the Code is a source of delays and disputes
- Replicating competitive outcomes through regulation is difficult
- Quality information and effective communication are critical
- Code is flexible, but care is necessary to maintain its integrity