



Western Australia

Economic Regulation Authority

www.era.wa.gov.au

SOLUTIONS FOR CLEARER REGULATORY REGIMES IN THE GAS INDUSTRY

K Peter Kolf

Acting General Manager

Economic Regulation Authority

WA Power & Gas Conference 2004

21 April 2004

Overview

- Some thoughts on regulation
- Update on Gas Regulation in WA
- The Economic Regulation Authority of WA
- Observations
- Solutions



Western Australia

Economic Regulation Authority

www.era.wa.gov.au

Why Have Economic Regulation?

- Facilitate private sector provision of essential services
- Consumer protection
- Fair trading
- Optimal resource allocation:
 - Prevent abuse of monopoly
 - Make best use of monopoly infrastructure
- Maintain service standards
- Maintain community standards



Regulatory Frameworks

Three types of frameworks:

- Public sector ownership
- Rate base regulation
- Market based regulation
 - Open access
 - Structural separation
 - Markets in contestable elements
 - Rate base regulation for monopoly elements



Levels of Regulation

- **Industry self-regulation**
 - Codes of conduct
- **Light handed regulation**
 - Monitoring
- **Negotiate/Arbitrate**
 - Rail access WA
- **Incentive/benchmark regulation**
 - National Gas Code
- **Prescriptive regulation**
 - Price control, Revenue cap, Rate of return regulation



Issues in Regulation

- Rate of return too low
- Insufficient incentive to invest
- Too intrusive, prescriptive &/or costly
- Uncertainty & risk
- Does not adequately provide for internal funding
- Property rights issues
- Open access discourages investment
- Insufficient benefits for small customers



Western Australia

Economic Regulation Authority

www.era.wa.gov.au

The State of Regulation in Australia

- Productivity Commission, Parer Report & Commonwealth Govt. recommend significant changes to regimes
- Main thrusts include:
 - Centralising regulation eg Australian Energy Regulator
 - Improve legislation and codes
 - Reduce extent of regulation eg holidays, tighten coverage criteria
 - Water down regulatory impact eg greater reliance on monitoring



Western Australia

Economic Regulation Authority

www.era.wa.gov.au

Achievements

- Competition in WA's gas supply
- Diversity in WA's supply of gas
- Privatised gas supply industry in WA
- Competitive gas trading
- Nearing Full Retail Contestability in gas in WA



NORTH WEST SHELF PETROLEUM PROVINCE

MARCH 1998

☀ SCARBOROUGH

INDIAN
OCEAN

CARNARVON BASIN

NORTH WEST SHELF
GAS PROJECT

HYDROCARBON DISCOVERIES

☀ Gas ● Oil ☀ Oil and Gas

PRODUCTION FACILITIES

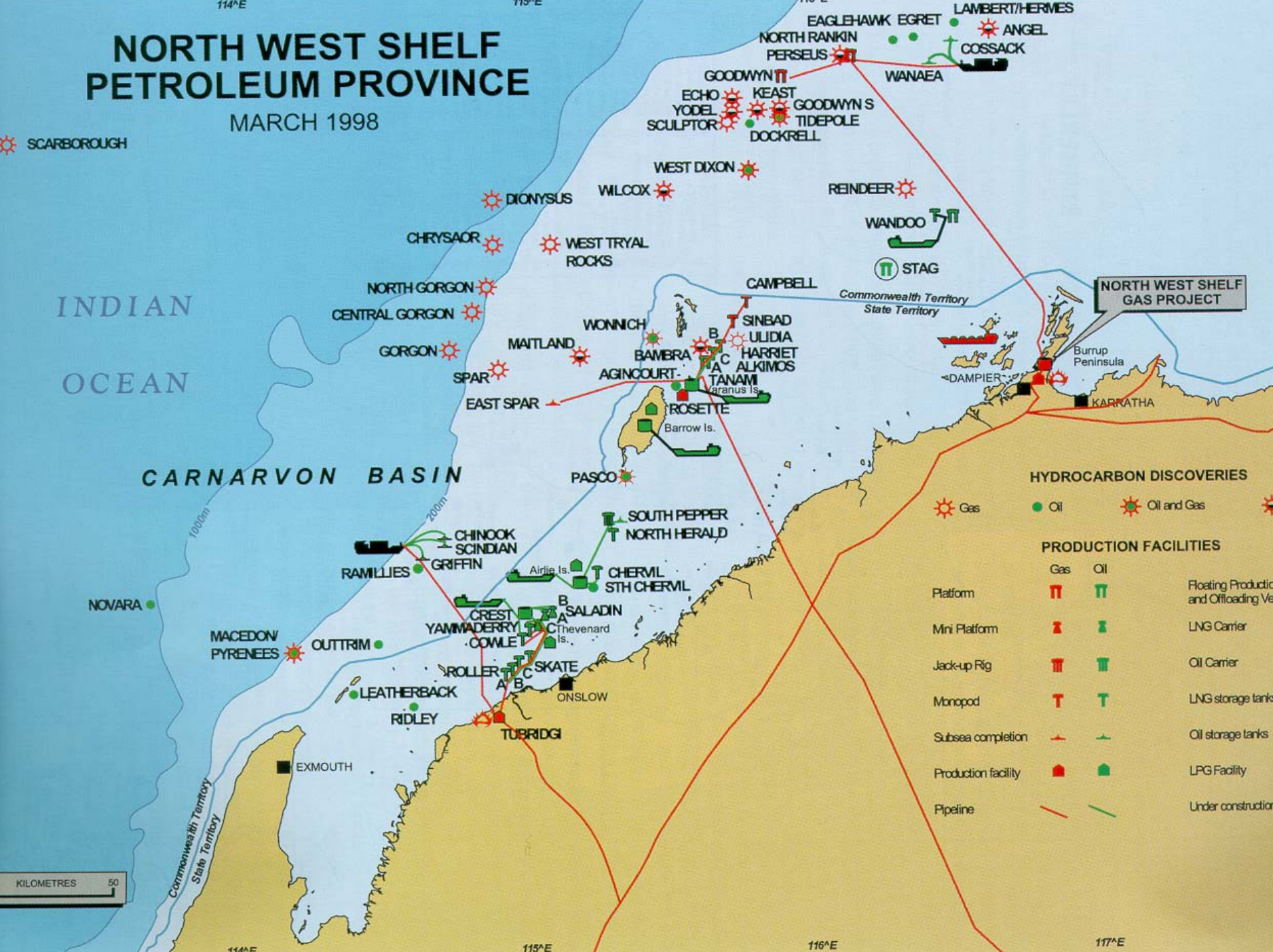
| | | | |
|---------------------|---|---|--|
| Platform | ☀ | ☀ | Floating Production S and Offloading Vess |
| Mini Platform | ☀ | ☀ | LNG Carrier |
| Jack-up Rig | ☀ | ☀ | Oil Carrier |
| Monopod | ☀ | ☀ | LNG storage tanks |
| Subsea completion | ☀ | ☀ | Oil storage tanks |
| Production facility | ☀ | ☀ | LPG Facility |
| Pipeline | ☀ | ☀ | Under construction |

KILOMETRES 50

Commonwealth Territory
State Territory

1000m
200m

114°E 115°E 116°E 117°E



Economic Regulation Authority

- Governing Body – Chairman & 2 Members
- Administers industry specific regulation
- Independent of Government & industry
- Access in gas & rail - electricity to come
- Licensing in water & gas – electricity to come
- Government can refer studies to ERA
 - Water pricing
 - Retail gas & electricity tariffs etc



Western Australia

Economic Regulation Authority

www.era.wa.gov.au

Legislation

- *Economic Regulation Authority Act 2003* (References)
- *Energy Coordination Act 1994* (Gas licensing)
- *Gas Pipelines Access (WA) Act 1998* (Gas access)
- *Railways (Access) Act 1998* (Rail access)
- *Water Services Licensing Act 1995* (Water licensing)



Authority Must Have Regard To

- The public interest
- The long term interests of consumers
- Investment in relevant markets
- The interests of investors & service providers
- Competition & fair market conduct
- Preventing the abuse of monopoly power
- Transparent decision making



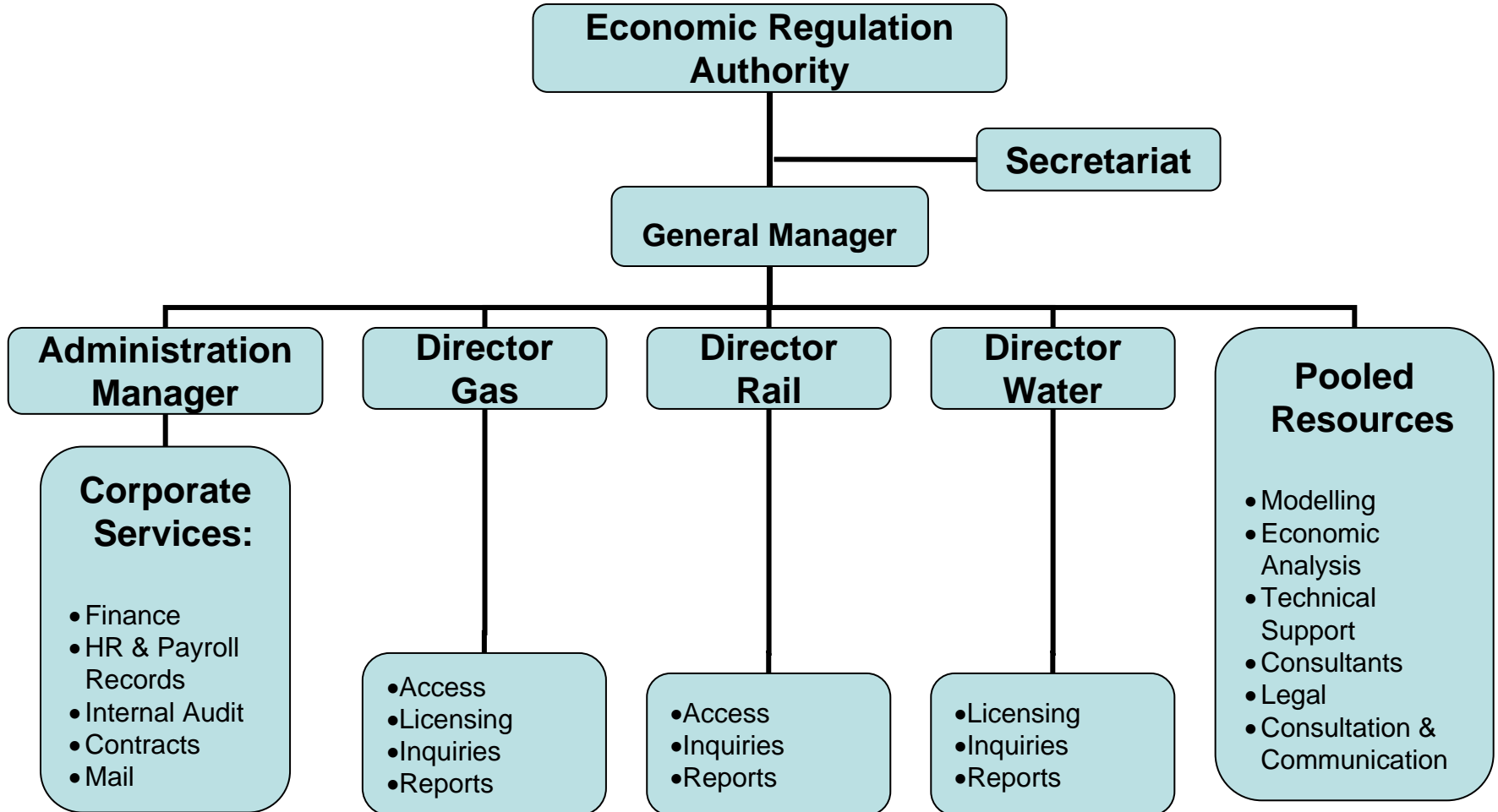
Western Australia

Economic Regulation Authority

www.era.wa.gov.au

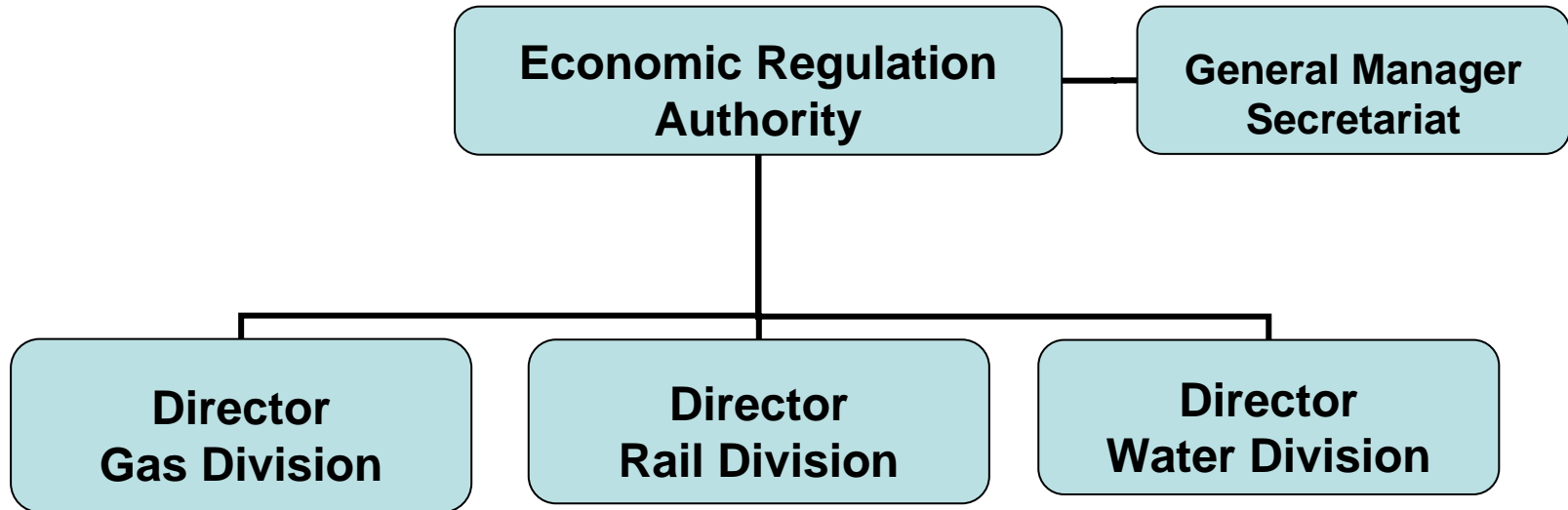
ECONOMIC REGULATION AUTHORITY

ORGANISATION STRUCTURE AS AT 1 JANUARY 2004



ECONOMIC REGULATION AUTHORITY

REGULATORY STRUCTURE AS AT 1 JANUARY 2004



NATURAL GAS PIPELINES

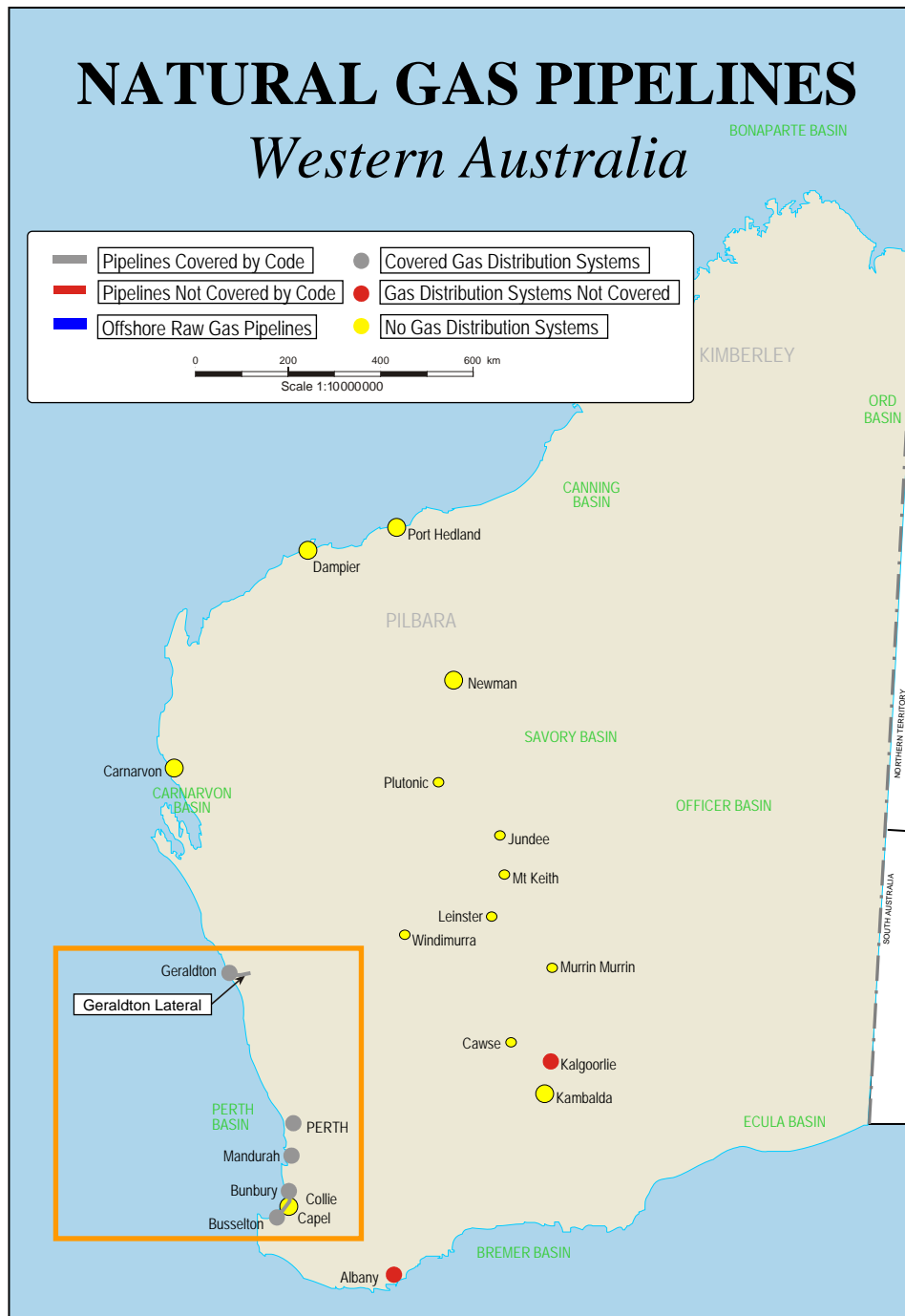
Western Australia

AlintaGas Distribution Pipeline Networks

Owner: AlintaGas
Networks Pty Ltd

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

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



Initial Access
Arrangement
Approved
18/7/2000

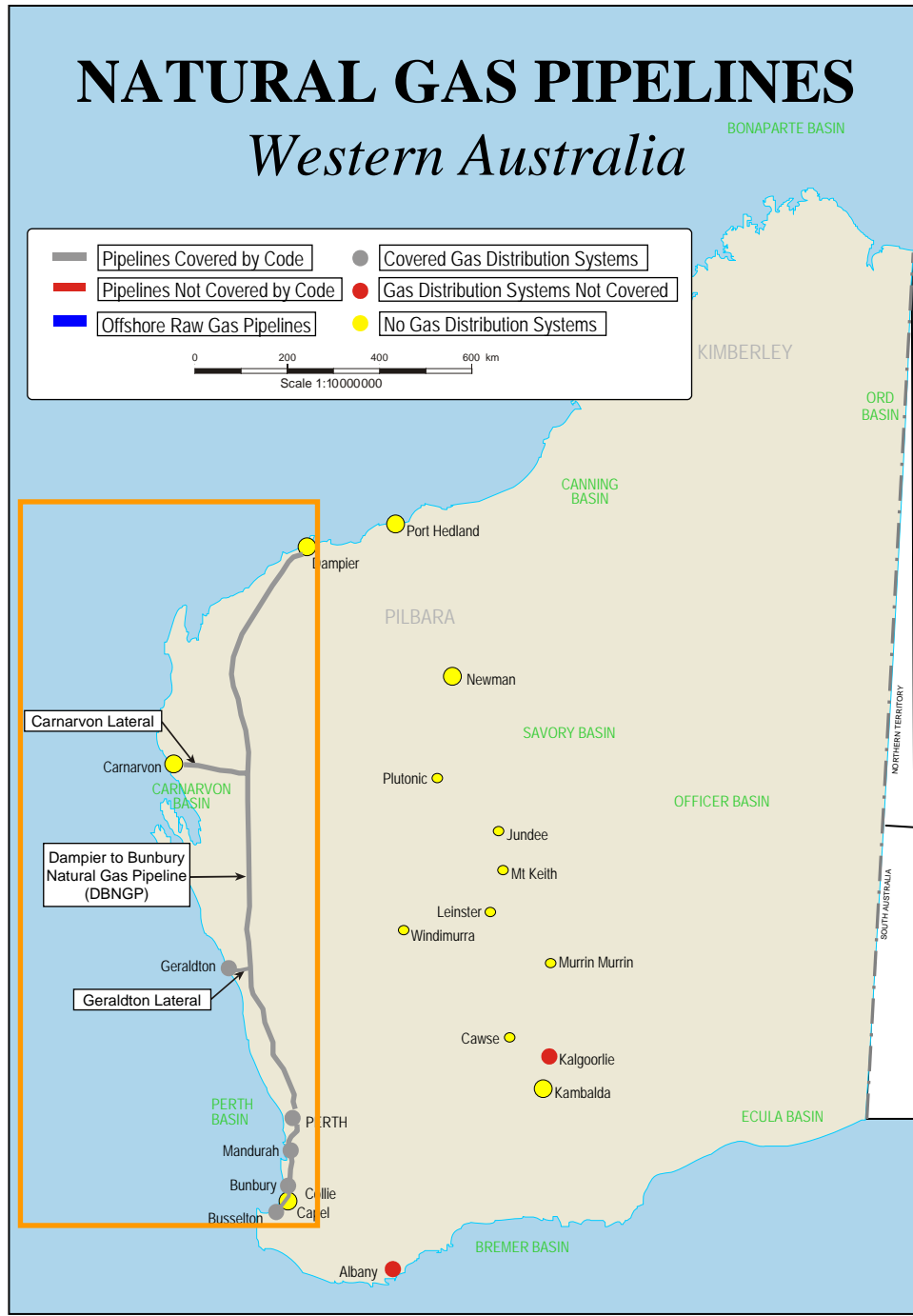
Review
Submitted:
31 March 2004

Currently seeking
submissions due:
14 May 2004

Commencement
of new
arrangement
31/12/2004

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



Regulator
 Approved his own
 Access
 Arrangement on
 30 Dec 03

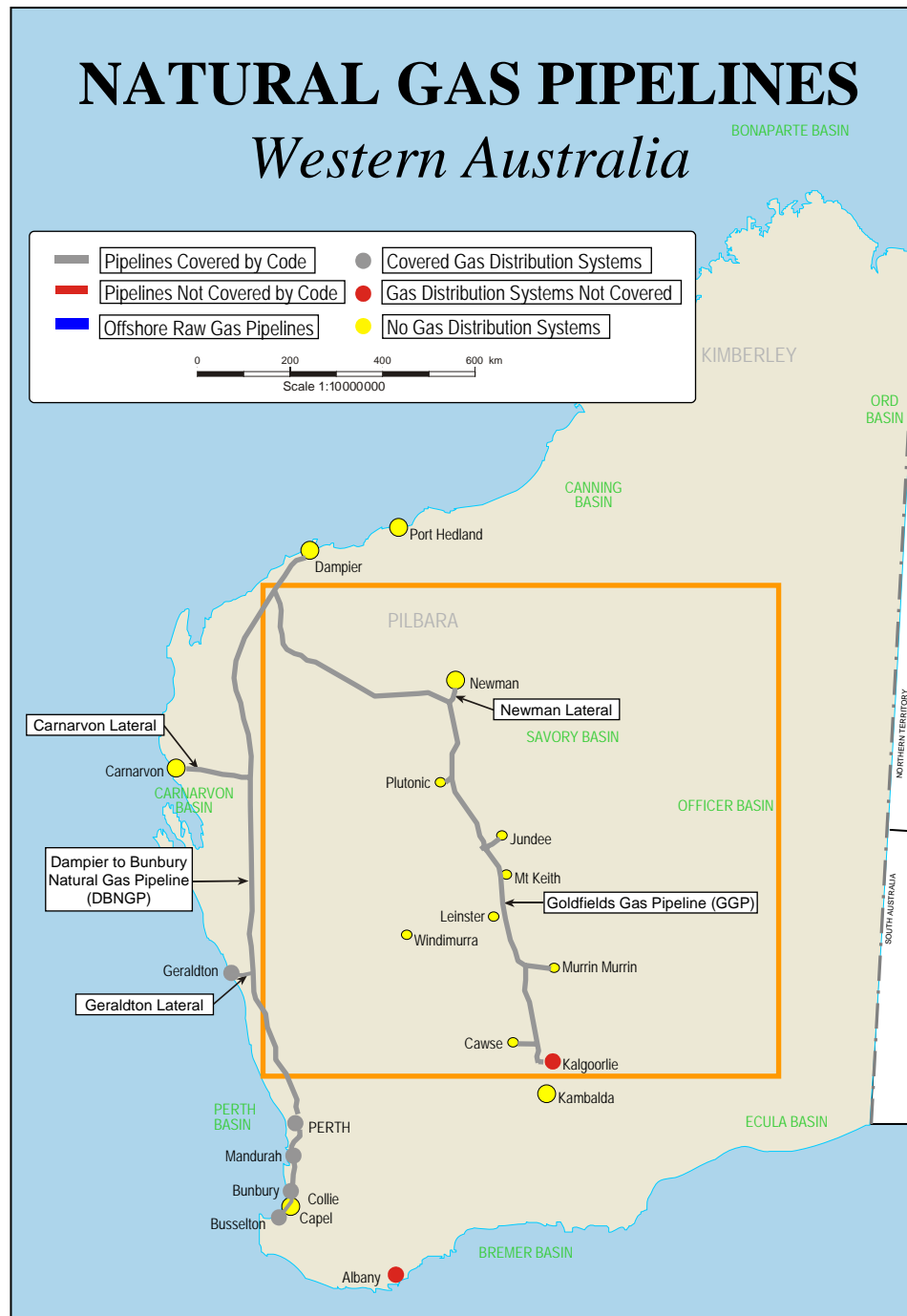
Currently subject
 to review by GRB

Revised AA due:
 1 July 2004

Commencement
 of new AA due:
 1 April 2005

Goldfields Gas Pipeline

Owners: Southern Cross Pipelines Australia Pty Ltd, Southern Cross Pipelines (NPL) Australia Pty Ltd and Alinta
Commissioned: 1996
Length: 1378 km
Diameter: Telescopic 400 mm to 350mm
Capacity: 100 TJ/d
Average MDQ: 98 TJ/d



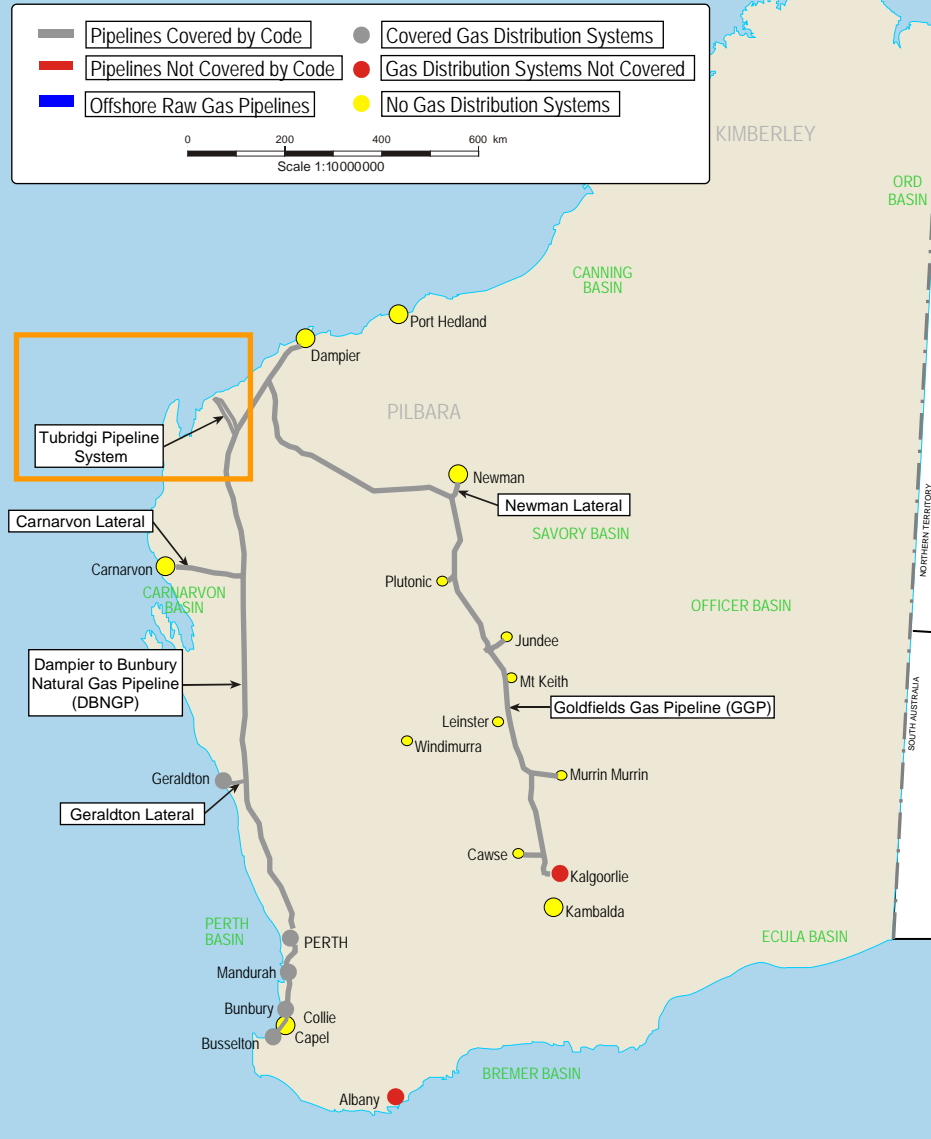
Draft Decision is being amended.

Application for revocation lodged with NCC and Minister's decision on coverage pending.

ERA proceeding in accordance with its Notice: 6 April 2004.

Tubridgi Pipeline System

NATURAL GAS PIPELINES *Western Australia*



Access
Arrangement
approved on:
19 Oct 2001

Review due
19 Dec 2006

Owner: SAGASCO & Pan Pacific Petroleum
Comprises two pipelines
the Griffin and the
Tubridgi Pipelines.

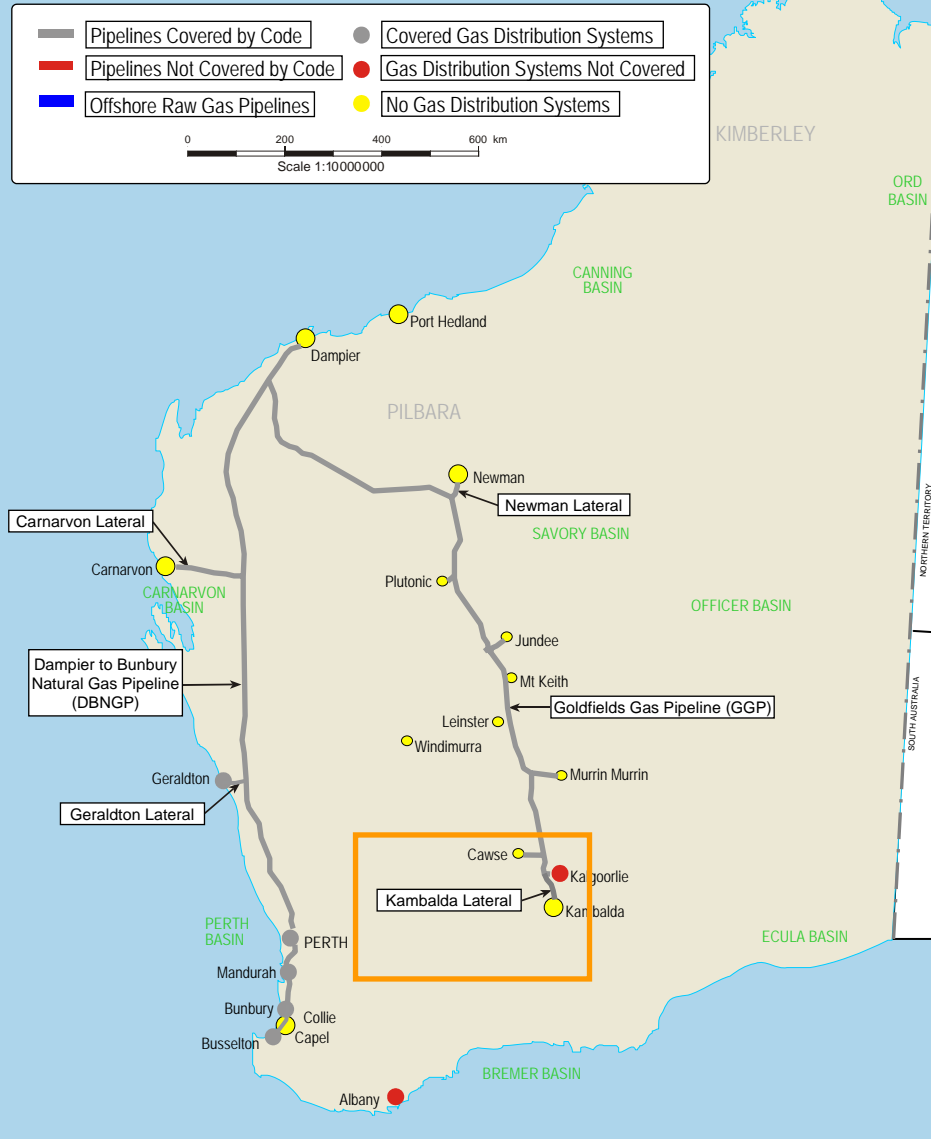
Tubridgi Pipeline
Commissioned: 1992
Length: 87.5 km
Diameter: 168 mm
Capacity: 30 TJ/d

Griffin Pipeline
Commissioned: 1993
Length: 87 km
Diameter: 273 mm
Capacity: 90 TJ/d

Combined Average MDQ
of about 30 TJ/d

Kambalda Lateral

NATURAL GAS PIPELINES *Western Australia*



Further extension of time to submit an Access Arrangement granted to:
1 July 2006

Owner: Southern Cross Pipelines Australia Pty Ltd

Commissioned: 1996

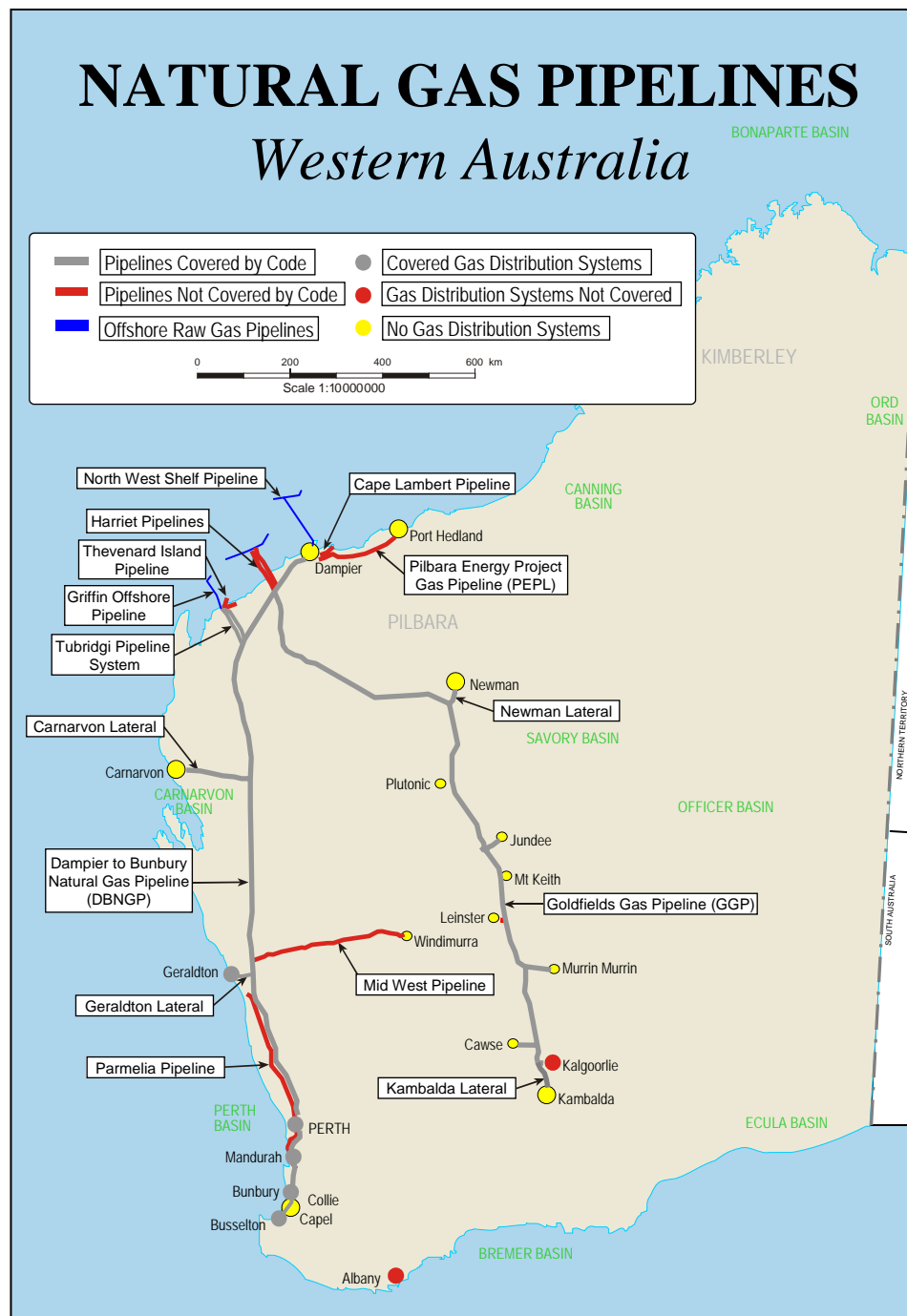
Length: 44 km

Diameter: 219 mm

Capacity: 15 TJ/d

Throughput: 12 TJ/d

Pipelines not covered or regulated by the Code



Pipelines Not Covered:

- Parmelia Pipeline
- Mid West Pipeline
- Harriet Pipelines
- 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 Access Regime.

Observations

- Economic regulation continues to be contentious
- Support for regulation patchy, but acknowledged as necessary
- Benefits of economic regulation not always obvious
- Issues complex, counter intuitive and easily misrepresented
- Regulators often portrayed as over exuberant
- Relative costs of regulation are low, but represented as excessive
- Litigation costly and time consuming
- Indications that one regulatory model does not fit all circumstances



Western Australia

Economic Regulation Authority

www.era.wa.gov.au

Solutions

- Reduce opportunities for misunderstanding & dispute
 - Clear objectives in legislation, regulations and codes
- Seek to maintain flexibility
 - Avoid getting embroiled in legal processes
- Avoid conflicting incentives
 - Ensure industry structures are appropriate
- Better matching of regulatory systems to circumstances
 - Avoid more prescriptive forms where possible

