

Update on Regulation

Gas and Rail Industries in Western Australia

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Acting Independent Rail Access Regulator**

**WA Power & Gas Industry Briefing
Sheraton Hotel, Perth
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Overview

- Status of gas access regulation
- WA approach
- Observations in the application of regulation
- Experience with the process of regulation
- Rail access comparisons
- Economic Regulation Authority



Status – Access Arrangements

- Three Access Arrangements approved:
 - AlintaGas Networks
 - Parmelia Pipeline (Subject of revocation application)
 - Tubridgi Pipeline System
- Two outstanding – DBNGP & GGP
 - Both subject to court proceedings
 - Progressing the drafting of elements of Final Decisions
- Kambalda Lateral Access Arrangement
 - Has been subject to an extension of time



Status – Other Decisions

- Ring fencing arrangements:
 - Approved for Parmelia Pipeline
 - Waiver granted for Tubridgi Pipeline System
- Associate contract approved for AlintaGas



Status – Other Activities

- Member of the National Gas Pipelines Advisory Committee
- OffGAR currently preparing an information paper on rate of return for pipelines in WA



Application in Western Australia

- To seek ways that best balance the interests of Service Providers, Users and the public interest:
 - Redundant capital policy
 - Draft Decisions are reviewed in light of new information
 - Work through problems to reach agreement



Observations from Application of the Gas Code

- Initial approval of an Access Arrangement is the most crucial – it sets the initial capital base
 - Subsequent reviews of Access Arrangements are likely to be less onerous than original approvals
- Application of the regime expected to improve over time
 - Experience with application of the Code and processes
 - Ongoing review of the Code



Experience with the Process

- Information and consultation critical for good outcome
- Draft decisions offer full scope for review
- Litigious processes are costly and time consuming, but may be necessary to clarify issues
- Time for approving Access Arrangements originally underestimated



Independence of the Regulator

- Provides for economic and legal certainty
- Regulator is independent of government & industry but:
 - needs to conform to legislation & Code
 - is accountable to Parliament
 - is subject to administrative review by the court
 - is subject to appeal under the Code



Outcomes

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



Regulation of Rail Access

- Appointed Acting Rail Access Regulator in September 2001
- Issues similar, but Rail Code is not as prescriptive
- Regulator determines principles, but access agreements are negotiated between the parties
- Code provides for arbitration



Comparison – Gas and Rail

■ Capital Base

- Gas: normally between DAC and DORC
- Rail: Gross Replacement Value (GRV)

■ Rate of Return

- Gas: Determined for each access arrangement period
- Rail: Set and reviewed annually
- Both use Capital Asset Pricing Model, WACC



Economic Regulation Authority of WA

- Proposal covers: gas, electricity, rail, water, licensing and some pricing and tariff functions
- Public comment being sought on proposal
- Initial step is to co-locate Gas and Rail Access
- Planning in progress



General Conclusions on Regulation

- Regulation is more complex and time consuming than appears on paper
- Differing interpretations of the Code is a source of serious delays and disputes
- Information and communication is critical to the decision making process
- Independence of the Access Regulator is fundamental
- Replicating competitive outcomes through regulation is problematic but achievable



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