Mr Robert Pullella
Office of Gas Access Regulation
Level 6 Governor Stirling Tower
197 St George's Terrace
PERTH WA 6000

Dear Mr Pullella

Access Arrangements To The Dampier To Bunbury Natural Gas Pipeline

The South West Development Commission is required to support economic development and the creation of jobs within the South West Region. The Board of the Commission has instructed me to write to the Regulator to express its concern about the access arrangements under the National Access Code as proposed by Epic Energy.

The Commission's comments are made in accordance with Section 2.24 of the Code, which requires the Regulator to take into account:

- The economically efficient operation of the covered pipeline

- The public Interest, including the public interest in having competition in markets.

The Commission will comment on each of these points in relation to the proposed arrangements by Epic Energy and their impact on regional development. Commission expects energy users will make their own submissions on matters that affect them.

1. The economically efficient operation of the covered pipeline

Section 8.10 of the Code requires the Regulator to take note of seven factors beside the price paid in a recent sale of the asset in arriving at the initial capital base. The Commission does not support Epic's view that the Initial Capital Base should equate to the initial purchase price plus acquisition costs less adjustments after purchase. The purchase of the asset occurred in a competitive environment in which capital value, business opportunity and future growth/revenue forecasts contributed to a bid based on an acceptable level of business risk. Epic was the successful bidder based on its price. The fact other bids may have been lower reflects that other operators were prepared to meet the regulated tariff at a lower capital cost. Epic's proposal is simply a means of transferring incurred business risk to users of the pipeline.

The Commission notes the recommendation of Section 8.11 of the Code that suggests the initial capital value should lie between the depreciated actual cost and the depreciated optimised replacement cost. It is not clear how Epic's proposed value relate to this range.

The South West Development Commission has the view that the proposed ICB and resultant price regime is not an efficient economical outcome and will be detrimental to the future growth of gas dependent industries within the South West. Resultant prices for gas will be higher than the expectations of business within the region and gas will be less attractive as an option. The net effect will be to constrain the potential for growth in gas capacity. Without growth in demand new operators may not enter the market and Epic will in effect have implemented a significant barrier to entry.

2. The public interest including the public interest in having competition in markets.

The Commission has already identified the creation of new barriers to entry as a consequence of the proposed pricing regime based on the proposed ICB. In addition to this, the inclusion of costs associated with the development of zone 10 in the capital base, together with the application of additional charges contributing to the Reference Tariff further discriminate against users in the South West.

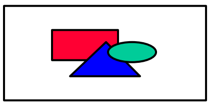
It is the Commission's understanding that high usage requirements for wet gas in the metropolitan area had resulted in significant pressure reductions in the pipeline south of Kwinana necessitating additional compressor capacity. These effects need to be allocated more equitably through aggregation of service charges across all service users. The proposed arrangement will set an artificially low price for metropolitan users subsidised by users in the South West.

The Commission argues the public interest is not being served by the proposed Reference Tariff and that this will slow the growth in demand for gas services within the region. The effect will be to constrain development of further pipeline infrastructure either by Epic or by a potential new entrant.

The Commission is also concerned about the proposed Reference Service and the application of new penalty provisions as a consequence of imbalances between actual and contracted requirements. Current arrangements allow for flexibility in nominating gas requirements and allow for up to 8% variation. The proposal to reduce this to 2%, without the opportunity to adjust the daily nomination, limits flexibility and allows for the imposition of an opportunistic penalty provision. The Commission argues that such opportunism directly impacts on the regional development potential of the pipeline by further reducing the attractiveness of gas.

Finally the Commission notes the general industry expectation that the price of the full haul tariff from Dampier to Bunbury would fall to $1.00 per gigajoule by the Year 2000 (Hon Minister for Energy, 2nd Reading Gas Pipelines Access Bill). This expectation was clear at the time of the sale. It is important that the full benefits of privatisation of the pipeline are passed on to all users and not simply industries that happen to locate in the Perth metropolitan area.

Yours sincerely



DON PUNCH

CHIEF EXECUTIVE OFFICER

March 17, 2000