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*Our Ref: DBNGP:AA*  
*Your Ref: 3020/40/01*

28 March 2003

Dr Ken Michael AM  
Acting Western Australian Independent Gas Pipelines Access Regulator  
Office of Gas Access Regulation  
Level 6  
197 St Georges Terrace  
PERTH WA 6000

By facsimile: 08 9213 1999

Dear Ken

## **COURT DECISION ADDITIONAL PAPER CDAP#10 – FURTHER TARIFF EXPECTATIONS**

The purpose of this letter is to draw your attention to recent statements made in Parliament during debate on the Economic Regulation Authority Bill. The statements relate to the process surrounding the sale of the DBNGP and the expectations and understandings of the parties at the time of the sale. I assume that, in your capacity as Chairman of the working group examining the administration issues associated with the ERA, you are aware of these statements.

Notwithstanding that and despite Epic Energy believing that:

1. it has provided you with compelling evidence to date in support of its tariff component of its proposed access arrangement, particularly those relating to the circumstances surrounding the sale of the DBNGP; and
2. no party has provided you with any evidence upon which you could rely to reject the various propositions made by Epic Energy that underpin its proposed access arrangement,

given your prior comments that it is up to Epic Energy to justify its proposed access arrangement, Epic Energy considers that it should provide you with any additional information relevant to your assessment of the proposed access arrangement as it comes to hand. This is so, notwithstanding the fact that Epic Energy's substantive submissions were made last year.

To this effect, I particularly refer you to further statements made in the Legislative Assembly on 11 March 2003 concerning the circumstances surrounding the sale of the DBNGP and which have been recorded in Hansard. I **enclose** copies of the following pages of Hansard:

- 5122 – 5140 – Assembly - Debate in relation to the second reading speech for the ERA Bill, dated 11 March 2003.

I particularly draw your attention to pages 5126 to 5140 of Hansard.

While the statements made in these excerpts of Hansard relate to issues that have previously been outlined in detail by Epic Energy in its prior submissions to you, it is important to once again restate these issues. They are outlined in Attachment 1, **enclosed** with this letter. This is so because they are central to justifying the validity of Epic Energy's proposed access arrangement under the Code and, as has been argued by Epic Energy in submission CDS#2, relate to factors which are to be recognised as having fundamental weight throughout your entire assessment process.

For your ease of reference, **enclosed** as Attachment 2 is a table which sets out the relevant statements from the above pages of Hansard and the issues to which each statement relate.

While most of the relevant statements contained in the enclosed pages of Hansard are attributed to Mr Barnett (who as you are aware was the relevant Minister responsible for the sale of the DBNGP), it is important that his comments are corroborated by the Member for Hillarys, Mr Johnson, who was also a member of the Cabinet at the time of the sale of the DBNGP. His statements are not only concise but also they are probably the most compelling as they provide further confirmation from a further source within the Government at the time of the sale as to what the parties' expectations from the sale were. I have outlined his statement in full below for your ease of reference:

*"When the gas pipeline was sold to Epic Energy, I was a member of Cabinet. Many people believe that Epic Energy paid too much. From the point of view of the State, it was a fantastic deal to suddenly receive \$2.4 billion, which was the highest of any of the bids. It was also a good deal because it brought the cost of gas transport down from \$1.22 to \$1, and \$1.08 in the southern parts of the State. That had to be a very good deal for the people of Western Australia. The \$2.4 billion was used to pay off a lot of the debt that the previous Labor Government, of which the Treasurer was a minister, had got the State into. From the point of view of the State, it was a very good deal.....The previous Government bringing down the debt from \$8.5 billion to \$4.5 billion was a great achievement in eight years.*

*The price that was paid for the pipeline was a good deal. The expectation – that is a very important word – not only of Epic Energy, but also of the Government of the day and industry, was that \$1 was a very fair price. It was a huge reduction. The regulator then looked at what was happening in the eastern States, which is like a different country. We are so apart from the eastern States and we have a different infrastructure. The eastern States has a much larger consumer base than we do here, both in industry and residential customers. What happens in the eastern States cannot be used as a model for what happens in Western Australia. For the regulator to cut cost and the turnover of Epic Energy by about 20% is horrendous. No government would have done that, because Governments should act with honour and integrity. If the regulator were not in place, and the minister were charged with the responsibility for setting the cost, we would not at this time be looking at a 20% reduction in the turnover of Epic Energy. From all the reports we have seen, if Epic Energy has to end up charging the price that the regulator has set, it will go into liquidation after spending \$2.4 billion. That does not augur well for any international corporations looking to invest in Western Australia."*<sup>1</sup>

There is also a particular part of Mr Barnett's statements that I would like to draw to your attention and respond to. It is the following comment at page 5126 of the Hansard of 11 March 2003:

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<sup>1</sup> Hansard, Legislative Assembly, 11 March 2003, page 5136

*“I had an expectation that \$1 was the reasonable price. My fear, which the Government would understand as fellow politicians, was that the Regulator would come in and say that the price had to go back up to \$1.20. The then Opposition would have torn me apart, and quite rightly so. Unbeknown to me, and in total surprise, the regulator comes in with a price around 78c. Suddenly, the certainty of a Government making and laying down the criteria for sale, trying to defuse sovereign risk, had been replaced by a new form of risk – regulatory risk – a decision by the independent umpire that was way outside the ballpark. I do not criticise the regulator. The decision was probably driven by the fall in market interest rates. It was formula driven. However, it was way outside the expectations of the buyer, the Government of the day, and even the consumers.”*

There are two aspects of this statement that I wish to respond to. The first aspect relates to the reasonableness of a \$1.00/GJ tariff. This statement clearly demonstrates that it was not only Epic Energy's but also the Government's (and, as has been demonstrated by Epic Energy, user's) expectations that a tariff would be \$1.00/GJ. It is nonsensical to think that a Government would insert a cap on the tariff to prevent it rising above \$1.00 (or as Mr Barnett states, to stop the pricing going “back up to \$1.20”) but at the same time think that it was appropriate for the tariff cap that was to be set by the Regulator to reduce below \$1.00, particularly given:

- The desire of the State to maximise the sale price, knowing the important role that tariff certainty plays in realising that;
- The stated desire of the State to have a buyer who was not only financially capable of operating the pipeline but also of enhancing its capacity;
- The preparedness of bidders to base their investment decisions on the fact that tariffs may have been reduced below \$1.00 (in nominal terms) post 1 January 2000; and
- The Government of the day itself considered that the tariff of \$1.00 was a reasonable price. This is particularly important as it was the government that, at the time of the sale, was still developing the guidelines for which the regulator was to set the tariff (ie the Code). So it must have taken some view that a tariff of \$1.00 was one that would have resulted from an application of the Code.

The second aspect of the statement that I wish to respond to relates to Mr Barnett's statement that “the commonsense solution was probably about 90 to 95c, given the fall in interest rates.” Not only is this in conflict with the government's belief that a tariff of \$1.00/GJ was reasonable, the statement also ignores the reality of what transpired in the sale. It was clearly known by the State, from at least the time of the Indicative Bid, that Epic Energy was relying on debt funding to finance a significant part of the purchase price. Furthermore, the State was aware of the terms of that debt funding, including the hedging arrangements that Epic Energy had entered into, the level of the interest rates and the period for which they were entered into – these details had to be provided to the Gas Pipeline Sales Steering Committee, the State's agent. It therefore was locked into the interest rate set by the banks and the hedging arrangements at the time of the sale. To argue that the commonsense solution was probably about 90 to 95c, given the fall in interest rates, shows a total disregard for the information the State had at the time of the sale.

Furthermore, this statement is inconsistent with what Mr Barnett states in the immediately preceding paragraph of Hansard – that he had structured the sale to remove the possibility of sovereign risk. If it were to be the case that a tariff lower than \$1.00/GJ were to be set by the Regulator, then it totally contradicts one of his central objectives for structuring the sale the way he did – to remove all form of sovereign risk. A move to a tariff lower than \$1.00/GJ would be a manifestation of sovereign risk – it equates to a moving of the goal posts.

*“The Government of the day made some policy decisions. It was to be sold for the best possible price – that was pretty important for the taxpayer and the community. It was important to make sure that it brought a lower price to consumers – which we did by reducing the price of transport from \$1.22 to \$1. There needed to be scope for expansion, and this was done by placing an obligation on the buyer to expand capacity. There was also a need for future competition, which was provided by expanding the easement, retaining the easement in public ownership, and giving only a limited expansion right of one extra pipeline*

*to the purchaser. I thought I had thought through all the issues, and I was pretty proud of myself. I thought I was taking the sovereign risk out of the process by clearly laying down the criteria. We did not just put it up for auction; we laid down the policy criteria very carefully. I did it as Minister.... We sold the pipeline for \$2.407 billion. It was a fantastic price. The transport cost of gas fell from \$1.22 to \$1. The company has spent \$100 million to \$200 million on expanding capacity, and there was a regime that brought the price down from \$1.22 to \$1.15, then to \$1.08 and then \$1 in a series of predetermined steps. It was certain, and it was predictable. Thereafter, the price was to be determined by the newly appointed gas regulator. I thought I had done everything right – thought through the policy issues, made the transition over time so that the world did not change instantly, appointed an independent regulator and established the starting price. Everyone was clapping their hands, and I was feeling pretty happy, because everything was working to plan.”*

A movement to a tariff lower than \$1.00 would amount to a shifting of the goal posts, something that Mr Barnett was so critical of in his comments in Parliament on 14 June 2000<sup>2</sup>.

Additionally, to make such a statement is not only misleading given the information that the State had concerning Epic Energy’s bid and financing arrangements at the time of the sale to enable it to ascertain Epic Energy’s financial status, but it also demonstrates the problem of regulation that Mr Barnett is himself so critical of in earlier parts of his statement – ie the formula driven approach of regulators in general and how this leads to their inability to properly deal with the reality of the case at hand because of the theoretical nature of the formula.

It is also important to note that, despite there being ample opportunities for the current Government to do so, none of the statements made by the Opposition were objected to or challenged by the Government during this debate.

As a final matter, I would also like to draw your attention to the following statement from Mr Barnett in relation to the state of maturity of the State’s infrastructure networks and the need for its development to be encouraged. It is quite timely, particularly given the Court also recognised this issue and also given that it has been one of the central focuses of the recent reports of the Productivity Commission and the Parer Committee, details of which were outlined in Epic Energy’s submissions following the Court Decision:

*“This State’s infrastructure is grossly undeveloped. Thirty years of development must take place before Western Australia has mature infrastructure. Yet, if all these powers of regulation are given to a regulator, the ability of the Government to do things will be limited. I would have no argument with the concept of regulation if we already had mature infrastructure in place, as it is in Europe and North America. However, we are not in that position. We need another 30 years of public and private investment before we achieve that. That is my fundamental problem with regulation and this regulatory role. This legislation will give an enormous amount of power to the regulator and has the potential to constrain the most important thing for this State, which is the development of its infrastructure.”<sup>3</sup>*

*“My simple point, which I think the Treasurer understands, is that regulation is not necessarily a form of certainty. Failed regulation can be a massive form of instability. I cannot defend it logically, but maybe a wise minister and wise counsel from the bureaucracy making albeit subjective decisions sometimes can resolve issues. I know that view is not palatable, and I know I would be criticised by the Western Australian Chamber of Commerce and Industry for that comment, but my view arises from my experience as minister for eight years. If any group is to deal with public interest in the Western Australian context, it should be the people elected to Parliament. We are elected to represent the communities we serve. We are chosen to deliberate and make decisions on public interest. The regulator is not. One must question the sense of Parliament, or indeed of the Government of the day, handing down a public interest responsibility to a regulator. If the regulator is to be independent, he should*

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<sup>2</sup> Hansard, Legislative Assembly, 14 June 2000, page 7661

<sup>3</sup> Hansard, Legislative Assembly, 11 March 2003, page 5125

*deal with sums, numbers, facts and realities, but not make judgments about public interest. It is the job of the Treasurer and the Parliament to weigh up public interest issues, not a regulator.*

For the avoidance of doubt, Epic Energy does not object to this letter being made available to your consultants for the purposes of assisting you in your assessment of the proposed access arrangement or for it being posted on the OffGAR website.

If you have any questions in relation to the above or the enclosed agreement, please contact Anthony Cribb on 9492 3803.

Yours sincerely

David Williams  
**General Manager, Corporate & Strategy**

## Attachment 1

### Key issues underpinning Epic Energy's proposed access arrangement

The key issues stem largely from the circumstances surrounding the sales process. As Epic Energy has stated, these circumstances gave rise to a set of common understanding and expectations in parties who participated in the sale process, not only in relation to the tariffs but also in relation to other issues such as enhancement of the pipeline which were developed during that process. The issues are as follows:

1. The objectives of the State in conducting the sale of the DBNGP were clear in relation to both the purchase price the State was seeking to achieve and the tariffs the buyer would be able to charge for services on the DBNGP. The objectives were:
  - a) maximising the proceeds from the sale of the DBNGP Assets within the context of the other key objectives below;
  - b) enhancing the operating efficiency and utilisation of the DBNGP Assets;
  - c) reducing transmission prices;
  - d) reducing future demands upon State capital;
  - e) reducing the State's exposure to the business risks of the DBNGP Assets;
  - f) minimising the impact of the sale upon the Transmission Division's workforce;
  - g) facilitating the ongoing viability of the remaining Alinta Gas businesses;
  - h) reducing the potential for conflicts of interest which might potentially compromise the efficient operation of the DBNGP Assets and the operation of a competitive gas market in the State.
2. The structure of the sales process was such that bidders were entitled to and in fact did place great reliance on comments from the State Minister and discussions with the State's agent for conducting the sale, the GPSSC. This is particularly in relation to what was meant by each of the objectives above and how they interacted.
3. In reliance on the above, bidders made a number of commitments which they consider they were bound to adhere to. In Epic Energy's case, it considered it was bound to honour the following commitments on the basis that the tariffs in Schedule 39 of the asset sale agreement were implemented:
  - a) the payment of the purchase price by Epic Energy;
  - b) the reduction in gas transmission tariffs to those outlined in Schedule 39;
  - c) the future expansion of the DBNGP;
  - d) the relocation of Epic Energy's head office to Perth;
  - e) an acceptance that the tariffs and tariff path proposed in Schedule 39 were the appropriate tariffs and represented reasonable tariffs.
4. The \$1/GJ environment – the fixing of the tariff at the \$1/GJ to Perth by the Minister in order to achieve the State's objectives at the time of the sale process. Furthermore, it was only appropriate that comments were made by Ministers concerning the quantum and path of the tariff and that they were relied upon by bidders, given that the Code had not been implemented at the time Indicative Bids were lodged and there was very little in the way of regulatory precedent that gave bidders any guidance as to what the likely outcome of the application of the likely Code might be;
5. The benefits received by the State from the sale of the DBNGP to Epic Energy as a result of the purchase price obtained and the commitments made by the parties, especially those of Epic Energy.

**Attachment 2 – Hansard of 11 March 2003**

<b>Page #</b>	<b>Statement</b>	<b>Issue</b>
5125 - 5126 – CJ Barnett	That is why the previous Government, when it established the Office of the Gas Access Regulator – which I did as a minister – was determined to keep it as a Western Australian-based regulator. Opposition members of that time, including the present Treasurer, argued that it should be under a national body. The then Government maintained an independent state regulator for that very reason, and I am glad that it remains independent. It is absolutely critical that we do not hand over the regulatory powers for Western Australia, with its development imperative, to a national government.	Intention that regulator would look at state issues not federal issues
5126 – CJ Barnett	One of the reasons the business community is so supportive of regulation is that it sees it as being defined legally, and therefore certain. Experience is not what that theory predicts. In Victoria, people invested in utilities, particularly electricity and gas, according to an established regulatory regime. The regulator then made decisions based not on what I would regard as the appropriate economic criteria, such as output, price and quality of service, but on rates of return. Therefore, if a private investor operated a utility service more efficiently at lower cost for better quality, attracted more customers and increased the turnover and profit, it was penalised by a reduction in its rate of return. This system penalised success. It was so formula driven that it became dysfunctional. Consumers are interested in the availability, quality and price of the service - the three key regulatory aspects - and not in the rate of return of the utility, whether it be government owned or privately owned.	
5126 – CJ Barnett	Business has always said that when politicians make decisions, there is this thing called sovereign risk. Governments change, policies change, politicians change their mind, or have favourites or whatever else, so there was a big thing in the 1980s and early 1990s about sovereign risk. I made speeches about sovereign risk before I entered this Parliament. The idea was that, by moving all the decision making away to independent regulator, sovereign risk disappears, but in fact is replaced by regulatory risk. ...It might be argued that, in this State, there was an issue with Epic Energy and the privatisation of the Dampier to Bunbury natural gas pipeline, which I oversaw as a minister in the previous Government. The Government of the day made some policy decisions. It was to	State Objectives and the circumstances surrounding the sale process.

Page #	Statement	Issue
	<p>be sold for the best possible price – that was pretty important for the taxpayer and the community. It was important to make sure that it brought a lower price to consumers – which we did by reducing the price of transport from \$1.22 to \$1. There needed to be scope for expansion, and this was done by placing an obligation on the buyer to expand capacity. There was also a need for future competition, which was provided by expanding the easement, retaining the easement in public ownership, and giving only a limited expansion right of one extra pipeline to the purchaser. I thought I had thought through all the issues, and I was pretty proud of myself. I thought I was taking the sovereign risk out of the process by clearly laying down the criteria. We did not just put it up for auction; we laid down the policy criteria very carefully. I did it as Minister.</p>	
<p>5126 – C.J Barnett</p>	<p>We sold the pipeline for \$2.407 billion. It was a fantastic price. The transport costs fell from \$1.22 to \$1. The company has spent \$100 million to \$200 million on expanding capacity, and there was a regime that brought the price down from \$1.22 to \$1.15, then to \$1.08 and then \$1 in a series of predetermined steps. It was certain, and it was predictable. Thereafter, the price was to be determined by the newly appointed gas regulator.</p>	<p>Benefits to the State. Commitments of Epic Energy and the State.</p>
<p>5126 – C.J Barnett</p>	<p>Sovereign risk had been removed, but in came this new concept of regulatory risk. I had an expectation that \$1 was the reasonable price. My fear, which the Government would understand as fellow politicians, was that the Regulator would come in and say that the price had to go back up to \$1.20. The then Opposition would have torn me apart, and quite rightly so... Unbeknown to me, and in total surprise, the regulator comes in with a price around 78c. Suddenly, the certainty of a Government making and laying down the criteria for sale, trying to defuse sovereign risk, had been replaced by a new form of risk – regulatory risk – a decision by the independent umpire that was way outside the ballpark. I do not criticise the regulator. The decision was probably driven by the fall in market interest rates. It was formula driven. However, it was way outside the expectations of the buyer, the Government of the day, and even the consumers.</p>	<p>\$1/GJ environment. Commitments of the State.</p>
<p>5127 – C J</p>	<p>My simple point, which I think the Treasurer understands, is that regulation is not</p>	<p>\$1/GJ environment</p>



Page #	Statement	Issue
Barnett	<p>necessarily a form of certainty. Failed regulation can be a massive form of instability. I cannot defend it logically, but maybe a wise minister and wise counsel from the bureaucracy making albeit subjective decisions sometimes can resolve issues. I know that view is not palatable, and I know I would be criticised by the Western Australian Chamber of Commerce and Industry for that comment, but my view arises from my experience as minister for eight years.</p> <p>If any group is to deal with public interest in the Western Australian context, it should be the people elected to Parliament. We are elected to represent the communities we serve. We are chosen to deliberate and make decisions on public interest. The regulator is not. One must question the sense of Parliament, or indeed of the Government of the day, handing down a public interest responsibility to a regulator. If the regulator is to be independent, he should deal with sums, numbers, facts and realities, but not make judgments about public interest. It is the job of the Treasurer and the Parliament to weigh up public interest issues, not a regulator.</p>	
5130 – RN Sweetman	<p>Under this legislation, the regulator will take submissions from a raft of organisations and individuals, many of whom will have vested interests. A classic example is the Epic Energy situation. For one reason or another, many people might like to see Epic fall over. It might be commercially advantageous to pick up the spoils of what is left of the Dampier-Bunbury gas pipeline for a much lower price than Epic paid the State three or four years ago. The experience of the sale of the Dampier-Bunbury pipeline has taught us much. I enjoyed my leader's contribution when he said "with the benefit of hindsight" and "if we were still the Government". Experience teaches us much. The Leader of the Opposition was bold enough to say that, having had experience as a minister and made certain rulings with the support of the Executive, say, two or three years on, he would have acted to ensure that Cabinet's intentions, or his intentions as minister, were imposed across the issue rather than directly on the regulator.</p>	

Page #	Statement	Issue
5130 – R.N Sweetman	The experience of the sale of the Dampier – Bunbury pipeline has taught us much. ...The leader of the opposition was bold enough to say that, having had experience as a minister and made certain rulings with the support of the Executive, say two or three years on, he would have acted to ensure that Cabinet's intentions, or his intentions as minister, were imposed across the issue rather than directly on the regulator.	Commitments of the State. Expectations of the parties.
5131 – R.N Sweetman	The clock is ticking and time becomes absolutely imperative to the wellbeing of a company that has not done the wrong thing by this State. It has paid \$2.4 billion for an asset and it has reduced prices from \$1.22 down to \$1, and from \$1.28 down to \$1.08 for areas south of Perth. At the same time it has gone forward and guaranteed in the regulatory compact that tariffs will effectively be reduced each year by a third of the consumer price index. In other words, tariffs will increase each year by two thirds of the CPI. ...	Benefits to the State. Commitments of Epic Energy.
5131 – R.N Sweetman	I can recall a debate in this place in about June 2000 to which both the Premier and Treasurer, as well as the member for Eyre, made substantial contributions. I can recall the Treasurer, in his speech and regularly by way of interjection, said that he believed there was a regulatory compact. At that time it took me a little while to get my mind around that, but it seemed clear that the Treasurer believed that the deal was done. Now that he is on the government benches the Treasurer appears to have changed his position somewhat from that which he espoused or enunciated during that debate. That concerns me because the time to get the Epic deal right was during the sale process. It is not fit, proper, ethical or morally correct – however one wants to describe it – for a regulator to come along after the fact and impose his will retrospectively on that particular deal. At the time bank managers, lawyers and accountants poured over the data. Everyone had access to the data room for the same period – some 5 or 6 weeks. Therefore, they certainly applied themselves and could not be criticised for a lack of diligence in the way in which they put their submission together for the purchase of that gas pipeline.	Commitment of the State. \$1/GJ environment. Expectations of the parties.
5132 – R.N Sweetman	A substantial amount of the proceeds of the sale went to the convention centre. The community of Western Australia will benefit from the proceeds of that sale. We should put the issue of the regulator to one side and go back and look at the	Benefits to the State

Page #	Statement	Issue
	<p>deal as simply as we can for such a complex issue. We should ask whether it is fair that an amount was offered and that these advantages have accrued to the State from this purchase price.</p>	
<p>5132 – R.N Sweetman</p>	<p>A guarantee has also been made that prices will diminish in the future, after tariffs reduce to \$1 and \$1.08. As well, \$850 million or \$870 million will be spent on expanding the capacity of the line when it is required. The company has already spent some \$170 million to \$200 million doing that. These things need to be taken into account. ... This is about not only the largesse and genuineness of the transaction and the sale price but also the implications that will ultimately result to the reputation of this State in the broader international investment community. There are good reasons for the international investment community to invest in Australia at the moment; our interest rates are still higher than those in most other developed countries in the world. It is interesting that we talk about interest rates. They may well have been a factor in the determination by the regulator in his draft assessment that tariffs should be 75c and 85c. That is my understanding of what it is. I am not sure whether it was in any way linked to the historical bond rate, but the reference rate for return on capital at the time the bids were being put together was accepted Australia –wide as being about 10.3 per cent. My understanding is that, because of low interest rates, the rate has been forced down... It is not reasonable for this transaction to have been subjected to that drop, given when it occurred. It is also my understanding that the return on capital will ultimately cover the purchase price. I cannot see what will stop the price ultimately reducing further, once Epic Energy has a return on its capital. I understood that was included in the bid that the steering committee was to assess. I am sure that did not get lost anywhere; I am sure it is still a part of the regulatory contract that applies to the transaction.</p>	<p>Commitments of parties. Benefits to the State. Expectations of Parties.</p>
<p>5136 - R.F Johnson</p>	<p>When the gas pipeline was sold to Epic Energy, I was a member of Cabinet. Many people believe that Epic Energy paid too much. From the point of view of the State, it was a fantastic deal to suddenly receive \$2.4 billion, which was the highest of any of the bids. It was also a good deal because it brought the cost of gas transport down from \$1.22 to \$1, and \$1.08 in the southern parts of the State. That had to be a very good deal for the people of Western Australia. The \$2.4 billion was used to pay off a lot of the debt that the previous Labor Government...had got into.</p>	<p>Benefits to the State.</p>

Page #	Statement	Issue
5136 - R.F Johnson	<p>The price that was paid for the pipeline was a good deal. The expectation – that is a very important word – not only of Epic Energy, but also of the Government of the day and industry, was that \$1 was a very fair price. It was a huge reduction. The regulator then looked at what was happening in the eastern States, which is like a different country. We are so apart from the eastern States and we have a different infrastructure. The eastern States has a much larger consumer base than we do here, both in industry and residential customers. What happens in the eastern States cannot be used as a model for what happens in Western Australia. For the regulator to cut cost and the turnover of Epic Energy by about 20% is horrendous. No government would have done that, because Governments should act with honour and integrity. If the regulator were not in place, and the minister were charged with the responsibility for setting the cost, we would not at this time be looking at a 20% reduction in the turnover of Epic Energy. From all the reports we have seen, if Epic Energy has to end up charging the price that the regulator has set, it will go into liquidation after spending \$2.4 billion. That does not augur well for any international corporations looking to invest in Western Australia.</p>	<p>\$1GJ Environment. Expectations of the parties.</p>