File No: MA306.002

20 March 2000

Mr Robert Pullella
Office of Gas Access Regulation
Level 6, Governor Stirling Tower
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Dear Mr Pullella

SUBMISSION ON THE PROPOSED ACCESS ARRANGEMENT FOR THE DBNGP

Background

AEL's primary concern in its consideration of the proposed Access Regime is the impact on the Access Arrangement of the decision by Government to accept an inflated price for the pipeline. This logically results in Epic seeking an Access Arrangement to support the price, including increased tariffs, a tightening up of service conditions and the identification of previously unrecognised revenue opportunities.

Our submission focuses on what services and tariffs might be achievable based on a supportable asset valuation and the provision of services that are more user friendly, distance related and cost reflective. We have sought in our comments to be consistent with the National Access Code, but have not benchmarked our comments against it.

The potential write down in the asset value of the DBNG Pipeline resulting from this approach is left as a matter for Government and Epic to resolve, and in our view is not a matter to concern the Regulator.

Reference and Non-Reference Services / Terms and Conditions

With regard to the Firm Service terms the following provisions, which impose additional constraints, concern us. The potential charges being sought appear unreasonable and/or difficult to justify.

(a) Significant Out of Specification Gas Charges in addition to the current liabilities.

(b) A more restrictive regime for relocation of Delivery Points.

(c) No allowance for renominations on a Gas Day.

(d) Overrun arrangements compromised by large Excess Imbalance Charges.

(e) Significant tightening of daily balancing requirements (2% of MDQ).

(f) A suggested reliance on unspecified Secondary Market and Park and Loan Services, in the context of an extremely limited Secondary Market.

(g) Significant charges for exceeding hourly peaking limits.

(h) $15/GJ Rates and Charges for a range of situations where specific Firm Service thresholds have been breached.

(i) Additional Delivery Point charges based on cost sharing at each Delivery Point.

(j) Fixed charges payable by shippers which will constitute 95% to 100% of the total Reference Tariff.

AEL queries the justification for these changes and urges OffGAR to seek further details on the justification for these charges which will be an increased burden on shippers.

Back haul

We are also concerned that back haul is enshrined in the proposed Firm Service at forward haul rates. Backhaul should be a negotiated Non-Reference Service capped at the distance related pipeline charge.

Reference Tariffs

Apache supports a tariff regime that provides tariffs that are cost reflective and distance related for forward and back haul. This would recognise respective inlet points of North West Shelf, Harriet/East Spar or Tubridgi/Griffin/WAPET and the cost of service from those points to the market.

Tariff Structure

In order to provide a cost reflective tariff, a distance related tariff is required, based on the distance between Inlet (Receipt) Point and Outlet (Delivery) Point locations. The costs in the proposed Access Arrangement for pipeline, compression and fuel provide a sound basis for such a methodology. There should be no lumping of costs, or zoned arrangements.

Further, these distance related charges should prevail for the whole length of the pipeline and not be truncated at 1399 km or Zone 9 or Zone 10. Transport to the south west should attract a higher cost than to north of the metropolitan area, for example. Such an arrangement is then absolutely transparent to producers and customers.

The issue of the relationship between tariff and gas quality has not been addressed. OffGAR will be aware that AlintaGas has access to a tariff reduction of 50% for transport of producer LPG's to Wesfarmers. For tariffs to be cost reflective, shippers with rich gas should expect to pay a lesser tariff than those with lean gas. A relationship against a base Wobbe Index should be considered.

Initial Capital Base

The initial Capital Base used in the proposed Access Arrangement is obviously a critical issue for tariff determination. AEL questions whether Code 8.10 and 8.11 clauses have been adhered to in the determination of the Reference Tariff. At the very least AEL believes that credible estimates of the DAC and DORC are required to provide a basis for an Initial Capital Base. The premiums associated with asset purchases by way of tender should not be simply incorporated into tariffs.

Regulatory Rate of Return

AEL requests that OffGAR ensure the proposed WACC is consistent with developments elsewhere in Australia (which it doesn't appear to be) and truly represents prevailing market conditions and gas industry parameters.

Economic Depreciation of Assets (Return of Capital)

AEL does not support the concept of Economic Depreciation. This methodology increases the capital base to $3.2 billion by 2004.

Incentive Mechanisms

The proposed Rebateable Services/Revenue mechanism and its consequences for all shippers (ie. Prior Contract shippers) needs to be determined.

Access Arrangement Information

Total revenue is described as being calculated using the "Cost of Service" method. The information supporting this would assist in interpreting the Access Arrangement.

Conclusions

In considering the Access Arrangement OffGAR needs to set aside the result of the Government-sponsored asset sale that sought to maximise sale price and focus on the introduction of a regulated DBNGP access regime consistent with the National Access Code. Paramount to achieving this result is a realistic Initial Capital Base, the elimination of the concept of economic depreciation, the implementation of cost reflective distance related tariffs and putting more flexibility into the service terms and conditions.

Yours sincerely

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