

17 March 2000

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

Dear Mr Pullella,

**EPIC ENERGY'S PROPOSED ACCESS ARRANGEMENT FOR THE
DAMPIER TO BUNBURY NATURAL GAS PIPELINE**

The Chamber of Commerce and Industry of WA (CCI) submits for your review comments on Epic Energy's proposed Access Arrangement for the Dampier to Bunbury Natural Gas Pipeline (DBNGP).

The Access Arrangement enforced for the DBNGP will affect many industries in WA across a wide range of sectors, and will ultimately impact on the competitiveness, particularly the international competitiveness of WA industry.

CCI's specific comments follow.

Determination of Capital Base

Epic Energy has determined the Initial Capital Base of the DBNGP as the summation of the price paid for the pipeline including acquisition costs and new capital expenditure on the pipeline.

CCI is aware that considerable publicity has been given to the value of the Initial Capital Base of the DBNGP and the appropriate method of measuring it. While CCI is not in a position to comment on the merits of different methods we believe that it is important that the Office of Gas Access Regulation (OffGAR) in determining a suitable value for the Initial Capital Base undertake a comparative analysis of the different valuation methodologies (eg. Depreciated Optimised Replacement Cost, Depreciated Actual Cost and purchase price). CCI notes that Section 8.11 of the National Third Party Access Code for Natural Gas Pipeline Systems (The Code) states that the value assigned to the initial base should normally lie within the range of the values determined using the DORC and DAC.

Importantly, in determining a reasonable value for the Initial Capital Base OffGAR should give consideration to the interests of Epic Energy, the interests of the users and potential users of the pipeline and the transportation tariffs that would be derived for the value assigned.

Epic Energy indicate in the Access Arrangement that the Reference Tariffs which they are committed to cannot cover the proposed capital costs and operating costs of the DBNGP with current and projected level of gas throughput. That portion not recovered has been treated as “economic depreciation”. Epic Energy has then proposed that this “economic depreciation” amount derived in year (t) be added on to the capital base in year (t+1). CCI requests that OffGAR investigate the validity of such an approach and the effect it could have on the valuation of the DBNGP’s capital base in future years and gas transportation tariffs.

CCI would be very concerned if this process leads to increased gas tariffs.

Weighted Average Cost of Capital

Epic Energy has proposed a Weighted Average Cost of Capital (WACC) of 8.5% (8.6% rounded to the nearest quarter percentile) for the DBNGP.

CCI requests that OffGAR review this determination to ensure that the beta component of the WACC accurately reflects the risk of owning this pipeline and that the resultant WACC valuation is consistent with those assigned to other gas pipelines in Australia.

Tariffs

CCI has been advised that existing and potential users of the DBNGP have difficulty in contrasting the proposed tariff structure with the existing T1 and T2 capacity firm service. OffGAR should request Epic Energy to provide a comparative analysis of the change in gas transportation costs that are likely for an existing user, if the existing user is charged as per the Access Arrangement.

Notwithstanding this difficulty, CCI has been informed that under Epic Energy’s proposed tariff structure some users would pay more to transport gas than they currently pay under the T1 tariff and that the increases would be substantial in the Pilbara. We have also been advised that in addition there would be a rise in the fixed cost component of the total cost of transporting gas along the pipeline.

OffGAR should examine whether the new tariffs proposed under the Reference Service, the Firm Service accurately reflects the costs of the assets used in providing that service and consequently comply with the Reference Tariff Principle “that the overarching requirement is that when reference tariffs are determined and reviewed, they should be based on the efficient cost, or anticipated future cost of providing that reference service”.

Importantly, OffGAR should ensure that the Firm Service, proposed by Epic Energy, is one that is likely to be sought by a significant part of the market and thus complies with The Code.

We understand that the tariff structure proposed by Epic Energy will result in gas consumers in the Kwinana/Rockingham regions, which includes most of the substantial gas users in the Kwinana Industrial Area paying a tariff of \$1.08 per Gigajoule compared with \$1.00 for the rest of Perth. This disparity would arise

because consumers in the Kwinana/Rockingham area are included in Zone 10 for the purposes of tariff pricing, notwithstanding the fact that their take-off points are upstream of Compressor Station (CS 10). CCI is aware however, that Kwinana/Rockingham consumers would not be charged for CS 10's compression costs. Consequently, the final tariff would be slightly less (in the order of 0.5 cents per Gigajoule) than \$1.08.

We have been advised that the placement of the boundary between tariff Zones 9 and 10 is in contrast to the practise used elsewhere on the DBNGP where the tariff zones start 1 km downstream of compressor stations.

CCI requests that OffGAR examine this matter.

Reference Service Balancing Provisions

Epic Energy's proposed Reference Service, the Firm Service stipulates a 2% balancing provision. Under the Gas Transmission Regulations that currently prevail the balancing provision is 8%.

In addition, the Firm Service's proposed penalty charges to be levied for daily imbalances, peaking and overrun usage are severe.

CCI requests that OffGAR ensures that the balancing provision is set at a level that is fair and reasonable and that the penalties incurred for failing to balance are not punitive in nature but a true reflection of the costs to Epic Energy and possibly to other users of the pipeline from a particular user failing to balance.

CCI also notes that a system has been proposed where the out of balance penalty payments are apportioned to Epic Energy, other users of the pipeline and to reducing the capital base. CCI requests that OffGAR investigate the rationale for establishing such a system and the associated proportions.

CCI have raised a number of issues in this submission that OffGAR needs to address. It is important that the final tariffs levied on users of the DBNGP accurately reflect the efficient costs, both capital and operational, of using this infrastructure.

Yours sincerely

W S Sashegyi
Manager Industry and Resources