THE CHAMBER OF MINERALS AND ENERGY
OF WESTERN AUSTRALIA INC

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11 September 2001

Dr Ken Michael AM
Regulator
Office of Gas Access Regulation
GPO Box 8469
PERTH BUSINESS CENTRE WA 6849

Dear Dr Michael

DAMPIER TO BUNBURY NATURAL GAS PIPELINE DRAFT DECISION

Following the release of the draft decision on Epic Energy's proposed access regime applying to the Dampier to Bunbury Natural Gas Pipeline (DBNGP) by the Office of Gas Access Regulation (OffGAR), the Chamber of Minerals and Energy wishes to make the following comments.

The major issue surrounding the draft decision has obviously been OffGAR's determination that the rates sought by Epic are too high and should be reduced – down from a proposed $1/GJ to 75c/GJ for zone 9. The Chamber believes that the views of the parties concerning this issue are well understood and does not propose to add to them. However, the Chamber does wish to comment on two specific issues surrounding the draft determination.

Pipeline Expansion

Since the draft decision, Epic has publicly expressed a concern that it would create "second class citizens". This is on the basis that Epic's proposed $1/GJ tariff included a commitment to fund capacity expansions at the same price. Epic argues that 75c/GJ is insufficient to allow capacity expansion and that, if new users who require expansion are required to fund the cost of such expansion, this would be at a tariff of around $1.30/GJ. This would create a significant difference in gas transport costs between users of the same service and have obvious competitive implications if, for instance, a new Independent Power Producer wished to produce gas fired electricity in competition with an established generator paying tariffs of 75c/GJ. To this extent the Chamber shares Epic's concern in this area, noting that the DBNGP is close to maximum capacity and that demand for gas in the South West is likely to continue.

However, the Chamber does not necessarily agree with Epic's proposed resolution of this issue. Epic has, correctly, argued that one way to deliver the new capacity required is for the Regulator to endorse the proposed reference tariff of $1. If there is an implication that this is the only way to deliver expansion then this is not correct.

An alternative to this would be for the capital costs of any expansion to be added to the overall DBNGP capital base so that all shippers in the same zone pay the same tariff which would be derived from the amended capital base under National Access Code (NAC) principles.

Section 8.16 of the NAC provides that the pipeline owner can add the cost of expansion to the capital base if it:

- is acting efficiently and in accordance with good industry practices and the expansion costs are prudently incurred; and
- the capacity expansion has system wide benefits.

The first point is obviously one for determination by the Regulator, however, the Chamber believes that expansion would deliver system wide benefits as all users would benefit from the improved supply reliability and security arising from such likely expansion features as looping, additional compression and associated modifications to the communication and control systems.

The Chamber therefore, while sharing Epic's concern over the potential for discrimination between users on the basis of when they seek pipeline capacity, argues that the NAC does provide an alternative means of resolving this issue which needs to be considered by the Regulator.

Tariffs in the North West

In its initial submission the Chamber made the following statements which it believes need to be taken into consideration by OffGAR:

> "The Chamber is also concerned that focus on $1.00/GJ as the headline reference tariff ignores that ...

- Reference tariffs in some areas of the State will increase significantly as opposed to the full haul situation. For instance, in the Pilbara, some tariffs will increase by an order of magnitude – by 14 times according to one user."[1]

The Chamber welcomes the discussion in the draft decision on this issue. For instance, the decision notes "there are, however, anomalies in that higher tariffs would apply to Users or Prospective Users with Delivery Points in the Pilbara (Zone 1a of the pipeline) and from the Carnarvon Lateral (Zone 4a) ... the Regulator considers these anomalies to be inequitable given the reduction in tariffs for

[1] Chamber of Minerals and Energy letter to OffGAR dated 17 March 2000

Delivery Points on other locations on the pipeline … and requires Epic Energy to amend the cost allocation … [so that] there is no increase in gas transmission costs under the Reference Tariff relative to the tariff that Users or Prospective Users would have paid under a contract entered into under the *Dampier to Bunbury Pipeline Regulations 1998*."[2]

The Chamber supports this outcome as a minimum and strongly urges that it be reflected in the final decision, particularly given the impact on gas users in the Goldfields who take gas off the DBNGP in this region. While not specifically mentioned in the passages quoted above, the Chamber also notes the importance of tariffs from the junction of the DBNGP and the Goldfields Gas Transmission pipeline (zone 1b). High tariffs directly impact on the ability of users in the Goldfields to access gas at competitive prices. The proposed rates would not provide existing or potential users in the Goldfields the benefit of effective gas producer competition.

The Chamber also notes that, if the draft decision is implemented, zones 9 and 10 users will enjoy a 25% tariff reduction while zones 1a, 1b and 4a will merely have no increase. On equity grounds alone, and also giving due consideration to efficient asset cost allocation, the Chamber believes that there is a case for the tariffs for these users to be reduced and urges OffGAR to give this matter appropriate consideration in arriving at a final determination.

It is hoped thatthese comments are of assistance. Please contact Charles Crouch, Executive Officer, Economic Affairs, if any further information is required.

Yours sincerely

Tim Shanahan
Chief Executive

[2] OffGAR, Draft Decision, Part B, pp 250-1.