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Copy: Sue Ortenstone, Epic Energy

Office of Gas Access Regulation
PO Box 8469
PERTH BUSINESS CENTRE 6849

Dear Sirs

RE: DRAFT DECISION ON DGNGP RATES CASE

As a consultant of long standing in the Australian Pipeline Industry, J P KENNY wishes to express its concern over the recent draft decision on the DBNGP rates case, particularly in view of the potential impact it may have on the future activities of Epic Energy.

Our concern extends to the future health of the natural gas and gas pipeline industry in WA as well as in the remainder of Australia. In the years since J P KENNY first commenced operation in WA (1984) we have witnessed the transformation of the industry from its initial public utility format to its present state of ill-health, that being a market driven infrastructure with an overburden of inappropriate technical and business regulation. Whilst the (largely) visionary actions of the State Government stimulated development of the initial pipeline system that was constructed and operated in a technically robust manner, we consider the recent efforts to privatise the industry in pursuit of market-driven economics to be poorly directed.

The assets were sold to private players, generally at advantageous prices, in the expectation that a competition model would drive down the ultimate cost to the consumers. However, the one element that does not appear to have been considered by governments in forcing the evolution of the industry is the fact that international models such as that of the USA are in no way comparable with the WA situation in that our market size is orders of magnitude smaller. This coupled with the fact that our geography places the demand centres long distances from the gas reserves means that for WA, the natural gas and gas pipeline industries will need government stimulation for some time to come. We consider that placing extremely restrictive revenue limits on the operators to be an inappropriate and unnecessary attempt to guard against profiteering.

Our observations to date suggest that operators are struggling to achieve their shareholders expectations of existing assets by cutting operating costs significantly in order to achieve acceptable returns. We are concerned that such behaviour has the potential to lower operating standards below socially acceptable levels. We also note the increasing trend to “bottom-line” every cost aspect of capacity enhancement and network development, which in our opinion puts at risk the ultimate quality of new assets.

The logical outcome of the emerging situation is that the operators may well conclude that Australia is a bad investment risk and quit their assets here in favour of more attractive climates. The resultant impact will be restricted growth of the industry here, and potentially negative growth. One could also reasonably anticipate a high level of government intervention and funding in the future that will be required to recover the integrity of the existing system just to maintain the current level of service.

The position paper circulated by Epic Energy in response to the draft decision quite clearly carries the message that one of the worlds larger gas pipeline players considers the WA situation to be rapidly approaching the ”far too difficult” stage. As one of their consultants, we have first-hand experience of some of theirs and other operators’ commercial drivers and outcomes, and we know that profiteering is the lowest item on their agendas. High on the list is the further development of their systems coupled with limiting their liability for public safety, both on the basis of competitive pricing. Neither of these objectives will be achieved under an inappropriate business regulatory regime.

The direct impact on our company of late is that we choose not to compete in the current aggressive local price war, and we direct our WA-based resources at the more attractive international markets. We are aware that other engineering consultancies are behaving similarly, and those that do not have sufficient capability to compete on an international basis are withdrawing from the industry. The net result of that behaviour is that the best of WA’s limited pool of technical people are directing their efforts at other countries because the local operators cannot afford to pay regional market rates for their services. We are sure that this effect is spread far more widely than our specific niche.

Accordingly, we urge OFFGAR to review its position carefully in revisiting the draft decision, and to reconvene with the big picture in full view.

Yours faithfully

S J WAYMAN
Managing Director