

22 August 2001

Dr Ken Michael
Western Australian Independent Gas
Pipelines Access Regulator
Office of Gas Access Regulation
6th Floor
197 St Georges Tce
PERTH WA 6000
Attention: Mr R Pullella

Dear Sir

**Draft Decision on Proposed Access Arrangement for the Dampier to Bunbury
Natural Gas Pipeline**

The Kalgoorlie-Boulder Chamber of Commerce and Industry (CCI) has prepared the following submission in response to the Western Australian Independent Gas Pipeline Access Regulator's (Regulator) draft decision on the Proposed Access Arrangement for the Dampier to Bunbury Natural Gas Pipeline (DBNGP).

While the DBNGP does not currently supply gas to the Goldfields region, the CCI considers it important to comment on the draft decision because if it is implemented, it is likely to have the following consequences for the region and the State, consequences which appear to be in direct conflict with the objectives of the Code:

- The ability for participants in downstream markets, both existing and potential, to obtain competitively priced energy for their operations could be jeopardised because of the different pricing structure that Epic Energy states will have to be adopted for any incremental pipeline capacity that is required. As a direct consequence, the further development of such downstream markets as the natural resources industry could be restricted given the fact that energy costs are a significant proportion of the overall costs of operations in this market.

The CCI understands that the existing capacity of the DBNGP is almost fully contracted and therefore, incremental capacity is required before companies can consider substituting gas for their energy source.

However, Epic Energy has stated that for any incremental capacity to be realised, users of that incremental capacity must be prepared to pay tariffs substantially higher than those proposed under the draft decision for the existing capacity.

So, if the cost of the incremental capacity is too high, there is firstly no ability for gas to compete with the alternative energy sources but also there is no incentive for the suppliers of any of the alternative energy sources to charge substantially less for their energy than what it costs to provide the incremental gas capacity. The ability therefore for industry to choose between alternative energy sources and obtain the most competitively priced energy, is placed in jeopardy.

- The decision could also kill off the possibility of gas on gas competition in the Goldfields region for the very same reasons as it would deter competition in the wider energy market. If it is not economic for Epic Energy to expand or extend the pipeline system then a possible extension of the system to the Goldfields region could never materialise. If this occurs the position of the only incumbent gas pipeline in the region – the Goldfields Gas Transmission Pipeline-remains secure. Clearly competition amongst gas itself, in addition to competition between alternative energy sources, is an ideal outcome for downstream markets and economic development in general.
- The differential pricing structure Epic Energy states that it will be forced to implement for any future incremental capacity will also put at risk the development of any pipelines with spare pipeline capacity, thus severely restricting the potential for competition in the market for pipeline services. Finally, it is critical to the future development of the regions such as the Goldfields that not only must there be a financially viable pipeline owner, but also that the pipeline owner is afforded an environment which makes it commercially and technically viable to expand the pipeline. We would also hope to see an environment encouraged by regulatory decisions which fosters competition.
- The draft decision puts at risk further regional development, one of the key policy objectives of the current State and Federal governments. If one of the fundamental requirements for further development (ie, competitively priced energy) is not available, this severely limits further development.

One of the cornerstones of the Code is to replicate a competitive market in situations where the market itself is unable to achieve competition so as to promote regional and economic development. It is apparent that this objective and outcome would be achieved if this draft decision is implemented.

Leaving the issue of the sale of the pipeline by the Western Australian Government to Epic Energy aside, surely the public interest and those of prospective users are best served by ensuring that any access arrangement that is approved promotes an environment which affords the best opportunity for service providers and asset owners in general to provide for a developed and efficiently sized pipeline network with sufficient spare capacity existent to encourage growth in both downstream and upstream markets.

As representative of industry in a region which stands to lose significantly from the stated consequences to which draft decisions of this nature may give rise, the CCI urges you to take into account the above consequences and issue a final decision which sends the correct signals to infrastructure investors and developers, so that the objectives of competition reform can be realised.

Yours sincerely

Hugh Gallagher
Chief Executive Officer