



**Leader of the Parliamentary National Party
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Mr Robert Pullella
Office of Gas Access Regulation
Level 6, Governor Stirling Tower
197 St Georges Tce
PERTH WA 6000

Dear Mr Pullella

**Submission to the Office of Gas Access Regulation
Draft Decision on the Dampier to Bunbury Natural Gas Pipeline**

We appreciate this opportunity to make a submission in relation to the Draft Decision on the Dampier to Bunbury Natural Gas Pipeline.

The National Party of Western Australia would like to address the core principles under which the National Access Code was established and the subsequent legislation enacted in this State. In doing so it is our intention to ensure that the Regulator is applying these principles in such a way as to encourage the development of the energy sector and in turn regional investment.

Background

Reform of gas regulatory arrangements in Australia has been guided by the objectives of national competition policy. The main principle of gas industry reform determined by the Council of Australian Governments was to achieve free and fair trade in natural gas. There were three underlying objectives:

- to remove policy and regulatory impediments to retail competition in the natural gas sector;
- to remove a number of restrictions on interstate trade; and
- to encourage the development of a nationally integrated and competitive natural gas market by establishing a national regulatory framework for third party access to natural gas pipelines and facilitating the interconnection of pipeline systems.

In summary the reforms seek to foster the development of a national market for natural gas, lowering prices for energy users, providing greater choice for customers, providing more sustainable use of our energy resources and improving the domestic and international competitiveness of Australia's industries.

As part of the reform process the National Access Code was developed to establish the rights and obligations of pipeline operators and users in relation to third party access to natural gas transmission and distribution. It is designed to replicate competitive market outcomes where there are monopoly pipeline facilities serving a market in which regulation of third party access is necessary to ensure the competitive supply of gas.

In Australia the regulation of gas pipelines is administered by the Australian Competition and Consumer Commission (ACCC), with the exception of Western Australia where OffGAR is established under the *Gas Pipeline Access (Western Australia) Act 1998*. This regulatory system was proposed in recognition of the unique regional differences in Western Australia.

The intent of OffGAR was to provide flexibility in dealing with the specific circumstances in Western Australia, which may have otherwise been overlooked if the ACCC had remained the regulatory body. This situation is not so relevant to other states as they have mature grids and pipeline systems. Western Australia however has considerable growth opportunities of which the energy sector is an integral part.

The intent of the Bill, which established the regulator, was as follows:

- To provide an open and transparent process to facilitate third party access to natural gas transmission and distribution pipelines.
- To facilitate the efficient development and operation of a national market for natural gas and to safeguard against abuse of monopoly power in transmission and distribution of natural gas.
- To promote a competitive market for gas, in which customers are able to choose the producer, retailer or trader to supply their gas.
- To provide a right of access to transmission and distribution networks on fair and reasonable terms and conditions, with a right to a binding dispute-resolution mechanism.
- To encourage the development of an integrated pipeline network.

Issues

The current process for negotiating the tariff arrangements for the Dampier to Bunbury Natural Gas Pipeline has raised concern about the application of the principles listed above.

The National Party seeks an assurance that the Regulator fully applied the principles of fostering competitive markets and promoting investment in the gas market. Specifically the National Party raises the following points and seeks an assurance from the Regulator that due consideration was given to each.

- The draft determination must take into consideration matters of unique regional significance in Western Australia, as per the intent of the State legislation.
- The National Party does not have the resources to determine a fair price for gas transmission, however we note that the sale process has led the incumbent owner to believe it can charge a tariff based on the purchase price rather than the duplication value of the pipeline. The Party would be appreciative of an explanation as to how this has occurred and the ramifications of a tariff that is substantially lower than the commercial parameters outlined during the sale of the pipeline.
- If the incumbent owner of the pipeline is unwilling to expand its services based on a reduced tariff this is detrimental to regional development and would require justification.
- The transmission price must provide any prospective developer with incentive to build transmission capacity. This is imperative, as it is clear the State will not build infrastructure. In absence of State commitment to build infrastructure the Regulator must be cognisant of commercial considerations, such as level of risk.
- The commercial development of energy infrastructure in regional areas in order to promote investment both within the energy sector and by industries that require clean and efficient fuel sources. This was a key objective of removing the ACCC as Regulator and establishing OffGAR, and needs to be demonstrated in the Draft Decision. Therefore the Regulator should be able to prove the tariff was established on a sound commercial model.
- The attractiveness of investment in Western Australia by both Australian and international business will be influenced by the ability of existing companies to operate profitably within the State. Once again the Regulator needs to be able to prove a sound commercial model is utilised in the decision making process.

- If heavy handed regulation is applied to the pipeline sector then it has two significant impacts:
 1. Maintenance of infrastructure may be put at risk.
 2. Discourages investment due to lack of capacity on the pipeline and prevention of infrastructure expansion.
- A feasibility study of a gas pipeline for the Great Southern highlighted the potential for major projects to be developed in regional areas. It is a fair and reasonable assumption that future business development may be influenced by the ability to access a cost effective, clean fuel source. Draft decisions, be it the DBNGP or the Goldfields Gas Transmission Pipeline, need to encourage growth in regional areas.

Summary

The objective of regulation should be to ensure a competitive market, which for the gas industry means nationally and internationally, in order to foster future investment and development. We cannot have substandard infrastructure servicing such an important industry upon which the economy relies.

The Regulator's decision therefore needs to be wider than just the consideration of the pipeline owner. Pricing issues should not overshadow potential development. The process for deriving pipeline tariffs needs to be on a sound demonstrable economic model. A pure price focus will limit the consideration of the Regulator to the short term, whereas the long term development of the sector is of paramount importance.

The National Party will continue to promote the development of the energy sector in regional Western Australia within the Government, and the private sector. We will advocate that in the public interest community service obligations must be actively considered. Our aim is to ensure that all West Australian's can benefit from access to clean efficient energy sources through commercial and domestic arrangements.

Yours sincerely

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