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DATE	:	**14/6/99**			
REF	:	MEPAFAX.DOT	**No. of Pages**	:	**2**
SUBJECT	:	**PROPOSED ACCESS ARRANGEMENT FOR PARMELIA PIPELINE BY CMS GAS TRANSMISSION OF AUSTRALIA**			

Mobil Exploration and Producing Australia Pty Ltd (MEPA) submits for your review comments on the proposed access arrangement by CMS Gas Transmission of Australia (CMS) for access to the Parmelia pipeline in accordance with the National Access Code for Third Party Access to Natural Gas.

MEPA's view is that the Reference Tariffs will not increase competition or economic efficiency for the gas market in Western Australia.

Our specific comments are submitted below:

1. REFERENCE TARIFF

CMS has used the DORC methodology to determine an appropriate cost of capital from which to determine the tariff. The $210 million cost estimate is unrealistic. An upper bound in determining the value of the pipeline should have been the purchase price of the pipeline in 1997 which was believed to be of the order of $130 million. As some of the assets purchased at that time have since been sold for a further $27 million suggests that the pipeline assets were worth of the order of $100 million. Thus CMS's valuation of the pipeline is grossly in excess of the open market valuation and therefore questionable.

If one examines the central tenet of the Access Arrangement being ""Will the tariff unreasonably discourage downstream uses or consumers of gas?" The answer has to be yes. The alternative pipeline, the DBNGP transports gas at a distance related tariff in 1999 (described by Regulation 35.4 of the Dampier to Bunbury Pipeline Regulations 1998), of:
Reservation Charge $0.0005881/GJ km
Commodity Charge $0.0001944/GJ km

If one were then to calculate what tariff would then apply for a competitive tariff by the DBNGP for the length of the Parmelia pipeline (416 km) one would find the tariffs to be:
Reservation Charge for 416 km $0.2446/GJ
Commodity Charge for 416 km $0.08087/GJ

Or a total of $0.32/GJ which is less than half of what is being proposed. Is CMS providing any competition to the operators of the DBNGP? Arguably not. It is therefore important for the regulator to ensure that some level of competition can be created. If CMS were to offer a competitive tariff with the DBNGP it is plausible that the Parmelia pipeline would be used up to capacity. Indeed it is conceivable that the operator of the DBNGP would even examine the option of using the Parmelia pipeline rather than further investing in the DBNGP south of compressor station 8. However, with the tariff that CMS are suggesting none of the above will happen.

The methodology adopted by CMS for arriving at a tariff makes no mention of existing tariffs other than they are confidential (p. 35). One would find it hard to believe that the tariffs for existing customers resemble those proposed. Does this imply a favourable tariff for pre-existing customers but a punitive tariff for those who contract post 1999? This leads to an inequitable situation.

The rate of return is extraordinarily high at over 15%. It is curious that all the actual purchase arrangements used by CMS in purchasing the Parmelia pipeline have been ignored such as the level of debt and equity (apportioned to the Parmelia Pipeline) and the interest charged to CMS when seeking debt funds for this purchase. Instead a totally theoretical case has been concocted to promote a very high rate of return upon a theoretical level of investment more than twice that we would consider reasonable. All the variables chosen by CMS appear to have been chosen to push the cost of capital and rate of return higher and we feel that they would not survive the scrutiny of an expert in this field.

2. UNIQUE POSITION OF PARMELIA PIPELINE

The Parmelia Pipeline is in a unique position in that, whilst being a transmission pipeline, runs adjacent to most of Perth's smaller industrial areas. Whereas the DBNGP skirts around Perth to avoid urban encroachment the Parmelia Pipeline has direct access to the Bassendean/Ashfield, East Perth, Midland and Canning Vale industrial areas. This provides CMS with an opportunity to transport gas directly to some customers who would otherwise have to use both the DBNGP transmission system and AlintaGas's distribution system. Thus CMS have an opportunity to play a pivotal role during the deregulation of the distribution market. However, in order to attract new customers away from the existing Perth gas distribution system CMS's basic tariff structure has to be competitive. Certainly industries in the areas within access of the Parmelia Pipeline should have the ability to get cheaper delivered gas than could be provided using both the DBNGP and AlintaGas providing the tariffs for the Parmelia Pipeline are reasonable. It would therefore be correct to assume without reasonable tariffs on the Parmelia Pipeline "it may lead to …….lower growth opportunities for the State."

3. COMPETITION FOR THE PARMELIA PIPELINE

On page 15 of the CMS submission is says "*These facts mean that the primary drivers for Open Access legislation simply do not apply to the Parmelia Pipeline, because it operates in an environment of actual and potentially onerous competition."* However, CMS has requested the agreement of the Regulator to a tariff which is demonstrably uncompetitive with its competitor yet it argues that the competition is onerous. For the benefit of all natural gas consumers in the south west of this state MEPA urges the Regulator to consider whether CMS, within their proposed access arrangements, are providing a meaningful level of competition. It is technically possible for CMS to compete for 20% or more of the total south west gas transportation business and with realistic tariffs one would expect them to gain that level of the market.

Yours sincerely

Bill Isted
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