

MID WEST DEVELOPMENT COMMISSION SUBMISSION

Mr Peter Kolf
Executive Director
Office of Gas Access Regulation
GPO Box 8469
Perth Business Centre
PERTH WA 6849

Dear Mr Kolf

DRAFT DECISION – DAMPIER TO BUNBURY NATURAL GAS PIPELINE

The Mid West Development Commission is concerned that implementation of the Regulator's Draft Decision, issued on 21 June 2001, will limit the incentives inherent in the State's natural gas energy asset for future economic development. In a parochial perspective, potential developments in the Mid West at Mt Gibson and at Oakajee could be jeopardized if high energy costs erode the relatively narrow profit margins of these projects. The Development Commission strongly supports the point of view expressed by Epic Energy because of the possible implications on future industrial and economic development.

The nub of this issue appears to be the vastly different Initial Capital Bases that have been factored into tariff calculations by both the Regulator and Epic Energy and that the tariff agreement entered into by the previous government with the sale of this pipeline. Epic Energy contends that the tariffs proposed by the Regulator will force them to recover capital costs incurred in expanding the capacity of the pipeline and increasing gas delivery services from all new project proponents requiring natural gas. For example, the tariff for gas for the 120 Megawatt power station required for the Mount Gibson Iron Ltd project would, inclusive of capital costs, equate to about \$1.20/Gj.

The Draft Decision seeks to set transmission tariffs for the DBNGP to provide total revenue consistent with a fair and reasonable rate of return on an appropriate valuation of the pipeline (the Initial Capital Base). Epic Energy submitted proposed tariffs of \$1.00/Gj to Perth and \$1.08/Gj south of Perth, whereas the Regulator has proposed tariffs of \$0.75/GJ to Perth and \$0.85/GJ south of Perth.

Epic Energy proposed that the Initial Capital Base for the DBNGP should be based on the price paid for the pipeline (\$2.407 billion) modified to include other adjustments since the time of the purchase. Epic Energy calculated the Initial Capital Base at \$2,570.34 million: the Regulator has calculated the Initial Capital

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Base at \$1233.66 million. The draft decision does not appear to address all the other aspects of the legislative code that need to be considered by the independent regulator.

The Regulator's draft decision creates an impediment to new industrial development because developers are likely to incur higher overall costs for energy in comparison to existing operators. In this regard, the wider public interest to encourage economic development, does not appear to have been duly considered. The Mid West Development Commission seeks your assistance to help resolve the current impasse in a whole-of-state context to ensure that the State's natural gas asset continues to be an incentive for economic growth.

Yours sincerely

G.J. BAESJOU
for
G.J. O'GRADY
Chairman Board of Management

August 8th 2001

Cc: The Hon K.M. Chance, MLC