

17<sup>th</sup> August 2001

Chief Executive Officer  
Office of Gas Access Regulation  
PO Box 8469  
Perth Business Centre WA 6849

Attn: Dr Ken Michael AM

Dear Sir

### **Re: Proposed Tariffs for Dampier to Bunbury Natural Gas Pipeline**

Solar Turbines Incorporated, a Caterpillar company is the World's largest manufacturer of small to medium sized industrial turbo-compression power packages. The name 'Solar' has its genesis from San Diego, California, USA and is unrelated to any forms of solar or sun power.

Solar Turbines Australia has been present in Australia since the late 1960s and has grown in support of the pipeline industry from that time. Today, all major natural gas transmission pipelines in Australia utilise Solar's compression packages to pump gas to market.

Solar Turbines Australia has provided over 150,000 horsepower to SECWA/Alinta/Epic over the years in support of growth activities. In 1996, Solar opened a complete overhaul, repair and administrative centre in Australia to support this growth. Caterpillar has continued to invest millions of dollars in the region in anticipation of continued growth.

Solar Turbines Australia employs sixteen people in Western Australia following its decision to match the growth of its customers of which Epic Energy plays a major part and opening two offices here in Perth.

Solar Turbines Australia provides services to Epic in terms of technical and maintenance support on the DBNGP and also provides rotating plant and equipment in the development and enhancement of the pipelines. Solar's scope in the recent development of the DBNGP was over \$25M.

If adjustments to the tariffs for the Dampier to Bunbury natural gas pipeline, as proposed by the Office of Gas Access Regulation are implemented, you need to be aware that not only will our operation in WA be affected, but more so the many hundreds of resident WA employees who provide the services to operate and enhance/develop the DBNGP.

Our relationship with Epic Energy in the development, enhancement and operation of the DBNGP will no doubt be impacted by the recent publication of the Draft Decision.

In setting the tariffs at 75 cents per gigajoule to Perth and 85 cents per gigajoule to areas south of Perth, instead of the \$1 and \$1.08 respectively as proposed by Epic Energy, employment of many hundreds of people employed by businesses providing services to Epic Energy would be threatened.

In addition, the rates proposed by your office will threaten the very issue it set out to protect - the interests of the public and the viable development and growth of this State. It would be very unlikely that Epic Energy would invest the proposed \$800 million over the next 10 years as it intended when it purchased the pipeline.

With headquarters and major manufacturing operations located in San Diego, Solar Turbines has been significantly affected by the ongoing crisis in the Californian electricity market. The California Independent System Operator (which performs a similar role to NEMMCO in the electricity market in the eastern States of Australia) found in its investigation of the crisis that one of its principal causes was a chronic lack of investment in new infrastructure sufficient to ensure that the supply of electricity met the steady growth in demand.

The lack of sufficient investment in new generation facilities in California (and, in fact, the eleven western mainland States of the US) has meant that while new demand in California since 1994 has grown in the region of 6,800MW, new supply in that period has measured only 700MW, leaving a capacity deficit of 6,100MW. The critical consequences of a failure to invest in new generation infrastructure, as has been manifested in recent times in California, must mean that investment in new infrastructure, whether in the form of new facilities or in the form of augmentation or expansion or extension of existing facilities, is of fundamental importance and must be encouraged by regulatory decisions so that appropriate signals are sent to incumbents and potential new entrants. Although there are many differences between the Western Australian and Californian energy markets, we are concerned that the Draft Decision by the Office of Gas Access Regulation will discourage parties from investing in new supply capacity in energy markets.

In the case of gas pipelines, tariff policy should be designed with a view to achieving an objective of providing the service provider with the opportunity to earn a stream of revenue that recovers the efficient cost of delivering the relevant service over the expected life of the assets and replicating the outcome of a competitive market. As you would be aware, these are principles set out in the National Third Party Gas Access Code.

Unless the Regulator makes decisions on tariffs that encourage new investment (in the same manner as it would be encouraged in a competitive market), the Californian experience demonstrates that over time, ageing assets insufficient to meet increasing demand and subject to greater outages for maintenance, will lead to materially adverse outcomes for the industry, governments and the general community.

We are also concerned that regulatory actions which reduce the rate of return on assets in Western Australia to a level inconsistent with competitive outcomes may lead investors to allow for 'sovereign risk' when making calculations about whether to invest in the State. The draft decision of the Office of Gas Access Regulation carries with it, in the opinion of Solar, the risk of sending signals to potential investors in the State that investments in infrastructure, particularly in the energy sector, will be exposed to a deterioration in the capital asset base and in the rate of return on the investment by reason of government, or government related, policies or statements (or changes in those policies or statements) and regulatory decisions. The introduction of a sovereign risk factor would diminish investment and reduce overall economic activity in the State, with particular effects on businesses like Solar Turbines Australia which supply and maintain capital equipment and services for the gas and electricity sectors and are significant employers in the State.

We therefore urge you to consider further the issue of tariffs with due attention being given to the likely impact on economic activity and employment, both in the metropolitan area and in regional Western Australia.

Whilst Solar Turbines Australia clearly has a vested interest in making this submission, the impact of the proposed tariffs on economic activity and employment is undeniable and must be fully accounted for when the tariffs are finally set.

Yours Sincerely  
Solar Turbines Australia

**BILL BISHOP**  
Managing Director

cc    The Hon. Eric Ripper  
      Minister for Energy  
      28<sup>th</sup> Floor, 197 St Georges Terrace  
      Perth WA 6000

The Hon. Clive Brown  
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19<sup>th</sup> Floor, 197 St Georges Terrace  
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