16 March 2000

Mr Robert Pullella
Office of Gas Access Regulation
Level 6
Governor Stirling Tower
197 St Georges Terrace
PERTH WA 6000

Dear Mr Pullella

**PROPOSED ACCESS ARRANGEMENT: DAMPIER TO BUNBURY NATURAL GAS PIPELINE**

We refer to the invitation for public submissions on the proposed Access Arrangement for the Dampier to Bunbury Natural Gas Pipeline ("DBNGP") submitted to the Gas Access Regulator by Epic Energy (WA) Transmission Pty Ltd ("Epic") on 15 December 1999.

Wesfarmers CSBP ("CSBP") is interested in the proposed Access Arrangement because it:

- has existing access contracts with Epic for in excess of 20 TJ/day of pipeline capacity for natural gas supply to CSBP's ammonia manufacture plant at Kwinana for both feedstock and fuel;
- has a 75% shareholding in and is operating agent for Australian Gold Reagents' sodium cyanide manufacture facility at Kwinana, which utilises approximately 3 TJ/day of natural gas as feedstock;
- uses natural gas in its fertiliser production operations at Kwinana;
- is a substantial consumer of electricity in its fertiliser and chemical manufacture and distribution operations at Kwinana, Geraldton, Bunbury, Albany and Esperance; and
- is constantly investigating opportunities to expand its existing operations, including installation of new chemical or fertiliser production facilities requiring natural gas as feedstock or fuel and supply of electrical power.

With the above activities and ambitions in mind, we have a number of concerns regarding the proposed Access Arrangements. Some of these concerns are explained in the submission by Wesfarmers Limited on behalf of the Wesfarmers Group of companies, which includes CSBP, or are addressed in detail in other submissions by gas users and shippers. Rather than repeat this commentary in detail, we outline below issues of particular relevance to CSBP.

**Reference Services**

The "firm service" proposed by Epic is materially different to and more restrictive than the T1 service which is currently available to gas shippers and which has proved generally satisfactory to the market. Others have argued in their submissions that Epic is required to include a T1 equivalent reference service in its Access Arrangement. We submit that the market expects in a deregulated environment to have access to a reference service broadly equivalent to the existing T1 service. Elements of particular importance in such a service include:

- continuity of access for existing users;
- flexibility of inlet points to ensure continuity of supply to gas users;
- flexibility of outlet points to allow trade between users to offload unused capacity to other users;
- access to interruptable capacity;
- reasonable overrun provisions and overrun charges; and
- reasonable imbalance limits and charges.

Epic's proposed restrictions on inlet and outlet point flexibility in its firm service and on capacity trading in general work against the principle of a competitive market place for gas supply. In addition, Epic's proposals would result in existing and prospective industries becoming less able to manage their operations economically and to remain viable in difficult circumstances.

**Reference Tariffs**

The firm service offered by Epic contains tariffs which would result in substantial increases in costs to existing and potential users of gas, due to:

- a higher proportion of fixed fees;
- additional service costs;
- a step increase in costs for industries at Kwinana and south of Kwinana;
- overrun fees;
- excessive imbalance penalties; and
- excessive peaking surcharges.

These increased costs will make Western Australian gas using industries less competitive relative to national and international competition.

An underlying principle is that tariffs should reflect the costs of providing the respective services and not contain a penalty component.

Two other issues related to tariffs are that:

- as a result of the deregulation process and the privatisation of the DBNGP, both initiated by the WA Government, the industrial market for gas has been given an expectation that full haul tariffs to all users would reduce to no more than $1.00 per GJ in current dollars; and

- the introduction of a zone division just north of Kwinana is an artificial device which would contravene the above expectation and add substantially to the expected costs of a major proportion of WA industry.

In the context of announcements by the WA Government on reductions in transmission tariffs, CSBP proceeded with construction of a new $150million ammonia manufacture plant at Kwinana, to support downstream production of fertilisers and chemicals and for ammonia supply to the mineral processing industry.

Similarly, forward budgeting and planning for other operations at CSBP, and no doubt for other WA industries, have been based on the progressive reduction of gas transmission tariffs to the $1.00/GJ level.

The proposed tariffs, additional delivery point charges and penalties would add substantial costs to CSBP's operations, both directly through gas transmission charges and indirectly through costs of electricity and other inputs based on natural gas. For CSBP's ammonia plant alone, the proposed tariffs together with the higher fixed charge would add an estimated $1.2million per year to operating costs.

This and similar cost impacts in other operations would make it increasingly more difficult for CSBP and other WA gas based industries to compete with imported products.

It is submitted that a reference service similar to the existing T1 service should be available to all industrial gas users at a full haul transmission cost of no more than $1.00/GJ and that the more restrictive "firm service" offered by Epic should attract a significantly lower tariff.

**Indexation**

Epic's proposed 67% CPI indexation of all charges is inappropriate given the high capital cost component of Epic's cost structure. Again, this would add unexpected and unsubstantiated costs to industry for the disproportionate benefit of Epic.

**Capital Valuation**

Other submissions have addressed in detail the issue of valuation of the DBNGP asset. We support the view that the DBNGP should be valued as provided for in the National Access Code and not at the purchase cost of the asset. The purchase price paid would presumably have included value placed by Epic on the expansion potential of the gas transmission business. This price premium should not be paid for by existing and future users of the pipeline via increased tariffs and penalty payments, but recouped by Epic by successful promotion of increased use of the pipeline.

It is perverse that Epic's proposed tariff and service charge increases for a more restricted service would be much less attractive to potential investors in new gas using industries, which in turn would inhibit expansion in use of the DBNGP.

It is noted that valuations of the DBNGP asset based on guidelines in the National Access Code would lead to tariffs less than those applying currently. Such an outcome would improve the competitive position of WA industries and provide incentive for investment in new gas using operations.

**Conclusion**

It is CSBP's view that the Access Arrangements proposed by Epic are not commercially viable in their present form; do not appear to conform with the requirements of the National Access Code; do not support a competitive market place for gas supply; and do not provide a basis for new investment.

Please advise if you require clarification of any of the issues discussed above.

Yours sincerely

**Chris Helmer**
**Manager – Business Development**