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Mr Robert Pullella
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Dear Mr Pullella

EPIC ENERGY ACCESS ARRANGEMENT FOR THE DBNGP
WESTERN POWER SUBMISSION NUMBER 2
PILBARA TRANSPORT SERVICE

Western Power submits for review by the Office of Gas Access Regulation (OffGAR), Western Power's present concerns on Epic Energy's proposed DBNGP Access Arrangement for gas transport within the Pilbara.

BACKGROUND

Western Power has currently 20TJ/d of firm (T1) part haul capacity reserved in the Pilbara under two contracts, in accordance with the Gas Transmission Regulations (GTRs).

Western Power delivers gas for electricity generation to the Robe River Iron Associates (RRIA) Power Station at Cape Lambert, and the Hamersley Iron (HI) Power Station at Dampier.

The two GTR contracts feature an overrun service and special balancing arrangements. Western Power's gas requirements are delivered within an imbalance tolerance of 8%, while a proportion is not subject to imbalance limits. Western Power currently shares DBNGP delivery points at both locations with North West Shelf Gas Pty Ltd. The variable charges payable to Epic Energy under the GTR contracts are pro-rated retrospectively on a monthly basis, according to the electricity sent out to Western Power and the respective mining companies from each power station.

The concept of shipper balancing and seasonal variations in shippers' offtakes is considered not to be meaningful in the Pilbara because Woodside Energy's DOMGAS plant supplies gas to Epic Energy's nominations and maintains line pressure in the DBNGP.

REFERENCE TARIFF

A breakup of the GTR contract charges is shown in the table below. The average transport cost of delivered gas is $0.025/GJ, based on the regulated price under the Dampier to Bunbury Pipeline Regulations 1998 ("DBPR") for 1 January 2000 onwards and Western Power's historical average annual usage of 11TJ/d. The monthly consumption varies significantly due to climatic conditions, which has long been recognised as a standard feature of the Pilbara and not one that should be the target of additional charges.

WESTERN POWER'S PILBARA GTR CONTRACT COSTS[1]		
(Based on January 2000 Tariff combined)		
Reservation Charge (20 TJ/d)	$0.011405/GJ	$83,250
Commodity Charge (11TJ/d)	$0.004255/GJ	$17,100
		$100,350
Average transport cost $0.0250/GJ delivered. Proportion of fixed charges is 83%.		

As outlined in the following table, annual transport costs based on the proposed Reference Tariff for an MDQ of 20TJ/d (equal to current reservation capacity) and an average annual delivery of 11TJ/d, excluding penalty surcharges, would rise by 540% to $0.16/GJ, on average. A rise of such magnitude (even disregarding surcharges) seems difficult, if not impossible, to justify under section 8.10(g) of the National Access Code.

PROPOSED PILBARA ACCESS ARRANGEMENT COSTS[1]		
(Based on Initial Reference Tariff Schedule)		
Gas Receipt Charge	$0.0698/GJ MDQ	$509,500
Pipeline Capacity Charge Zone 1A	$0.0129/GJ MDQ	$94,200
Delivery Point Charges (Western Power's Indicative Share)		
• HI	$303/day (10% of total)	$11,100
• RRIA	$194/day (40% of total)	$28,200
		$643,000
Average transport cost $0.16/GJ delivered. Proportion of fixed charges is 100%.		

1 All calculations in the above tables have been rounded

The proposed Reference Tariff is predicated on recovery of the purchase price ($2.4 billion) paid by Epic Energy for the DBNGP. In Western Power's opinion, the choice of the sale price as the initial capital base valuation is the prime factor influencing the higher transport charges proposed by Epic Energy. Furthermore, this valuation basis does not appear to conform to the National Access Code, which requires the initial capital base normally to fall between the values set by two valuation methodologies, namely, as the Depreciated Annual Cost (DAC) and Depreciated Optimal Replacement Cost (DORC).

The Gas Receipt Charge (ostensibly to recover return on capital, depreciation and non-capital costs on some $84 million of unspecified "other assets") is considered to be disproportionally high for Pilbara shippers, compared to the more cost reflective distance basis of the GTR tariff.

Certainly, the fact that an outlet point in the Pilbara and an outlet point at CS2 would pay the same allocation of costs, is difficult to reconcile with a central principle of National Access Code tariff setting; namely that users should pay only for the assets used in providing their particular service.

The Pipeline Capacity Charge includes depreciation and a return on capital for compressor stations 1 and 2, which are down stream of the Pilbara zone. The tariff should be restructured; there is no justification for Pilbara users paying for CS1 and CS2. The requirement for those charges to be applied in Zone 1A is not explained by Epic Energy, and does not reconcile with the benefits provided by Woodside's DOMGAS plant, which provides line pressure support for the DBNGP in the Pilbara delivery zone.

REFERENCE SERVICE

Epic Energy has proposed only one Reference Service, the Firm Service, in its Access Arrangement. The Firm Service does not reflect the conditions, nor the flexibility of the existing GTR contracts for transportation in the Pilbara. For example, the Epic Energy proposal has a tighter balancing provision (ie 2% compared to 8% in the GTR).

The penalty provisions of the Firm Service proposed for daily imbalances, hourly and daily peaking, overrun usage, if lawful, are considered to be punitive and unjustifiable, and possibly unlawful, at $15/GJ. The impact of these surcharges for Western Power as an electricity distributor in the Pilbara, with a peaking power requirement, could be substantial, and may exceed the current annual capacity reservation charges. Epic Energy has not demonstrated that the surcharges are necessary to recover any operational cost impacts arising from shippers being out of balance or outside peaking tolerances, or using overrun capacity on the DBNGP. In fact, a review of balancing history in the Pilbara should lead to the conclusion that the ability of one or more shippers to accumulate significant imbalances provides considerable benefits for all parties. This opportunity should be available under the proposed Access Arrangement.

The proposed Access Arrangement does not adequately address the impact on shippers administrative arrangements to effectively manage deliveries at shared delivery points under the proposed Reference Service. For example, reconciliation of proposed daily balancing and peaking would require daily/hourly gas delivery data, which is unavailable on an individual shipper basis from data collection systems.

Similarly, the proposed secondary trading arrangements for the Pilbara appear unworkable due to the lack of timely delivery data to accurately forecast nominations and capacity requirements on a daily basis for each shipper.

Western Power seeks and will continue to seek access to the DBNGP on terms equivalent to its GTR T1 service. Accordingly, Western Power requests that the Regulator exercise his discretion under section 3.3(b) of the Code to require Epic Energy to offer an equivalent part haul T1 Reference Service in its Access Arrangement.

IMPACT ON ELECTRICITY CUSTOMERS

It is currently not settled between Western Power and Epic Energy whether an offer under section 20 of the Dampier to Bunbury Pipeline Act 1997 ("section 20 offer") has been made and accepted in respect (among others) of Western Power's Pilbara part haul GTR contracts.

If the section 20 offer has been (or is) made and accepted, the potential impact of a regulated Reference Tariff (as proposed) on the statutory price for the GTR contracts. If the section 20 offer has been (or is) made and accepted, the potential impact of the proposed Reference Tariff on the price payable under the GTR contracts would be financially adverse for Western Power's business in the Pilbara area, potentially adding up to one million dollars of additional costs each year to the operation. Such additional costs could not be absorbed without substantial cross subsidies and higher prices for Western Power's electricity customers, at a time when tariffs will already have been increased following the introduction of the Goods and Services Tax. There are also political risks for economic development in those regional communities facing increased electricity prices.

Even disregarding the section 20 offer, Western Power may in the future seek access to the Carnarvon lateral under the National Access Code, either for incremental capacity or for replacement capacity when the GTR contracts expire. Tariffs for that access will be heavily influenced by the initial capital base set during the current approval process. Epic Energy's proposal to use its purchase price for the initial capital base will thus, if approved, have long term implications for electricity users in the Pilbara region.

CONCLUSION

In summary, Western Power regards the proposed Reference Tariff in the Access Arrangement as it may apply to the Pilbara as being substantially more expensive, restrictive, uncompetitive and unworkable in comparison to the existing GTR contracts.

If the Access Arrangement and Reference Tariff in particular, is regulated as proposed, Western Power would be concerned about the very substantial price shock it would suffer under the statutory price for the GTR contracts if those contracts are amended (as is Western Power's right) under section 20 of the *Dampier to Bunbury Pipeline Act 1997*. Regardless of whether a section 20 offer is accepted, the proposed Reference Service would result in large price shocks for any replacement or incremental capacity Western Power may seek.

Higher DBNGP transport prices in the Pilbara are likely to open up bypass opportunities for new pipelines, and new power generation plant developments to meet the electricity requirements for the region, which may strand current DBNGP transport arrangements that are part of the foundation commitments to the sale of the DBNGP. Although this may in the long run be to the benefit of some sectors of the Pilbara, it should not be achieved at the cost of stranding current DBNGP shippers that are part of the foundation commitments to the construction and subsequent sale of the DBNGP.

Western Power requests the Regulator to require Epic Energy to offer a T1 equivalent part haul Reference Service and corresponding Reference Tariff for the Pilbara in the Access Arrangement for the DBNGP.

Western Power will comment further on the proposed Reference Service and the requirement for non-reference services in a later submission to OffGAR.

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Yours sincerely

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