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Dr Ken Michael
Gas Access Regulator
Office of Gas Access Regulation
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Dear Dr Michael

**WESTERN POWER'S RESPONSE TO THE RELEASE OF THE SECOND
CONSULTATION ROUND SUBMISSIONS**

Western Power submits an initial response to the further and much more detailed five submissions to the Office of Gas Access Regulation (OffGAR) that were made available on the 20 April 2000.

The submissions made by Epic Energy, AlintaGas and one jointly by Treasury / Office of Energy provide further significant but yet incomplete confidential information for Western Power to now consider. Western Power is the only major party to the sale and now the Access Arrangement determination for the DBNGP that has not had access to information that could have possible significant outcomes for its future capacity to deliver and use gas on a competitive basis.

Western Power intends to give further consideration and make a more complete submission once the additional, but as yet incomplete information released by OffGAR during the recent holiday period, has been considered in the detail required for such a significant determination of one of Western Power's major cost components.

BACKGROUND

At this stage, there is significant new data and claims in the submissions that were not previously available to Western Power. During the review period of two weeks, Western Power finds that the data remains incomplete and limits Western Power's capacity to fully advise of its concerns about the proposed access regime. Now Epic Energy are signalling that they are proposing variations during OffGAR's determination process.

Western Power expects that after meeting with the parties that are now able to discuss the previously confidential information, it will be able to make better informed comments. The following is intended to provide OffGAR with an indication of the additional details that Western Power believes the Regulator could appropriately consider in framing an access regime for the DBNGP.

The following address each of the additional submissions in turn.

EPIC ENERGY ENERGY'S SUBMISSION (PUBLIC VERSION)

There are a number of points of concern in the themes being propounded by Epic Energy.

Western Power has increasing concerns about the manner in which Epic Energy interpret the outcome of what they conceive to be consultation with major customers.

In their submission, they infer that their proposal has had endorsement from customers. Western Power, following discussions with the other regulated major customer, finds no ground for this statement. For example, Epic Energy claimed that "... businesses that were consulted during the development of the Access Arrangement indicated their preference not to have shippers supply their own fuel gas". This was never Western Power's position.

Western Power is alarmed at the interpretation that there was a compact which enables Epic Energy to expect the Access Arrangement to provide a price path that would require the users of the DBNGP (with an established DAC value of about \$900M) to provide a commercial rate of return to an opportunity investment of \$2400M. In addition, Epic Energy further warns of the need to recover a commercial return on an additional expenditure of \$837M for pipeline expansion during the access period.

Western Power is endeavouring to understand what appears to be significant information concerning the tariff estimates made by PriceWaterhouseCoopers. The analysis indicates that a tariff range of \$0.88/GJ to \$0.98/GJ would be an outcome of the fair value gained from the sale of the DBNGP. It certainly indicates that the capital recovery must significantly differ from that claimed by Epic Energy in the claimed "Regulatory Compact".

EPIC ENERGY'S SUBMISSION OF THE BRATTLE GROUP MODEL (PUBLIC VERSION)

The submission based on the work by the Brattle Group introduces some elementary modelling of cash flows with some simplifying assumptions and also introduces what appears to be a new economic dimension to the Code.

Western Power simply notes the obvious concerns raised by the projection of a gas transportation tariff of about \$1.30/GJ within 15 years. Western Power has already indicated in its earlier submissions the impact of Epic Energy's proposed additional charges to this Firm Tariff.

In recent discussions, Western Power has been informed that an alternative pipeline delivery could be provided with a tariff of a little more than one half of the Firm Tariff being proposed by Epic Energy. If such a tariff anomaly was created, then the investment decisions of all parties in the energy sector would be at risk from such a de-stabilised energy supply chain.

Western Power is nearing the time when new contractual commitments for gas purchases and delivery will be required. It should be obvious that it would not be in the State's best interest if Western Power was to be again placed into a similar circumstances as in 1995 as a result of an Access Arrangement with the price regime proposed by Epic Energy.

Western Power rejects the claim in Brattle's statement of the third and most important economic aspect of fairness when they state "... the proposal places no undue burden ...". The Brattle Group appears to have forgotten that West Australians are already burdened with a tariff regime which, if left unaltered, would have at least paid out the existing capital value of the DBNGP by 2015.

If the present tariff regime with a reservation percentage of less than 75% (capital component) was continued to 2015, thereafter shippers could have expected a transportation tariff comprising largely operating costs of less than \$0.30/GJ.

ALINTAGAS - SECOND SUBMISSION

Western Power recognises the very significant contribution made by AlintaGas in opening up public access to much more detailed information relating to Epic Energy's proposed Access Arrangement.

Western Power supports the assessments made by AlintaGas in comparing the Firm Tariff proposed by Epic Energy as the Reference Service and the grandfathered delivery services available to T1 shippers.

Western Power's reading of the Schedule 39 data indicates that Epic Energy has significantly changed its approach to meeting the commitments it made to provide a T1 Reference Service. Western Power understands that Epic Energy would provide a T1 Reference Service and also would provide the opportunity for shippers to deliver fuel in-kind to reduce the operating costs that would need to be recouped by Epic Energy.

ALINTAGAS – THIRD SUBMISSION

Western Power supports the third submission made by AlintaGas.

It is now clear to Western Power that the Access Arrangement must be structured to meet the conditions that will enable grandfathered contracts to continue with the DBNGP owner and operator.

Some initial interpretations are offered for the Regulator's consideration:

- Grandfathered contracts must have access to a full range of Reference Services to ensure that equitable negotiations could be conducted;
- There is significant data indicating that a Reference Tariff of less than \$1.00/GJ can be determined;
- The Access Arrangement needs to ensure that existing obligations and rights under the Gas Transmission Regulation Contracts are preserved.

JOINT SUBMISSION BY TREASURY AND OFFICE OF ENERGY

This submission provides details from the perspective of government agencies involved in the sale process, although not users in the DBNGP.

The Office of Energy has extensive experience with the deliberations of the Gas Transmission Steering Committee (GTCC) that advised on the appropriateness of the past gas transmission regulatory regime.

This submission makes wide ranging points that in the main, are supported by Western Power. One particular comment needs to be interpreted with appropriate perspective.

It is their view that “... strong benefits to current users arise from the initially lower Reference Tariffs”. The Regulator should be aware that the tariffs of the five past years were aimed at effectively amortising the historic capital cost of the DBNGP over twenty years, and at a rate of about 70% of the tariff.

Western Power is also concerned with the inference that OffGAR are now faced with the challenge of finding a tariff solution to Epic Energy's speculative future and embedding the outcome in tariffs for grandfathered shippers in the DBNGP.

Western Power's understanding would be enhanced if Epic Energy was prepared to table the out-workings of the Rebateable Service assumption, as applied to grandfathered shippers contracts. Western Power believes that the cost of service assumption with respect to grandfathered contracts remains an issue that needs to be jointly reviewed to enable Western Power to fully apprise OffGAR of the significance of those out-workings.

Details of the submission also raise Western Power's concerns about Epic Energy's ongoing commitment to performance. Western Power requests that the Regulator ensure that the future Access Arrangement provide comprehensive performance regulations to ensure shipper's are not put at risk of compromised operations and level of service.

In conclusion, Western Power requests the Regulator to provide sufficient time to ensure that any changes proposed by Epic Energy to their Access Arrangement is made available to shippers for consideration and full comment.

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Yours sincerely

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