

Submission *re* Draft Decision on the proposed Access Arrangement for the DBNGP

Introduction

This submission is in response to the WA Independent Gas Pipeline Access Regulator's invitation for submissions from interested parties in respect of the Draft Decision on Epic's proposed Access Arrangement for the DBNGP.

Worsley supports the Draft Decision when taken as a whole and confines its comments to the following points:

1. Provision of a T1-equivalent service
2. Treatment of the capital cost for a pipeline expansion
3. Provision of metering information
4. Option for extension of term of an Access Agreement
5. Calculation of Reference Tariff

The first two of these points are dealt with in separate submissions made jointly by Worsley and other parties. The latter three are discussed below.

Provision of metering information [Amendment #5, pA6]

In Amendment #5 of the Draft Decision the Regulator has required that Epic amend the Proposed Access Arrangement and/or Access Contract Terms and Conditions "... to include, as part of the Firm Service, the timely provision to Users of metering information necessary to assess potential liabilities for penalty charges and enable Users to take actions to avoid those charges.".

In its earlier submission Worsley pointed out that gas users downstream of the Wesfarmer's LPG plant receive either "dry" or "wet" gas depending on the operation of that plant. The variable heating value of the gas can affect the purpose for which the gas is used. For example, while Worsley's gas-fired equipment automatically reacts to changes in gas heating value, step-changes in heating value can adversely affect the process. In these circumstances, advance warning of a step-change allows better control of the process reaction and reduces the impact of the change.

Worsley therefore requests that Amendment #5 be broadened to include "gas quality" within the term "metering information" referred to in that Amendment, at least for users subject to significant variations in quality. This broader definition will allow Users to take actions to minimise the impact of variations in gas quality.

Option for extension of term of an Access Agreement [Amendment #39, pA13]

In Amendment #39 of the Draft Decision the Regulator has required that Epic amend the Proposed Access Arrangement and/or Access Contract Terms and Conditions "... to provide for a Service Agreement for a Reference Service to be capable of including an

option to extend the term of the Service Agreement for the capacity contracted for under that agreement, without being subject to reallocation on the basis of the Queuing policy.”.

In its “Executive Summary of the OffGAR DBNGP Draft Decision (21 June 2001)” Epic has argued that “... the right to options to extend contracts ... (is) ...difficult to manage pipeline capacity with and we will endeavour to resist unless we can charge a premium. The concept is inconsistent with such a short minimum term as 1 year and may even be anti-competitive.”

Worsley contends that users with projects that require gas for the long term require continuity of supply but, in the face uncertainty in their own markets, only enter ‘take or pay’ contracts for the minimum term that balances the risk between the user and the pipeline owner. Existing users should be able to expect a ‘right of first refusal’ over their contracted capacity. That is, an existing User should not have its capacity automatically declared ‘spare’ from the end of the current contract term and be regarded as a “Prospective User” and required to queue for access to spare or developable capacity. Worsley requests that a distinction be drawn between existing Users and Prospective Users.

Worsley respects Epic’s arguments that it is difficult to manage pipeline capacity and that granting Users options over capacity beyond contracted term has the potential to be anti-competitive. Worsley notes, however, that it is possible to achieve this in analogous situations, for example, contracts for access to Western Power’s High Voltage Electricity Transmission system. It should not be beyond Epic’s ability to formulate a means whereby existing Users can have certainty of access to capacity beyond contract term without fear of being displaced by Prospective Users while at the same time preventing existing Users behaving in an anti-competitive manner by tying up capacity they do not intend to use.

Calculation of Reference Tariff [Amendment #68, pA45]

Worsley endorses the approach taken by the Regulator in determining the Reference Tariff. In particular, Worsley accepts that the zonal basis for the Pipeline Capacity Charge generates an efficient and equitable tariff structure and that compression charges should be determined on a pass-through basis. Worsley also accepts that total cost of providing services should be recovered from Users of firm capacity as if those Users are Users of the Reference Service(s) that pay the Reference Tariff(s) provided that Non-Reference Services are Rebateable Services. That is, the total cost is recoverable from Users contracted for firm capacity; this should assure a comparatively high level of revenue certainty and the opportunity to earn additional returns.

With respect to the calculation of the Reference Tariff Worsley notes the following. The Code states that the Initial Capital Base should not normally fall outside the range of values bounded by the DAC and the DORC. Worsley is not aware of any matter that would justify the Initial Capital Base falling outside this range.

The DAC value was made available to prospective bidders at the time of the pipeline sale and was \$936million (as at 30 June 1997). An independent indicative DORC valuation was also provided to the bidders at that time and was \$1124million (as at 31 December 1997). Prospective bidders should have anticipated an ICB in the range \$900–1200million. The Regulator has updated to DAC and DORC valuations to \$874million and \$1234million respectively (as at 31 December 1999). The ICB the Regulator has used for calculation of the Reference Tariff(s) is the DORC valuation. That is, the ICB is at the upper limit of the range allowed under the Code. Worsley notes that in similar decisions elsewhere regulators have set the regulated asset base at less than 100% of the DORC valuation.

In calculating the rate of return to be used Worsley notes that the difference between the Regulator's calculation and Epic's is primarily due to exogenous factors. Worsley also notes that the Regulator has tended to use the limit of the range of values for each parameter and this has resulted in a higher rate of return than could have been calculated from other sets of parameter values within their respective justifiable ranges. Worsley contends that the nature of the pipeline's customer base and the long term nature of the access contracts combine to produce a relatively stable revenue stream and hence investment in the pipeline carries relatively low financial risk. As such, a relatively low rate of return is justifiable. Worsley believes that the rate of return calculated by the Regulator is at the upper limit of the justifiable range.

In summary, Worsley believes that the Regulator's Draft Decision allows Epic to recover its total costs over the minimum of services, thus allowing significant potential to earn extra revenue. The Reference Tariff is calculated using both a capital base and rate of return that are at the upper limits of their respective justifiable ranges. Other elements of the tariff calculation, for example, the depreciation schedule adopted, also tend to result in a higher tariff than may otherwise have been the case. Worsley accepts the Reference Tariff as calculated in the Draft Decision in its totality but does not believe that any higher tariff can be justified under the Code.