



## **Alcoa World Alumina Australia**

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Lyndon Rowe  
Chairman  
Economic Regulation Authority  
Level 6, Governor Stirling Tower  
197 St Georges Terrace  
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Dear Lyndon

### **PROPOSED REVISIONS TO THE ACCESS ARRANGEMENT FOR THE DAMPIER TO BUNBURY NATURAL GAS PIPELINE**

With reference to the Economic Regulation Authority's notice of 26 February, Alcoa World Alumina Australia would like to make the following submission.

#### **Background**

Alcoa is the leading global alumina producer and the largest user of the Dampier to Bunbury Natural Gas Pipeline. Its WA operations include the Pinjarra, Kwinana and Wagerup Refineries, the Huntly and Willowdale Mines, and the Perth corporate office. Alcoa's three refineries produce 7.7 million tonnes of alumina a year, comprising 48 per cent of Australia's total alumina production and 13 per cent of total world demand.

Alcoa provides around 4000 direct jobs in WA, mainly outside the metropolitan area, and supports a further 15,000 indirect jobs. Alcoa's total spending in WA is \$1.1 billion per annum. Alcoa pays royalties to the WA Government of \$44.5 million.

Alcoa has a long-term gas transportation contract with the Dampier to Bunbury Natural Gas Pipeline (DBNGP). The contract was originally agreed between Alcoa and the State Energy Commission of Western Australia (SECWA) in the early 1980's. Alcoa's contract was renegotiated in 2004, along with the other shipper contracts in 2004, as part of sale of DBNGP. This contract is known as the Exempt Contract. In addition, Alcoa has a small volume of capacity on the pipeline as a regulated shipper.

This gas supply contract is one of Alcoa's most important assets and underpins Alcoa's operations in WA. It is also fundamental to Alcoa's long-term expansion and development in WA. Alcoa's competitive advantage in alumina refining in WA stems from its low bauxite mining costs, the refining economies of scale and the relatively low cost, long term energy supplies

## The Access Arrangement

When the shipper contracts were renegotiated as part of the DBNGP sale process in October 2004, Alcoa and the other Consortium members went to great lengths to ensure the terms and conditions of all shipper contracts were renegotiated. Every shipper signed a Standard Shipper Contract (SSC) and, for the most part, these SSCs are standardised amongst the shippers. Alcoa's Exempt contract was aligned, where possible, to the SSCs as well. There was a particular emphasis on the gas specifications in the SSCs and the Exempt contract as the Consortium was aware that there were some discrepancies between the various shipper contracts on the pipeline and wanted to resolve the issues. The proposed Access Arrangement has been adopted to reflect the SSC terms and conditions, including the gas specifications agreed during the negotiations.

Given this background, we have been made aware of several concerns that have been raised in regard to the Access Arrangement and would like to comment on these as follows:

- *The proposed Access Arrangement overlooked the wider gas quality specifications previously identified by Government, producers and consumers as necessary for true gas on gas competition:*

This is not correct. The broadest gas specifications have never been debated and accepted by industry. It has always been agreed by the industry that further public consultation would need to be undertaken before consideration could be given to the "broadest" gas specification being adopted by the industry and incorporated into the Access Arrangement. The broadest gas specifications were on the table when the initial regulations were developed in 1998 under the Gas Pipelines Access (Western Australia) Act 1998 but were caveated on this need for wider public consultation. Such consultation and discussion has yet to take place in respect to the broadest gas specifications. The current Access Arrangement has a provision for broader gas specifications that reflect the view from industry but they do not cover the broadest possible specifications. The gas specifications in the Access Arrangement are the result of negotiations between the shippers and the Owner (service provider) - including some gas suppliers - from Oct 2004 when all the shipper contracts were renegotiated.

The Access Code ensures and protects both shippers and the service provider from changes to conditions such as the gas specifications that would or could have a material adverse affect on either the shipper or the service provider. Any transition to broader gas specifications would have a material adverse affect on other shippers, such as Alinta Gas, as all domestic appliances would require some modification to make them compatible with the broadest specifications

- *DBNGP's narrow gas specifications will prevent potential gas suppliers from entering the market and impede competition among existing and future producers during the access time frame:*

This is incorrect. Any party can negotiate a commercial arrangement with the service provider to blend gas and there are currently a number of such arrangements. DBNGP has a supply of gas that already meets the specification and they can help a supplier with a

blending arrangement that will bring their product within the required specifications. Furthermore shippers can trigger a move to the Access Manual broader gas spec after 1 July 2005. It should also be noted that since 1985, three or four new gas fields have opened up. It is clear that the DBNGP's gas specifications will not prevent competition from entering the market.

A move to the broadest gas spec would reduce pipeline capacity, requiring further expansion and therefore imposing costs on all Shippers by increasing tariffs and downstream costs. This would result in a direct transfer of costs from producers to shippers and service providers and requires extensive consultation. It would be inequitable for existing shippers to be impacted in this way. All gas fields generally require processing to control carbon dioxide, water etc. Alcoa believes the incremental cost to gas producers of meeting the proposed Access Arrangement gas specifications should be minimal.

- *Broader gas specification would ensure alignment with the Goldfields Gas Transmission (GGT), the Parmelia pipeline specification and the national specification:*

As there is currently no interconnection between the GGT pipeline and the DBNGP and therefore no direct competition between these pipelines, uniform specifications are not an issue. There is no current need for the DBNGP to be aligned with GGT and Parmelia pipeline specifications. Likewise the gas specifications do not have to be aligned with the National Standard at this stage as there is no interconnection of gas pipelines at the moment. The Parmelia pipeline specifications are complementary to DBNGP "broader" specifications and this issue has not prevented gas from the DBNGP being transported via the Parmelia pipeline from Mondarra to the Alcoa Pinjarra refinery on a regular basis.

It is Alcoa's view that the Access Arrangement and submission process is not the correct vehicle for seeking a step change in the gas industry specifications to the broadest possible specs as there is potentially a significant cost to all players. The Access Arrangement reflects what was agreed between the parties - shippers and service provider and some gas suppliers - when the pipeline was sold last year and also reflects what was in the previous Access Arrangement. All the shippers and the pipeline owner have addressed the current issues with respect to moving to a broader specification in the contract renegotiation as part of the pipeline sale. Any further changes in this area must be the result of consultation between all the industry participants – shippers, service providers and suppliers.

Yours sincerely



Bill Reid  
Director Business Development