

North West Shelf Gas

Submission to the WA Independent Gas Pipelines
Access Regulator Regarding the Draft Decision on
the Proposed Access Arrangement for the Dampier
to Bunbury Natural Gas Pipeline.

24 August 2001

1. Overview

North West Shelf Gas Pty Ltd (“**NWSG**”) is pleased to make the following submission to the Western Australian Independent Gas Pipelines Access Regulator (“**Regulator**”) regarding the Draft Decision (“**Draft Decision**”) on Epic Energy’s proposed Access Arrangement (“**Access Arrangement**”) for the Dampier to Bunbury Natural Gas Pipeline (“**DBNGP**”)

NWSG acts as agent for the six North West Shelf Joint Venturers (NWSJVs) these being Woodside Energy Ltd; Shell Development (Australia) Proprietary Limited; BP Developments Australia Pty Ltd; BHP Petroleum (North West Shelf) Pty Ltd; Chevron Australia Pty Ltd; and Japan Australia LNG (MIMI) Pty Ltd.

NWSG has contracts with Epic Energy to transport gas from the NWSJV plant near Dampier via the DBNGP to three of the NWSJV’s customers namely Edison Mission at Kwinana and Hamersley Iron and Robe River Iron in the Pilbara. The NWSJVs each also sell gas to AlintaGas, Alcoa and Western Power who each arrange their own DBNGP transport directly with Epic Energy.

We restrict our comments to the following material areas. The absence of any comment on a particular aspect of the Access Arrangement or Draft Decision should not be interpreted that NWSG agrees with or supports any aspect not commented on.

2. The Pipeline Operator

In the entire debate over the appropriate pricing and terms for transmission, the regulator and industry must also be conscious of the need to have a pipeline operator that performs to best-practice standards. This includes safety, integrity, service and consultation with industry. Whilst NWSG cannot purport to have reviewed Epic Energy’s performance for all these criteria, as a major stakeholder in the WA gas industry we wish to record our acknowledgment and recognition that the rates case issues aside, Epic Energy’s performance on all substantial issues has met or exceeded our expectations.

3. Gas Specification

NWSG welcome the regulator’s Amendment 9 to allow a gas specification no more restrictive than the broadest specification set out in Schedule 1 of the *Dampier to Bunbury Pipeline Regulations 1998*.

Epic Energy’s Proposed Access Contract Terms and Conditions define two specifications of gas, viz Category A and Category B, with numerous references throughout the proposed Access Arrangement to both specifications of gas. We request the Regulator clarifies how this would apply with the Category A and B specifications of gas (or is the regulator endorsing a single gas specification ?). For clarity we request that the gas specification

applicable under the proposed Access Arrangement be explicitly stated Rather than by reference to the *Dampier to Bunbury Pipeline Regulations 1998*.

Furthermore consistent with the prior submission by NWSG on the issue of gas specification over the years, NWSG encourages the Regulator to approve the widest possible gas specification consistent with the needs for safety and utility of the gas. Such a change should help increase competition and lower gas industry costs for the benefit of all.

NWSG believes the gas specification particularly in the area of total inerts/nitrogen content, can be further widened. Provided all safety and other concerns can be met and following appropriate industry consultation, we encourage the Regulator to adopt such a broadened specification. Naturally, once established, all users should be allowed to provide gas complying with such specification. Given the lead times involved to ensure upstream plant can meet future specifications, we see this as an important task that is not receiving sufficient priority.

4. Maximum Inlet Temperature

NWSG's initial submission on the Access Arrangement the gas specification proposed for the DBNGP has a maximum inlet temperature of 50 degrees Celsius. This is not consistent with most of NWSJVs existing grandfathered contracts, which specify a maximum of 60 degrees Celsius. Indeed it may not be possible for some of NWSJVs existing customers to avail themselves of the reduced tariffs arising from the Draft Decision, as the new tariffs may only apply to a service with a 50 degree Celsius maximum inlet temperature. Furthermore we may be liable to pay significant penalty costs associated with out of specification gas. We reiterate that without significant modification to the NWSJV plant (at considerable cost), the NWSJVs will be unable to meet this reduced temperature specification in summer. Given the unique environmental conditions and configuration of the NWSJV plant it is already difficult to meet the maximum inlet temperature.

The Draft Decision endorsement of the proposed maximum inlet temperature of 50 degrees on the grounds of common industry practice and that higher inlet temperatures may adversely effect the pipeline integrity.

We acknowledge that high pipeline temperatures may affect the pipeline integrity and is one of many other factors including gas corrosivity, soil conditions, pipeline metallurgy, coating type and application, overall integrity management systems etc.

The NWSJV plant was designed to operate with a maximum inlet temperature of 60 degrees Celcius since the DBNGP was first constructed in 1984. In the past a detailed risk assessment of this issue was conducted and it was shown to the pipeline operator that the risk reduction that may be expected from a reduced pipeline inlet temperature was not warranted compared to the extensive modifications required to achieve 50 degree Celsius maximum inlet

temperature limit. If it is shown to be unsafe, NWSG would be the first to agree it must not be permitted. However maintaining a 60 degree Celsius maximum inlet temperature with our substantial operating history and assessments of the pipe we have, this is not our current understanding and not consistent with the general thrust to broaden the gas specification, we request a similar approach is adopted for temperature.

We respectfully ask the Regulator reject the 50 degree Celsius maximum inlet temperature and maintain the original design specification of the DBNGP of a maximum inlet temperature of 60 degrees Celsius if not higher. NWSG would welcome the opportunity to discuss this further with the Regulator and provide any technical data to support our findings in this area.

5. T1 Equivalent reference service

Initial submissions by existing Pre-Sale Shippers on the proposed Access Arrangement requested the Regulator to consider requiring Epic Energy to provide a T1 Equivalent reference service. The draft decision goes to some length to explain why Epic Energy is not required to provide a T1 equivalent reference service. We believe that such omission will cause unnecessary uncertainty and dispute resolution costs for those shippers whom have existing transmission access contracts for the T1 Service that were entered into under the Gas Transmission Regulations 1994 (“GTR”).

We refer to the joint *Submission to the Gas Access Regulator on the T1-Equivalent Reference Service* submitted by NWSG and other Pre-Sale Shippers.

6. Part Haul Tariffs

Amendment 63 of the Draft Decision addresses concerns raised by NWSG’s initial submission on the proposed Access Arrangements regarding significant increases in part haul tariffs faced by our Pilbara customers.

Amendment 63

The cost allocation and tariff structure should be amended to ensure that for Users or Prospective Users with Delivery Points in any zone of the DBNGP, there is no increase in the total gas transmission charges under the Reference Tariff relative to the total charge that Users or Prospective Users would have paid under a contract for the T1 Service entered into under the Gas Transmission Regulations 1994 or Dampier to Bunbury Pipeline Regulations 1998.

NWSG welcomes this amendment preserving our Pilbara customers current tariffs which amongst other things recognises their historical role in helping to underpin the WA gas industry as we know it now. There is never the less some further clarification/confirmation of how Regulation 63 will be applied. The current part haul tariff to the Hamersley Iron delivery point based on the 1999 tariff under section 35(b) of the Dampier to Bunbury Pipeline Regulations 1998 is \$0.007312/GJ however based on the revised Draft Decision tariffs the Zone 1 Capacity and Gas Receipt charge is \$0.012/GJ

plus the delivery point charge. This appears to be in contradiction with Amendment 63. We request that the regulator clarify the currently proposed tariffs with respect to the part haul tariff to Hamersley Iron delivery point at MS01.

NWSG acknowledges that the Regulator has accepted Epic Energy's concept of zonal tariffs and support the Regulator in his direction that all zonal tariffs be no more than existing rates under existing regulations. NWSG would respectfully point out to the Regulator that these pre-existing tariffs (given the allocation of capital and the close proximity to the NWSJV Karratha on shore gas plant) are still very high – especially the tariff to compressor station 1. Potential users of gas in the Goldfields region do not get either the benefit of effective gas producer competition or any savings in respect to the Regulators proposal to decrease the rate to Perth consumers by approximately 25%. We believe that a revised rate to compressor station 1 prorated in keeping with the proposed draft rates for the South West Customers would be welcomed by the Goldfields and East Pilbara consumers.

7. Penalty Charges

NWSG's initial submission on the draft Access Arrangement raised concerns over the wide range of penalty charges based on A\$15/GJ and the mechanisms by which this may be applied. Acknowledging the Regulators amendments 74, 75, 76, 77, 78 and 79 we remain concerned regarding the new behaviours these new penalties will force new Shippers to adopt compared to Shippers under existing GTR contracts.

The high level of penalty charges and the manner in which these are structured will force Shippers to reserve higher MDQ quantities than really required in order to avoid incurring penalty charges. This may be construed to be offset against the lower transportation tariffs under a Firm Service Transport contract versus an existing GTR Transport contract. However we believe this will have the effect of all Shippers increasing their base MDQs resulting in less efficient use of the DBNGP. Furthermore this may lead to the DBNGP capacity being prematurely 'sold out' or prevent other potential Shippers from accessing available capacity. Alternatively Epic Energy may reserve more capacity than is actually available in the knowledge that the aggregated MDQs of all shippers will likely never be used or could be managed with the 1% Permissible Interruption limits.

Furthermore Epic Energy has made statements regarding their financial viability if the draft decision is accepted as is. NWSG is concerned that if this is the case Epic Energy will be forced to reduce current service levels and be more stringent on penalties.

8. Cost of Incremental Growth

Epic Energy has stated that with the tariffs proposed in the Draft Decision new customers applying for incremental capacity on the pipeline will pay more than

existing customers, creating an unlevel playing field with the potential to create a situation of 'second class citizens' on the pipeline with existing Shippers paying less than new Shippers. We do not believe this to be the case if expansion costs for common assets such as looping or additional compression are rolled in the capital base, which would in turn alter the tariff payable by all shippers. Any costs specific to a new Shipper such as a new delivery point or lateral should be charged as a specific charge to that Shipper.

We are further concerned that such statements have the potential to scare off potential expansion and investors in the WA gas industry.

We refer to the joint *Submission to the Gas Access Regulator concerning Epic Energy's "Second Class Citizens"* submitted by NWSG and other Pre-Sale Shippers.

9. Future Growth of the WA Gas Industry

As the state's largest Gas Supplier and a strong interest in growing the WA Gas Industry we are deeply concerned by the implications of the Draft Decision. Furthermore Epic Energy has commented that the Draft Decision if accepted as is, will affect their financial viability and sustainability. Epic Energy has stated intention its to commence legal action against the Office of Gas Access Regulation. This is likely to be a long and protracted process, creating an environment with no certainty as to future gas transportation tariffs until the matter is resolved. NWSG is concerned that this will impact adversely on our shared objective of growing the WA gas industry.