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21 June 2005

Economic Regulation Authority  
Level 6 Governor Stirling Tower  
197 St Georges Terrace  
PERTH WA 6000

**ATTENTION: MR RUSSELL DUMAS**

**BY E-MAIL & BY COURIER**

Dear Russell

**THIRD SUBMISSION ON DRAFT DECISION (PUBLIC VERSION)**

*[This is the public version of the submission lodged confidentially by Western Power on 15 June 2005. Interpolations are marked in square brackets and italics.]*

1. Western Power Corporation ("**WPC**") makes this further submission on the Authority's Draft Decision of 11 May 2005 ("**Draft Decision**") on the Operator's Proposed Revisions to the Access Arrangement for the DBNGP ("**PRAA**"). This submission addresses the impact on WPC of Draft Decision Amendment 15 which requires the PRAA to be amended to adopt a gas specification to apply to Reference Services under the Access Arrangement ("**Draft Decision Gas Specification**").
2. This submission is supplemental to WPC's other submissions with regard to the Draft Decision and PRAA and in particular WPC's Second Submission on the Draft Decision (Confidential) dated 26 May 2005.

**OPERATIONAL IMPACT**

3. WPC's preliminary view is that the Draft Decision Gas Specification is likely to only have a minimal impact on WPC's operations.

**CAPACITY IMPACT**

4. [REDACTED] *[It has been suggested]* that the imposition of the Draft Decision Gas Specification may reduce the throughput capacity of the DBNGP by approximately 50-60 TJ/day.

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5. Without having further information available, WPC cannot assess [REDACTED] [this] position but makes the following preliminary comments.
6. WPC submits that a reduction of the throughput capacity to this extent may result from a combination of:
  - (a) the imposition of the Draft Decision Gas Specification;
  - (b) the removal of the minimum LPG content requirement from 1 July 2005; and
  - (c) [REDACTED]
7. WPC is concerned that the distinction between these factors is being blurred.

#### *Draft Decision Gas Specification*

8. WPC agrees with the Authority's view in paragraph 419 of the Draft Decision that the Draft Decision Gas Specification is unlikely to substantially affect the capacity of the DBNGP.
9. In fact, WPC's initial estimate is that the reduction in capacity resulting from the Draft Decision Gas Specification is likely to equate to no more than a 5 TJ/day reduction in the theoretical probabilistic calculation of the T1 cut-off [REDACTED].

#### *Minimum HHV*

10. The reduction in minimum HHV (from 37.3 MJ/m<sup>3</sup> to 37.0 MJ/m<sup>3</sup>) is less than 1% which in WPC's opinion is unlikely to materially affect the capacity of the DBNGP.

#### *Inerts*

11. It is difficult to see how the change in maximum content of inerts will impact on capacity since, on WPC's current understanding of existing gas supply, a gas stream with more than 5.5% inerts would imply an energy content of less than the 37.0 MJ/m<sup>3</sup> minimum HHV proposed in the Draft Decision Gas Specification (unless the HHV was increased, for example, by injecting LPG into the gas stream).<sup>1</sup>

#### *Wobbe Index*

12. The Operator's Submission #28 (at pages 10-11) shows two "Dutton Envelope" plots that purport to demonstrate the significant impact upon capacity that the reduction in the minimum Wobbe Index will cause.
13. WPC cannot see, based upon the information made available from the Operator, why the specific changes to the gas specification result in reduced capacity. The changes in question that impact upon capacity are:
  - (a) increase in inerts by 1.5% to 7.0%;

<sup>1</sup> This raises a question as to whether it is appropriate for a gas specification to have individual components (i.e. minimum HHV and maximum inerts) that are not mutually achievable.

- (b) reduction in minimum HHV from 37.3 MJ/m<sup>3</sup> to 37.0 MJ/m<sup>3</sup>; and
  - (c) reduction in the minimum Wobbe Index from 47.3 MJ/m<sup>3</sup> to 46.5 MJ/m<sup>3</sup>.
14. The Dutton Envelope diagrams demonstrate that the Wobbe Index falls as LPG is removed. WPC (subject to paragraphs 24 and 25 below) accepts that pipeline capacity would be reduced in proportion to a reduction in the Wobbe Index, but the Operator's analysis fails to recognise that the minimum HHV of 37.0 MJ/m<sup>3</sup> will constrain the reduction in the Wobbe Index that can be attained.
15. Based upon WPC's calculations using the Dutton Envelope methodology, the Wobbe Index cannot fall below 48.9 MJ/m<sup>3</sup> and the fall described by the Operator in connection with both "zero LPG" and the Draft Decision Gas Specification (see paragraph 3.32 of Submission #28) cannot be attained. Therefore, the Operator's assertion that the Wobbe Index, and hence capacity, will be significantly reduced is incorrect.
16. The table below sets out these calculations. WPC can provide further detail if required.

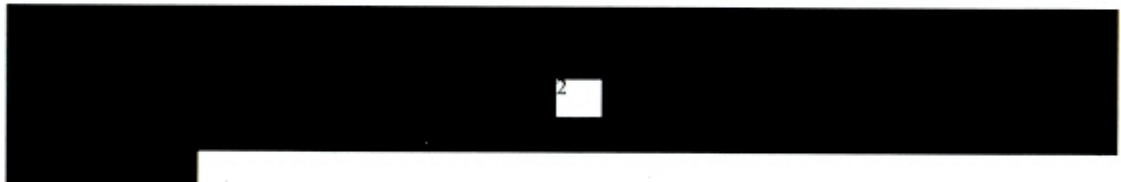
Minimum HHV	Inerts	Minimum Wobbe Index	N <sub>2</sub> + Propane mol% at minimum
37.30	5.5%	49.48	14.75%
37.00	5.5%	49.01	12.25%
37.00	7.0%	48.87	18.25%

17. WPC notes that Wobbe Index calculations are reduced with the specific inclusion of CO<sub>2</sub> as an inert (due to higher specific gravity), but it appears this does not change the relativities.
18. WPC notes that the Operator has not furnished the detailed assumptions underlying the Dutton Envelope diagrams. Without this information the Operator's contentions in its Submission #28 with regard to the capacity impact of the Draft Decision Gas Specification cannot be properly assessed. WPC requests that the Authority obtains and reviews these detailed assumptions in its consideration of the Operator's Submission #28.

***Removal of minimum LPG content requirement***

19. WPC agrees with the Authority's view in paragraph 419 of the Draft Decision that any major change in the capacity of the DBNGP would mainly result from the removal of the minimum LPG content requirement from 1 July 2005.

20.



21. If the Operator is allowed to recover additional costs for 'restoring' the capacity of the DBNGP as a result of the removal of the minimum LPG content requirement, this will effectively either:
- (a) be a double recovery of costs; or
  - (b) if there is no double recovery because the DAA Consortium [REDACTED] did not include the cost of any LPG restoration in its acquisition model – be a variation of the allocation of costs agreed between the DAA Consortium and WPC and other shippers under the 2004 shipper contracts such that WPC and other shippers will be compensating the Operator for its [REDACTED] investment decision.
- [REDACTED]

22. [REDACTED]

23. [REDACTED]

24. [REDACTED]

25. [REDACTED]

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<sup>3</sup> [REDACTED]

<sup>4</sup> [REDACTED]

## CAPITAL CONTRIBUTION

### *Restoration expansions*

26. Clause 20.8 of the Standard Shipper Contract (on which WPC's Shipper Contract is based) provides that the Operator may require *[the Shippers]* to contribute to the cost of expanding the capacity of the DBNGP. [REDACTED]
27. The level of WPC's concerns will vary depending on whether these 'restoration expansions':
- (a) are purely to restore capacity resulting from the Draft Decision Gas Specification; or
  - (b) also include works undertaken in connection with the removal of the minimum LPG content requirement [REDACTED].
28. [REDACTED]
29. [REDACTED]
30. [REDACTED] WPC is concerned that restoration expansions may result in delays in the commissioning of WPC's additional contracted capacity of 23 TJ/day (for 1 April 2006) and 42 TJ/day (for 1 November 2006) of T1, and other shippers expansions contracted in 2004. WPC therefore submits that the implementation of any gas specification broadening be deferred until a later date, to ensure that its and other shippers' contracted expansions are not jeopardised by any necessary restoration expansions. This later date would need to be a sufficient time after the existing contracted expansions have been commissioned to allow any necessary expansion to be completed, and would not be earlier than 1 January 2007.
31. In particular, WPC's expansions are necessary for it to meet the increasing energy requirements of Western Australian electricity consumers.
32. This is clearly a matter of public policy that needs to be taken into account by the Authority when it is considering:
- (a) whether the Draft Decision Gas Specification is in the interests of users and the public in general; and
  - (b) whether the introduction of the Draft Decision Gas Specification should be delayed until a later date (see paragraph 35 below).

***Combining removal of minimum LPG content requirement***

33. [REDACTED]
34. As noted above, removal of the minimum LPG content requirement has been common industry knowledge since well before the DAA Consortium's October 2004 acquisition of the DBNGP and should have been factored into its purchase price and negotiated tariff under its shipper contracts (and any necessary restoration expansions should have been factored into the Operator's costs).
35. WPC submits that it is not the intention of the Standard Shipper Contract for the Operator and the DAA Consortium to recover a shortfall (caused by the removal of the minimum LPG content requirement) in their negotiated shipping tariff [REDACTED]
36. [REDACTED]

**CONTRACTUAL ISSUES**

37. [REDACTED]
38. [REDACTED]
39. [REDACTED]

**CONFIDENTIALITY**

40. It appears that the Operator has made at least 29 submissions as at the date of this letter, but only 3 of these have been disclosed publicly (and even then with confidential parts deleted).
41. WPC can see no reason why submissions on gas specification need to be confidential. The lack of disclosure by the Operator has compromised WPC's ability to comment on this issue.
42. WPC notes that only information that would be unduly harmful to the legitimate business interests of the Operator should be treated as confidential for the purposes of section 7.12 of the Gas Code.

**COST-BENEFIT ANALYSIS**

43. In addition to the comments on the Operator's Submission #28 noted above, WPC supports the carrying out of a cost-benefit analysis of the Draft Decision Gas

Specification (see paragraphs 1.4(e) and 4.2 of Submission #28), but requests that this analysis be performed independently of the Operator.

#### CONCLUDING REMARKS

44. WPC requests that the Authority considers the respective impacts of the Draft Decision Gas Specification, the removal of the minimum LPG content requirement [REDACTED] in the context of:
- (a) the validity, or otherwise, of [REDACTED] *[any suggestion]* that the resultant reduction in capacity would be in the range of 50-60 TJ/day;
  - (b) the effect that any delay by the Operator in the expansion of contracted capacity for shippers (as discussed in paragraph 30, above) in order to undertake restoration expansions is likely to have on all users of the DBNGP; and
  - (c) delaying the introduction of the Draft Decision Gas Specification until at least 1 January 2007 to prevent a blurring of these issues.
45. If:
- (a) the total reduction of capacity as a result of the Draft Decision Gas Specification is around 50-60 TJ/day as suggested [REDACTED];
  - (b) there is no alternative for the Operator but to undertake restoration expansions in order to meet its existing contractual obligations; and
  - (c) [REDACTED]

[REDACTED] then WPC objects to the reductions in the Wobbe Index and HHV (to the extent that each contributes to the [REDACTED] 50-60 TJ/day capacity reduction) contained in Amendment 15 of the Draft Decision and supports the values proposed for these elements in the gas specification proposed by the Operator in the PRAA terms and conditions.

Please do not hesitate to contact us if you have any questions.

Yours sincerely

PP/   
**BARRIE BRANDT**  
**MANAGER COMMERCIAL**  
**GENERATION**