

# DBP

## Dampier Bunbury Pipeline

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Mr Lyndon Rowe  
Chairman  
Economic Regulation Authority  
Level 6, Governor Stirling Tower  
197 St Georges Tce  
PERTH WA 6000

**Attention:**  
Mr Michael Solytk

Dear Lyndon

### **Gas Quality in Western Australia**

DBNGP (WA) Nominees Pty Limited ("DBP") appreciates the opportunity to comment on the Economic Regulation Authority *Draft Working Paper - Gas Exchangeability in Western Australia* (the report).

### **DBP's key drivers**

DBP's comments on the report and on the issue of gas quality in general are based on the following key considerations:

- The continued availability and competitiveness of gas to meet the growing needs of the Western Australian domestic energy market are fundamental to DBP's future – both in terms of underpinning its existing business as well as providing for the business to grow.
- New sources of gas supply such as Macedon present growth opportunities for DBP, providing significant motivation and incentive for DBP to negotiate arrangements for timely access.
- New sources of gas supply also provide the opportunity for reference tariffs under access arrangements for covered pipelines such as the Dampier to Bunbury Natural Gas Pipeline ("DBNGP") to be established in a manner that:
  - provide service providers with the opportunity of earning a stream of revenue that recovers the efficient costs of delivering the Reference Service over the expected life of the assets used in delivering that Service; and
  - reduce the risk of reference tariffs being increased if existing gas supplies are not replaced.

- In view of the limited number and size of new projects being considered for supply into the domestic market in the foreseeable future, the current shortfall of domestic gas supply is expected to last indefinitely.
- Accordingly, the opportunity to facilitate the development of a new source of domestic gas supply (such as Macedon) is in the interest of all participants in the domestic gas supply chain.

### **Gas quality considerations differ along the value chain**

DBP believes that the consideration of gas quality can be separated into three distinct areas:

1. the gas quality to be delivered into the transmission system from individual fields at various inlet points;
2. the gas quality to be delivered from the transmission system at various outlet points following blending within the transmission system; and
3. the safety standard to be applied in terms of gas quality limits within the distribution system.

As far as Item 1 above is concerned, the report notes that additional supplies of natural gas could be available to the domestic market if the gas quality specification for the DBNGP was less stringent. In DBP's view this issue is a commercial rather than a safety issue and alteration of existing regulatory standards for the transmission system is unnecessary to deal with gas upstream of the pipeline system. Each producer has available to it a range of solutions from processing the gas to varying degrees, to negotiating commercial terms for a blending service with a pipeline operator to enable it to sell its gas into the market. The producer's decision on which option best fits its particular circumstance should be a commercial, not technical or regulatory, decision.

DBP believes that commercial negotiations between DBP, prospective field developers and shippers are capable of delivering the most timely and economically efficient outcomes for accommodating broader specification gas within the DBNGP transmission system. The adoption of this approach provides the opportunity for a solution which is tailored to the size and quality characteristics of the particular new field and which achieves the optimum balance between the modification of gas specification through processing and supplementing the capacity of the DBNGP system.

Such an approach offers flexibility in coming to an equitable agreement, rather than a regulatory solution to broadening the specification which may have little regard for economic efficiency. A regulatory solution to broadening the specification would create an entitlement on the part of producers to deliver all gas at the broader specification - whether on a continuous basis, or as part of a more variable gas quality profile. This would require DBP to enhance the entire DBNGP system to accommodate a situation where all gas entering the system - even on a sporadic basis, might be at the outer bounds of the allowable specification. This would be necessary to ensure that all delivery obligations could be met under those extreme circumstances.

As far as Item 2 is concerned, the quality of gas to be delivered by the DBNGP at various outlet points will inevitably be a function of the relative size and quality profiles of fields delivering gas into the DBNGP system and the extent of the mixing which takes place within the pipeline. At the present time there are no foreseeable gas supply scenarios facing DBP which would cause the blended gas being delivered by the DBNGP to fall outside the current regulated Access Arrangement gas quality specification. We can, therefore, see no basis for modifying the Access Arrangement specification applying to the DBNGP.

As far as Item 3 is concerned, DBP believes the safety standard to apply to the gas distribution system is an entirely separate matter from the commercial/economic considerations which should govern the question of gas specification within the transmission system. As indicated above, DBP cannot currently see a scenario in which the quality of gas being delivered by the DBNGP would fall outside the existing safety specification applicable to the distribution system. We can, therefore, see no imperative to modify the current safety regulations at this point in time. Having said this, DBP has no objection to moves by Government to broaden the permissible gas quality within the distribution system. However, DBP does not believe that a decision to broaden the specification on the distribution system is a necessary precondition to the acceptance of new domestic gas supplies (such as Macedon).

### **Commercially negotiated outcomes produce efficient outcomes**

DBP has demonstrated an ability to agree a mutually acceptable basis for providing transmission access for gas from fields with a specification broader than the specification in the Access Arrangement. DBP is continuing to actively pursue further opportunities in this regard, including possible arrangements for the acceptance of Macedon gas. These initiatives highlight the fact that DBP is incentivised to reach a favourable and timely outcome that:

- recognises the costs and benefits to each party and to end users of gas; and
- provides appropriate compensation to affected parties, where warranted, as a result of the introduction of broader quality gas.

It is important to emphasise that the type of commercial negotiation described above offers the greatest chance of reaching an expedited solution which enables new gas supply to commence in a timeframe which coincides with first gas production. In DBP's view, the imposition of broadened quality standards by regulation is unlikely to achieve an alignment of producer and pipeline interests or timeframe. It therefore appears counter productive for regulatory intervention as far as the gas transmission system is concerned.

### **The relevance of a uniform national gas specification**

The report refers to the value of achieving a uniform national gas specification. While DBP can see merit in moving towards a uniform safety standard for gas appliances and, therefore, for distribution systems, there is no logic in imposing such a standard on gas transmission systems as long as the quality of gas being delivered does not fall outside the applicable safety criteria. As indicated above, DBP does not believe that the establishment of a uniform safety specification has any bearing on the merits or opportunities for the interconnection of the DBNGP with other transmission and distribution gas pipelines. Suffice it to say that:

- the DBNGP and the PEP were connected in 1996;
- in 2007, the Goldfield Gas Pipeline Interconnect was completed to allow for North West Shelf Gas to flow from the DBNGP into the Goldfields Gas Pipeline; and
- in 2007, an upgrade of the Mondarra interconnect was completed, enhancing the ability of Carnarvon Basin gas to flow from the DBNGP to the Parmelia Pipeline, which has been occurring since the DBNGP was first commissioned.

As previously stated, the inclusion of a new domestic gas source (such as Macedon) would not necessarily reduce the blended gas quality delivered by the DBNGP below the current safety specification applicable to the distribution system. As part of its investigations into the arrangements for a new source of domestic gas with a specification which is lower than the Access Arrangement specification (such as Macedon), DBP will investigate whether there might be certain upset conditions which could lead to the quality of the blended specification falling below the existing distribution system safety standard. To the extent that there are circumstances in which this could occur, mitigation measures would be developed to ensure that in an emergency scenario, any safety risks would be maintained within acceptable limits.

As a general comment, the report pays little regard to the additional capital and operating costs which might face DBP and consumers in accommodating lower specification gas. Focusing on possible savings at a producer level does not recognise the importance of producing solutions which ensure lowest economic cost outcomes. At the end of the day it is the delivered cost of gas, not the ex-plant cost, which determines whether gas is a viable fuel for a particular project.

Therefore, to summarise, DBP believes that as far as the transmission system is concerned, commercial negotiations are capable of delivering a fair, flexible and economically efficient outcome for accommodating lower specification gas.

Should you wish to discuss further please do not hesitate to contact me on 9223 4302.

Yours sincerely,

Stuart Hohnen  
**Executive Chairman**