

File No: MA202.001

14 October 2005

Mr Russell Dumas
Director, Gas & Rail Access
Economic Regulation Authority
Governor Stirling Tower
Level 6, 197 St George's Terrace
PERTH WA 6000

Dear Mr Dumas

DAMPIER TO BUNBURY PIPELINE REVISED ACCESS ARRANGEMENT – PART HAUL & BACK HAUL TARIFFS

I refer you to the ERA's request for comment on DBP's alternative cost allocation proposal as outlined in Submission 48 with regard to part haul and back haul services. This is Apache Energy Limited's submission.

In overview we disagree with DBP's position on 2 fundamental points.

First, back haul and part haul services have been and are likely to be sought by a significant part of the market. Secondly, if a distance related tariff is not to be calculated and the tariffs are to be truly cost reflective of the services offered, DBP's methodology is open to question.

Apache Energy is or will be supplying 5 customers by part haul back haul totalling nearly 120 TJ/d which represents in excess of 15% of the total gas market. It is our view that this is a significant part of the market and that developments in the Pilbara will continue to be a significant part of the market. Thus, part haul back haul must be provided as a Reference Service.

The part haul forward haul market whilst not as significant as the part haul back haul market is used by a number of buyers particularly to access the Parmelia Pipeline at Mondarra. The part haul flow rates involved are similar to the total average gas supplied to domestic gas customers in the south-west (circa 20-30 TJ/d). One can argue that the domestic gas market is a significant part of the market, and so is the part haul forward haul market. Thus, part haul forward haul should therefore be a Reference Service.

A distance related tariff obviously provides a smoothed tariff for part haul services that on average will return DBP's invested capital and cover its operating costs. To do other than this provides a very notchy tariff structure depending on inlet and outlet locations. It is interesting to observe that the expanded Dampier to Bunbury Pipeline will have a quite uniform distribution of capital over each section, supportive of a distance related tariff.

However, a part haul service to the offtake to the Parmelia Pipeline calculated under DBP's methodology results in a tariff that is similar to the full haul tariff. This effectively sterilises the competition that the Parmelia Pipeline otherwise offers to transport gas to the south-west. In other words, the tariff structure proposed by DBP could be seen as anti competitive.

Similarly the back haul tariff provided by DBP is not cost reflective in that it takes no account of the very significant fuel savings that accrue to the DBP by virtue of back haul. The five contracts noted above achieve cost savings on our estimates for the DBP in fuel alone in the order of \$1 million p.a.

In addition, charging a customer a forward haul tariff and another customer a back haul tariff for the same section of pipe is in fact double dipping. The DBP is recovering its capital and operating costs twice for this section. DBP appear to have not addressed this issue.

The conclusion therefore is that DBP's calculation methodology, although purporting to have rigour standing behind it, is probably no more rigorous than achieving a smoothed distance related tariff over the length of the pipeline. We would therefore support the simplicity of a distance related tariff. Whilst this would not overcome double dipping as mentioned earlier, it does overcome some of the other structural issues associated with a supposed cost reflective allocation.

In summary therefore, Apache strongly supports the proposition that part haul forward haul and part haul back haul services are Reference Services and that a distance related tariff is appropriate as it removes distortions section to section. The benefits of back haul should be allocated in the determination of part haul tariffs.

This submission is not confidential and may be disclosed by the ERA.

Yours faithfully



Russell G Stephenson
Gas Marketing Manager
Apache Energy Limited