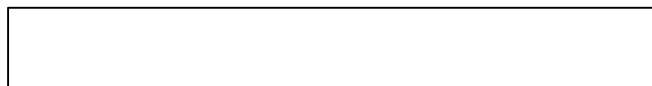


A.C.N. 009 302 809



Our Ref : Parmelia AAI  
Your Ref : Gas Safety  
June 9, 1999

Philip Brown  
Office of Gas Access Regulation  
Level 22 St Martins Tower 44 St Georges Tce  
PERTH WA 6000

**Subject : Public Submission - CMS Parmelia Pipeline Access Arrangement**

Dear Mr Brown,

In response to the Office of Gas Access Regulation (OffGAR) invitation for public comment on Access Arrangements (AA), please find below our submission on the Access Arrangement Information (AAI) provided by CMS Gas Transmissions Australia, a Cayman Islands Corporation, in respect to the Parmelia Pipeline dated 7 May, 1999.

The Minister for Energy, the Hon Colin J Barnett recognised the significance of the Victorian Gas Access Arrangements in the Western Australian government's submission to the Victorian Office of the Regulator General (ORG) in 1998; hence reference is made below to ORG reports and decisions. The scope of this submission is limited to the issue of gas safety.

**Section 3** of the National Third Party Access Code for Natural Gas Pipeline Systems (the Code) establishes requirements for **Service**. It is particularly difficult to assess the definition of Service from OffGAR's introduction, overview and tariff principles comments on the Code. The lack of precision suggests that specific information reflecting the intent of the Code would be found in the AA and the AAI. Although the base elements of service and technical requirements are found in various locations within the documents, a complete, definitive and comprehensive set of requirements are not; interested parties are therefore unable to understand the services offered.

ORG engaged a Perth based engineering firm, Ewbank Preece to review the Victorian AA and AAI documents against the Code. Their report, dated June 1998 advised ORG that the technical standards of these documents was unsatisfactory. The Parmelia AA and AAI appear similarly flawed.

One is left to infer from the AAI at 6.1, Historical Overview, that the 27 year history of the Parmelia Pipeline has effectively reflected the principal business aims of CMS and has been safe, reliable and efficient. In the absence of a set of complete and definitive service and technical requirements in the AA or AAI, the practical application of safety requirements and the mutual obligations of a gas supplier and the industry must be gauged by the stewardship offered by the applicant to end users as nominated in section 12.1 of the AAI. Examples of these concerns include:

- The lack of available documentation from the applicant such as "Approval Requirements for Type B Appliances" which assist industry to comply with a gas suppliers safety obligations under Section 13 of the Gas Standards Act, 1972 as amended (the Act).
- A lack of gas supplier Type B (industrial) appliance approval labels as detailed in Australian Standard AS 3814 - 1998 (AG 501) "Procedures for the Approval of Industrial and Commercial Appliances", Appendix B-1.

- A general lack of knowledge amongst CMS gas users of the requirements of a consumers gas installation and the role played by the gas supplier in Western Australia.
- A concern from some of these consumers as to risks associated with the safe installation, certification, approval and operation of industrial appliances.

Gas safety in the context of industrial consumers is a prime legislative obligation upon gas suppliers; such a core service must be apparent in any AA or AAI in Western Australia.

**Section 8** of the National Third Party Access Code for Natural Gas Pipeline Systems (Code) establishes principles for design of **Tariffs**. It is particularly difficult to assess the Code principle expressed at sub section 8.1 (c), “ensuring the safe and reliable operation of the pipeline” from OffGAR’s tariff principles comments on the Code. The lack of reference suggests that specific information reflecting the intent of the Code would be found in the AA and the AAI. Again a lack of reference to safety in these documents leaves interested parties unable to understand or calculate the risk associated with unresourced safety obligations.

The Victorian Office of the Regulator General, via a press release dated October 6, 1998, commented on the rate of return of capital under the Code. The media release highlights, at p. 2., the cost of “new and untested regulatory regimes”,

*“... The increase in the rate of return results mainly from the increased risk premium adopted ... to reflect the Office’s reassessment of a number of potential risk factors identified in submissions and the conferences, These include ... risks associated with the immaturity of the gas market reforms and the gas industry structural arrangements, a new and untested regulatory regime and the presence of a range of potentially diversifiable or insurable risks which cannot be readily included in cash flows. Examples of such insurable risks include natural disasters that may cause major infrastructure dislocations. The recent explosion at Esso/BHP’s Longford plant indicates the impact that such events can have on gas flows and thus cash flows ...”.*

The comments were made by ORG when increasing the asset beta from the draft decision value of 0.4 by some 40% to 0.55 in the final decision for the Victorian AA. There is some concern that ORG has misunderstood gas safety as being a diversifiable risk. Insurance cannot, and should not, be relied upon to replace prudence and legislative compliance.

Clearly the cost of maintaining gas safety is of interest and concern to industry and Government. Certainly our company as a significant manufacturer of industrial gas appliances supports the existing system of mandatory inspections and insitu certification and approvals sponsored by gas supplier obligations under the Act. Gas safety and the cost of gas to market entrants, consumers and operators is threatened by uncertainty or a lack of precise information being available; regulatory oversight must ensure mandatory safety obligations of gas suppliers are detailed in the Service and funded in the Tariff. Prudence and legislative compliance cannot be replaced by a defacto risk management approach to gas safety.

The opportunity to comment on the Access Arrangements and Gas Safety is appreciated.

Yours faithfully,

**PETER J. STEWART**

Director **COMBUSTION AIR PTY LTD**

cc David King - CMS Gas Transmission.