

ENERGY MARKETS REFORM FORUM

C/- BOB LIM & CO

PO BOX 494

NORTH SYDNEY NSW 2059

TELEPHONE 02 9957 3552 FAX 02 9959 3461

MOBILE 0412 374 296

EMAIL boblimco@ozemail.com.au

25 January, 2000

Mr Robert Pullella
Office of Gas Access Regulation
Level 6, Governor Stirling Tower
197 St Georges Terrace
PERTH WA 6000

Dear Mr Pullella

Dampier To Bunbury Natural Gas Pipeline Proposed Access Arrangement

The Energy Markets Reform Forum (EMRF) welcomes the opportunity to provide its views on the Dampier to Bunbury Natural Gas Pipeline Proposed Access Arrangement.

The EMRF is a coalition representing the views of major companies (such as BHP, Tomago, AMCOR, Incitec) on energy reform issues, including in relation to gas pipeline access arrangements. Comments are provided on the documentation contained in the application.

Information Disclosure

The access arrangement information documentation is deficient in quite a number of areas, and does not meet requirements of the Code (Section 2.6 and 2.7). In particular, the application has omitted significant information regarding capital costs (Attachment A, Category 2) including asset values (not purchase value) for each pricing zone, service or category of asset, information as to asset valuation methodologies-historical cost or asset valuation, etc.

Initial Capital Base

Section 8.10 of the Code requires certain factors to be considered in establishing the initial capital base for a pipeline. These include, in particular, the DAC value representing the lower bound, and the DORC value, representing the upper bound. The application has not provided the requisite information.

Overall, the application has not complied with Section 8.10 of the Code, and in particular, Section 8.10 (e) – international best practice of Pipeline in comparable situations and the impact on the international competitiveness of energy consuming industries.

We also note that the Code does not require the regulator to accept (it could ‘consider’), as the initial capital base, the purchase price (plus purchase costs) paid by EPIC Energy Companies to the State of Western Australia. Recent regulatory outcomes in Australia show that the purchase price paid by network service providers have been several multiples of the regulatory asset base. It is also common for independent asset valuations to be undertaken and the assets optimised.

Regulatory Rate of Return

The regulatory rate of return sought (8.6% real pre-tax, WACC) is excessive. Regulatory outcomes in NSW and Victoria have been in the range of 7%-7.75%. An issue arises as to whether the proposed access arrangement is considerably more risky (market risk premium of 6.4%) than other pipelines in Australia. The market risk premium of 6.4% compares unfavourably with the 5.5% for the Central West Pipeline (ACCC) and the figure of 5.0% that the ACCC states should have been appropriate for the Victorian Pipelines (instead of 6.0%) in 1998.

The above represent initial views of the EMRF and further submissions may be forthcoming.

Yours sincerely,

Warren Martin
Chairman, Energy Markets Reform Forum and
Company Secretary, Tomago Aluminium