1 July 1999

Our Reference: RD049RD

Mr Phillip Brown
Office of Gas Access Regulation
PO Box 8469
Perth Business Centre
Western Australia 6849

Dear Sir,

SUBJECT: Submission on Proposed Parmelia Pipeline Access Arrangement

The thrust of the legislation governing access by third parties to gas transport services in onshore transmission pipelines is to facilitate competition and efficiency that will result in market growth. North West Shelf Gas (NWSG) supports these principles and in that context offers the following comments on the proposed Access Arrangement (AA) for the Parmelia Pipeline and the associated Access Arrangement Information (AAI) submitted to O*ff*GAR on 7 May 1999.

Pricing

The most important issue is the level of transportation tariffs. NWSG contend that the charges outlined in the proposed AA appear to be excessive and inappropriate. Based on our brief review of these lengthy documents, the main reason for the high tariff appears to be the high rate of return calculated for this pipeline. This is discussed later.

Schedule 1 of the AA shows a tariff of A$0.83 per GJ for Firm Extended Service and A$0.747 per GJ for Interruptable Extended Service. These tariff levels appear to be considerably higher than the average expected tariffs which from our calculations appear to be from A$0.583 to A$0.575 for the years 1999 to 2003 (calculated using the revenue for existing contracts on page 60 of the AAI and the existing contracts utilised capacity on page 38 of the AAI). Our information is that current tariff levels are actually lower than this.

That the proposed standard transportation tariff is so much higher than the tariffs currently being charged is inappropriate in our view and is likely to inhibit access by those parties who need access.

Although the AAI explains that parties would be free to negotiate access to transportation services at terms better than those in the proposed AA, this assumes that the prospective user is able to negotiate a competitive tariff. Having such a large premium above market rates accepted by the Gas Access Regulator for the standard reference service provides an unrealistically high benchmark and is not conducive to competition, economic efficiency or market growth. Indeed such a high standard tariff will inhibit access for those parties whose transport requirements are small or incremental (the most likely users of a standard tariff) and who therefore lack bargaining power. The higher than market rate standard tariff proposed would mean that such prospective users would be at a significant competitive disadvantage compared to those who enjoyed the current tariff.

Rate of Return

The proposed rate of return of 16.0 % is considerably higher than the 7.75% determined by the ACCC to be applicable to onshore transmission pipelines in Victoria. The high rate of return proposed for the Parmelia Pipeline is, in our analysis, the main reason for the inappropriately high tariff proposed.

The probabilistic methodology used in the determination of the Weighted Average Cost of Capital (WACC) is sensitive to the probabilities assigned to each of the minimum, typical and maximum values for each variable. These probabilities are not disclosed in the AAI and cannot therefore be examined to see if they are reasonable. In NWSG's view all the assumptions made in the calculation of the rate of return and the resulting tariff must be transparent.

In addition, *Off*GAR will, we trust, satisfy themselves that the assumed values for Optimised Replacement Cost of the pipeline and other costs and parameters shown in the AAI that are used in the calculation of the WACC and the resultant tariff are reasonable and in line with accepted benchmarks elsewhere in the industry.

Variation and Other Charges

The charges that are proposed in Schedule 2 of the AA relating to imbalance charges appear to be excessive. Whilst the 'operating margin' of 8% is in line with industry practice the sliding scale of charges appears to be unnecessarily punitive. For example, in a case where a Shipper (with an MDQ of 5 TJ) is unable to accept any deliveries from the pipeline on a particular day but the producer delivers the full daily nomination of say 5 TJ to the pipeline, then the penalty charges would be more than A$140,000 or almost 34 times the full standard tariff (reservation plus commodity charges) applied to the full nomination. Such large charges are not reflective of the actual costs (increased administration and compressor fuel) that may result from such a variation. Indeed such a 5 TJ variation is stated (page 36 of AAI) to be within the operational capacity of the Parmelia pipeline.

The Hourly Overrun and Maximum Flow Rate Overrun charges proposed appear to be similarly punitive and do not reflect the reality of the impact of such events on a pipeline which is (for the moment) essentially in free flow from the Dongara plant.

The proposed Quantity Variations and Charges could allow the pipeline operator to extract an apparently unfair rent from Shippers as a result of occasional upsets in the Shippers (or producers) daily operations. The imbalance charges are likely to be economically inefficient, as they would also cause Shippers to dedicate resources to manage their nominations within the tolerances; resources which could be focused elsewhere in more productive areas.

Similarly the A$10,000 application fee required to be paid when requesting access to transportation services is considerable and will inhibit or restrict access to those users who have a large gas demand. The application fee should be justified on the cost of processing the application and maintaining the queue. It should not be an artificial barrier to accessing transport services.

Gas Specification

Schedule 3 to the AA is the Gas Specification. In particular, the Higher Heating Value (HHV) range from 37.0 to 41.0 MJ/sm3 is narrower than the current Dampier to Bunbury Natural Gas Pipeline (DBNGP) 'Operating Specification' of 37.3 to 42.3 MJ/sm3. The difference in the upper HHV limit could cause an artificial barrier to having DBNGP gas flow in to the Parmelia Pipeline. Furthermore, there would be a concern if the proposed AA were ratified for five years and the DBNGP specification was then subsequently broadened towards the 'Broadest Specification' allowed for in the *Dampier to Bunbury Pipeline Regulations 1998* and the specification for the Parmelia Pipeline did not then follow that of the DBNGP.

NWSG is pleased to be able to contribute to *Off*GAR's assessment of the proposed AA and we would be happy to clarify any of the above with you should you wish to. Please direct your inquiry to our Mr Rod Duke in the first instance.

Yours faithfully,

AKOS GYARMATHY
General Manager