

Your Ref: 1044/99
Our Ref: 98/1047

Dr Ken Michael
Gas Access Regulator
Office of Gas and Access Regulation
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Dear Ken

OFFICE OF ENERGY ADDITIONAL SUBMISSION – PARMELIA PIPELINE

Thank you for arranging an additional extension of time, until 9 July 1999, allowing interested parties to make public submissions in respect of the proposed Access Arrangement and Access Arrangement Information for the Parmelia Pipeline.

The Office of Energy (the OOE) made a public submission in respect of the proposed Access Arrangement and Access Arrangement Information for the Parmelia Pipeline on 14 June 1999. The OOE has now reviewed the additional information provided by CMS Gas Transmission (CMS) on the 22 June 1999 and 2 July 1999, and submits the following comments in respect of that additional information.

As it was noted in the OOE submission dated 14 June 1999, under section 2.6 of the National Third Party Access Code for Natural Gas Pipeline Systems (the Code) the Access Arrangement Information is intended to permit interested parties to understand the derivation of the elements in the proposed Access Arrangement and to form an opinion as to the compliance of the Access Arrangement with provisions of the Code. In this regard, as part of its submission the OOE requested the Regulator to consider whether the Access Arrangement Information is sufficient in relation to a number of matters.

The OOE continues to consider that the Access Arrangement Information, including the additional information provided by CMS on 22 June 1999 and 2 July 1999, does not allow third parties to understand the significant tariff components of the Access Arrangement, with the information regarding the asset valuation being particularly open to interpretation. This is due to inherent uncertainties associated with calculating a representative value for the Depreciated Optimised Replacement Cost (DORC), using a probabilistic rather than a deterministic methodology, the use of the Monte Carlo simulation which obscures the DORC calculation, and a general lack of other key information, as identified in the original OOE submission.

As the Office of Energy considers that CMS has not adequately supported its tariff determination using the DORC methodology nor provided sufficient information, it would seem that an alternative, more defensible methodology, such as the Optimised Deprival Value (ODV), could be applied to derive an initial capital base value for the Parmelia Pipeline. Given that in its area of operation the Parmelia Pipeline is expected to be over the long term in direct competition with the Dampier to Bunbury Natural Gas Pipeline (DBNGP), the ODV may be a more meaningful asset base upon which to determine tariffs to provide an outcome which would be competitive with those to be determined for the DBNGP.

Although the use of the DORC methodology is well recognised by the Code and to be at or towards the upper end of asset valuations to be considered by the Regulator, in this case the ODV methodology is more likely to provide better transparency, thus satisfying the requirements of section 2.6 of the Code. Furthermore, the factors the Code requires to be considered in establishing the initial capital base include values that would result from applying other well recognised valuation methodologies. The ODV is considered by this Office to be one such methodology, and it is suggested that the Regulator should seek an analysis from the proponent using this methodology and make that analysis available to stakeholders.

Yours sincerely

LES FARRANT
COORDINATOR OF ENERGY

8 July 1999

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