

Our Ref: 1/267/5
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10 November 1999

Mr Phillip Brown
Office of Gas Access Regulation
Level 6
197 St Georges Terrace
PERTH WA 6000

Dear Mr Brown

**RE: OFFGAR DRAFT DECISION ON THE PROPOSED ACCESS
ARRANGEMENT FOR THE PARMELIA PIPELINE**

Western Power submits for your review, comments on the draft decision by the Office of Gas Regulation (OffGAR) concerning the proposed Access Arrangement by CMS Gas Transmission of Australia (CMS) for the Parmelia pipeline.

Reference Tariff

Western Power notes that OffGAR has determined a Reference Tariff (\$0.55/GJ), which confirms the existing CMS benchmark tariff structure. As Western Power indicated to OffGAR in its previous submission, lower tariffs are required on the Parmelia pipeline to ensure a competitive alternative to the DBNGP, for equivalent distance.

Spot Services

These are Reference Services for which no explicit Reference Tariffs have been established; rather it has been accepted that a bidding process will set the tariffs. While supportive of a market driven pricing system for spot interruptible capacity, Western Power is concerned that CMS could set an unjustifiably high floor price, as has been the case with the DBNGP since January 1995. Western Power understands that under their proposal, CMS may set a minimum price for the service; rather than accepting that providing the service at marginal cost is a logical economic decision. CMS presumably may require some protection to avoid bids below its marginal cost (particularly given the likelihood of excess capacity). Nevertheless it would be highly desirable for OffGAR to set the minimum tariff, and in the absence of both a higher bid whenever unused reserved capacity is available, require CMS to transport the gas. Given OffGAR's assessment of the marginal cost of transport, Western Power considers a minimum spot price to be a key requirement for a Reference Service.

Tariffs for Interruptible Services

While there is little basis to dispute OffGAR's findings in respect of the apportionment of costs between Reference Services, it is important to distinguish the real cost of providing

Firm service as against interruptible service. Unfortunately this would appear to be difficult in the current circumstances of substantial excess capacity on the Parmelia pipeline. While it may be postulated that there may be some lower maintenance costs and even some reduction in compressor costs, the sum of these is not expected to result in a significant cost differential. For Western Power, this is likely to mean little advantage in accepting Interruptible Services.

Other Non-Reference Services – Part Haul Tariff

As noted in our previous submission, a key element missing from the Reference Services is the provision of part haul tariffs. While it is correct that a part haul tariff does not apply on the DBNGP for the equivalent sector, we view the key issue as being whether there is a significant proportion of users that may utilise a part haul option. If there is, then it is reasonable to seek to have a part haul tariff provided as a Reference Tariff. If not, then it must be accepted that any part haul contract will be a Non-Reference Service and the tariff will be subject to negotiation.

In Western Power's view, consideration needs to be given to the potential for part haul transport services over the duration of the proposed access arrangements for the Parmelia pipeline.

For example, there are a number of gas customers that are supplied gas via the DBNGP, who are within close proximity to the Parmelia pipeline and have the potential for interconnection to alternative gas supply and transport options. A competitive part haul Reference Service tariff could promote development of Perth Basin gas supplies, whilst increasing the throughput of the Parmelia pipeline and revenue to CMS.

Unaccounted for Gas

Western Power believes that there should, at least, be a maximum level provided for recovery of unaccounted gas that may be charged to users. For so long as CMS may recover these costs from users, there seems to be an opportunity for inadequate maintenance, etc, particularly in the light of OffGAR setting acceptable operating and capital expenditure costs to be included in the Reference Tariff calculation.

CPI Adjustment

It remains unclear whether CPI adjustments may be made quarterly or annually. Although OffGAR has allowed the option of including efficiency savings directly in the costs or indirectly in the X adjustment to the CPI, Western Power would prefer to see this explicit in the CPI adjustment.

Operating Tolerances

Western Power remains concerned that OffGAR has accepted the tolerances proposed by CMS, specifically the provision for quantity variation charges to be levied on imbalances over 1TJ rather than consistently applying an 8% tolerance. As a potential significant user of the Parmelia pipeline, Western Power again seeks to have this varied.

OffGAR is referred to the example (paragraph 2.3) provided in Western Power's submission of the 11 June 1999, which illustrates how a large user may be effectively limited to an imbalance approaching 4%. In Western Power's opinion, an 8% intolerance

should be applied “across the board”, particularly, as the number of users increase and as the total throughput in the Parmelia pipeline approaches capacity.

Refunds for Failure to Ship

While OffGAR is seeking a reliability performance for Reference Services we would suggest that this should apply equally to Non-Reference Services unless specifically waived by the user. Further, there should be an undertaking by CMS that reservation charges will be fully refunded on days when CMS fails to meet the performance standard.

An electronic version of this submission has been forwarded to you by email in Microsoft’s Word 97 format.

The organisational contacts, should you require clarification or additional information concerning this submission is as follows:

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Yours sincerely

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