Our Ref: 1/267/5
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Mr Mike Jansen
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Dear Mr Jansen

PROPOSED ACCESS ARRANGEMENT FOR THE TUBRIDGI PIPELINE SYSTEM

Western Power offers the following comments on the above proposed Access Arrangement.

NON REFERENCE SERVICE

The Access Arrangement does not allow for a back haul non-reference service. In Western Power's view, prospective shippers should have an opportunity to back haul gas through either of the two pipelines, making up the Tubridgi Pipeline System, so that competitively priced gas can be brought to the Onslow area. Western Power considers that back haul should be identified as a Non Reference Service.

Western Power also considers that, where a back haul service is provided, investigation is required on the potential impact on gas quality in respect of the Tubridgi Pipeline System. Any benefits to the Tubridgi Parties, by reducing LPG penalties on the DBNGP, should be shared with shippers in the Tubridgi Pipeline System.

REFERENCE TARIFF

The Reference Tariff will change each year by the percentage change in the CPI. Western Power considers that full indexation of the Reference Tariff based upon future changes in the CPI is not appropriate because, it does not reflect the cost structure of the Tubridgi Pipeline System. It is a fact that pipeline operations are capital intensive, with most costs (typically 80%) relating to capital expenses. Operating and maintenance costs represent only a small portion of the overall costs of a pipeline. The adoption of a full CPI tariff adjustment is inappropriate since the major portion of pipeline costs is not related to the CPI.

INITIAL CAPITAL BASE

The National Code identifies two methodologies to determine a band within which the initial capital base is valued. These are Depreciated Actual Cost (DAC) - the lower bounds, and Depreciated Optimised Replacement Cost (DORC) - the upper bound. DORC effectively represents what an efficient new market entrant would pay to enter the industry. In determining an asset value the Tubridgi Parties have opted to use DORC.

The Tubridgi Pipeline System currently has the capability of delivering 30TJ/day through the Tubridgi Pipeline and 90 TJ/day through the Griffin Pipeline. The forecast demand in section 12.3, of the Information Section, shows that the average daily flow rate (TJ) is 31.55 in 98/99 and 31.93 in 99/00, declining thereafter. In valuing the assets for the DORC valuation the Tubridgi Parties have optimised the Tubridgi Pipeline System capacity. This is based on the premise that there will be an increase in future demand and comments from the Minister for Energy who considers that the pipelines may not meet the requirements of gas producers in the Carnarvon Basin once fields such as Macedon (offshore gas) field are developed. This in effect means the optimised system would replace the dual pipeline system with a single 300mm pipeline that is capable of transporting 120 TJ/day.

From these observations Western Power would like further investigation into the basis for valuing an asset based on its optimised replacement (and potential for future increased use) when the forecast is for declining sales.

DEPRECIATION

The Tubridgi Paries believe that the capacity of the Tubridgi Pipeline System will be utilised in decades to come and have proposed that the useful life be the same as the economic life of 80 years.

In Appendix B of the Access Arrangement it is stated that Straight-line depreciation over the economic useful life has been used. The Tubridgi Parties have not included a residual value, as they believe that there would be a net cost to abandon the Pipeline System. The Tubridgi partners have then accelerated the depreciation on the asset by 5% for initial access arrangement period because there is a risk that the pipeline may lie idle for a period of time or even become redundant beyond this time.

Western Power would like further investigation into the reason of having an economic life and useful life at 80 years when there has also been a need to depreciate the Pipeline System using an accelerated method as forecast demand is low and declining. We understand that the Tubridgi Parties will review the demand and hence the depreciation factors by June 2002; further clarification on the above is encouraged.

REGULATORY RATE OF RETURN

The calculation of the proposed rate of return, in this case the Weighted Average Cost of Capital estimate, is inconsistent with the recent decision by OffGAR for the Parmelia Pipeline Access Arrangement.

The main concern for Western Power in establishing a proposed rate of return is the Equity beta value. The Equity beta used by The Tubridgi Parties appears to be an arbitrary figure of 1.3. The Tubridgi parties have used a debt to equity ratio of 60:40, an Asset beta of .6 and a tax rate of 36%, the corresponding Equity beta should be 1.176. It is appreciated that there are other economic and operating risks faced by the pipeline. However, investigation by the regulator into the variations in both is considered important.

NON-CAPITAL COSTS

After the year 2001/02, there is no allocation for Unregulated Non-capital costs for the Pipeline System. A more detailed explanation as to why there are no costs past this date is considered appropriate.

REVIEW OF ACCESS ARRANGEMENTS

Western Power is aware that selecting the Access Arrangement Period is a matter of judgement and in this case is tied closely to the expected life of the existing gas fields. Due to the uncertainty of future gas demand and supply in this region, Western Power would favour an initial Access Arrangement Period of three years.

TERMS AND CONDITIONS OTHER THAN PRICE

Western Power would appreciate further discussion on the following terms and conditions:

Maximum Daily Quantity (MDQ) Increase

MDQ is to be increased whenever the Peak Day Quantity (PDQ) exceeds MDQ. This has the effect of automatically ratcheting MDQ upwards over the remaining period of the Access Arrangement, even though the PDQ may exceed MDQ occasionally. This is considered to be excessive; a fairer mechanism would be to increase MDQ by agreement with the user. The potential impact of this mechanism is to ramp up the charge for each GJ of MDQ, at the rate of $0.332/GJ of MDQ (Annexure C), apparently based on the (highest) MDQ applied for each day in the month.

Scheduled Meter Testing

The Tubridgi Parties state that "the party responsible for metering equipment must ensure that metering equipment is tested in accordance with good industry practice and any applicable laws". A specific time – i.e. at intervals no fewer than two months should be specified in the Access Arrangement.

Supply Curtailment

There is no refund to users whenever the Tubridgi Parties interrupt delivery for maintenance, repairs, improvements or alternatives to the Tubridgi Pipeline System (13.1 (a) and 13.2). The charge for each GJ of MDQ ($ per month) is payable for a user's capacity reservation, which may be interrupted by the Tubridgi Parties.

Disputed Amount

The standard procedure for disputed quantities / prices, is for the user to pay the undisputed portion of the invoice, with the balance subject to further investigation. The Tubridgi Parties request users to pay the full amount of the invoice, regardless of dispute, and may cease delivery of gas to the user under the failure to pay provision.

Western Power trusts these comments will be of use in OffGAR's deliberation process.

Yours sincerely

SHONA KENNEALY
MANAGER
BUSINESS STRATEGY

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

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