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Mr Michael Walsh
Director
Network Regulation North Branch
ACCC
GPO Box 3648
Sydney NSW 2001

Dear Mr Walsh,

Dawson Valley Pipeline – proposed access arrangement

WestSide Corporation is a joint tenement holder, with Sunshine Gas Limited, of ATP 769P to the west of the Dawson Valley Pipeline. Under a farm in agreement with Sunshine, WestSide will soon begin a coal seam gas appraisal program in the tenement.

If successful, WestSide and Sunshine expect to transport gas to customers via the Wallumbilla to Gladstone Queensland Gas Pipeline, and as such are potential future users of the Dawson Valley Pipeline.

WestSide offers the following submission concerning the proposed access arrangement.

1. The Reference Service is framed only as a Firm Service. In an area where new development of reserves and production could be occurring we believe it would be appropriate for Anglo to also have an "As Available" service. Generally, an As Available service should be available for around the same tariff as the authorised overrun tariff, in this case 120% of the 100% load factor firm tariff. A new developer of production capacity faces uncertainty about levels of production and as such there is no reasonable basis to require a firm commitment to pipeline capacity, particularly during start up and potential ramp up stages. There is a strong argument, in the interests of promoting further resource development and encouraging additional market suppliers, to require an As Available service.

2. The nominations section is heavily one-sided and unnecessarily so. Monthly and weekly nominations are good for planning purposes, but in practice a pipeline operates on daily scheduling and nominations. If there were an As Available service, it would likely be based on a daily nominations scheme. The access arrangement should be required to better reflect the real operating nature of a commercial pipeline by having a daily nominations regime.

3 On the matter of the tariff itself we are concerned that the level set in the Access Arrangement is much higher than would be reasonable on a benchmark basis. This will create a barrier to gas sector competition and discourage the efficient use of the established infrastructure.

3.1 It is suggested in the proposed arrangement that the tariff has been determined on the basis of an appropriate capital return on the DORC and recovery of direct and overhead costs. The only information offered on the DVP throughput in the information memorandum suggests a rate well below the line capacity. Further information would be valuable concerning the current and forecast throughputs by individual users, which transparently states the capacity utilized by all users. The memorandum suggests that the Operator would be the beneficiary of the application of the low utilization cost recovery to any increase in throughput. The gap between reported current usage and available capacity is too large for this presumed return to be acceptable. For access to the DVP to be opened up the pricing mechanism should not be allowed to act as a barrier to use. A sensible approach to marketing the capacity would see a relationship between throughput and tariff, to benefit all users as the capacity is efficiently utilized.

3.2 The Information Memorandum offers a benchmark assessment which has been rejected by the DVP operators as unhelpful in drawing conclusions. On the contrary, we would suggest that there is a very strong alignment between the sub 255km pipelines and that the DVP non capital cost per 1,000km benchmark demonstrates a DVP cost structure which is at least 4 times its closest rival.

3.3 The declared Overheads are around a factor of 3 times the operating costs for the pipeline. This Overhead level is likely to be the result of an arbitrary allocation of corporate overheads from related or associated companies. For allocated Overheads to be admissible as valid costs to be defrayed, the full detail of those costs should be provided in a way which demonstrates the <u>direct</u> linkage to the DVP operation.

4 With respect to the escalation formula, we would argue that the proposed 100%CPI escalation cannot be supported by pipeline access tariff precedents or the expected nature of the pipeline cost structure. A full examination of that structure would be required to evaluate the proportion of costs which are subject to CPI price escalation. Taking into account the portion of the charge allocated as a recovery of capital costs already expended (and therefore not affected by future CPI increases) a more appropriate escalation rate would be closer to 50% of CPI.

5 The proposed Reference Tariff appears disproportionately high in comparison with tariffs charged for access to other pipelines, and at the level proposed would provide a significant impediment to the development and commercialization of gas resources in the region. At the tariff level proposed, potential producers may find it economically more attractive to build and operate their own pipeline

facilities to transport gas. While such a response may be the cost effective approach for an individual proponent, at an industry level it would only serve to reinforce underutilized capacity and industry wide inefficiency. In any industry, inefficient and underutilised assets increase costs and act as an impediment to wider development and efficient sector competition.

6 While WestSide is a relatively new participant in the region, we note with some concern the matters raised by a current customer of the DVP in their submission to the proposed access arrangement. That submission, which is based on extensive exposure to the operation of the DVP, offers a critical assessment of the proposed arrangements and specifically identifies significant shortcomings. While we do not have access to the same data we are concerned to find that such a polarity of views arise out of a process which is designed to provide objectivity and transparency.

I trust that the ACCC is able to investigate the concerns raised to ensure the implementation of an access arrangement which offers a fair result for all parties interested in the use of the Dawson Valley Pipeline.

Yours Sincerely,

Stephen Cullum
CEO
WestSide Corporation Ltd