

Energy reform in Western Australia

Australia has traditionally been a primary producer. We export agricultural and mining products to pay for the imports we need to sustain our lifestyle. Increased competition among primary producing countries has meant that the prices for primary products have fallen over time, hence reducing the revenue earning capacity of this sector. With relatively high wage rates our only response as a nation has been to develop capital intensive production methods and to diversify into the further processing of raw materials, and into the manufacturing and service sectors.

However Australia only has a small domestic market. Consequently the nation, and more specifically Western Australia, has had to turn to export markets in order to sustain economic development. This has meant that if these sectors are to achieve the economies of scale needed to compete on world markets they need substantial production levels and low cost inputs.

Why the need for reform?

Energy is a basic input into all mining, minerals processing, manufacturing and service processes and hence it is vital for energy costs to be kept as low as possible if our producers are to be able to compete on the world stage. Competition between energy suppliers is the most effective way of ensuring minimum energy prices. The process of reform in Australia is about introducing competition into the energy sector and ensuring equitable access by third parties to monopoly infrastructure services.

The Western Australian Government has committed itself to a process of reform. In 1995, the WA Government agreed with other States, Territories and the Federal Government to a set of principles under the Competition Principles Agreement. These principles, which flowed from the Hilmer Independent Committee of Inquiry, endorsed an open and competitive market for all goods and services in Australia unless it could be demonstrated that it was in the public interest to do otherwise. Part of the process involves structural reform of all public monopolies and guaranteed third party access to monopoly infrastructure elements.

Change was needed in the energy sector given the comparatively high energy costs in Western Australia and the reforms underway in other States and overseas which were likely to further increase the cost differentials. The State Government's desire to see more mineral processing developments also demands lower energy costs and access to energy sources.

Reforming energy in WA

The WA Government commenced the reform of energy utilities in 1993 and introduced new legislation in 1995. The approach taken was to introduce head to head competition between electricity and gas through the splitting of the State Energy Commission of Western

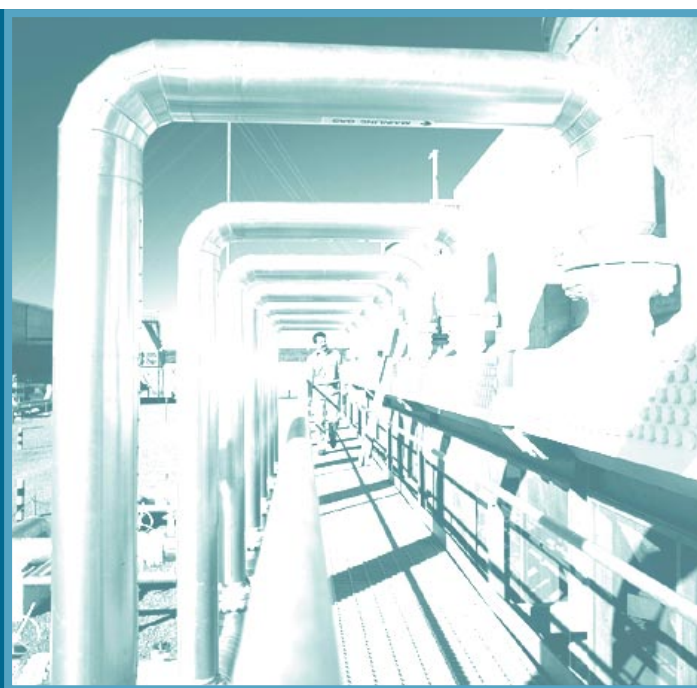


Photo courtesy of AlintaGas

Inspecting aftercoolers along the Dampier to Bunbury natural gas pipeline.

Australia (SECWA) into two Government-owned energy corporations, Western Power and AlintaGas.

The legislation also created an independent policy and regulatory agency in the form of the Office of Energy.

The competition reform process is ongoing in both the electricity and gas sectors. This newsletter provides updates on various aspects of energy reform in WA.

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Foreword

The Office of Energy was established in January 1995 as part of the State Government's restructuring of the energy industry, and to support the activities of the Coordinator of Energy.

Most prominently, the restructuring saw the State Energy Commission of WA split into two Government-owned corporations - Western Power and AlintaGas.

A lot has changed in the two and a half years since the Office of Energy was created. It is encouraging to see the progress that has been made. This newsletter outlines these changes and gives details of future developments. It is also the first of what I hope will be a series of newsletters covering energy markets and competition issues in Western Australia.

The production of this newsletter is the responsibility of the Industry Development Division of the Office of Energy. This division has a key role in the implementation of energy reform in Western Australia. In the past year, the division has helped to progress a number of reforms on behalf of the State Government, many of which are discussed in this newsletter. The staged program of providing open access to electricity and gas transmission and distribution facilities offers the opportunity to stimulate the energy market with the user being offered a choice of supplier.

I am confident you will find this publication useful. Your feedback on the enclosed questionnaire will ensure it will continue to improve. I encourage you, whether you are a supplier, buyer, potential trader, or simply an interested party in the energy industry, to read this newsletter and continue to strive towards our common aim of developing an economic, safe and efficient energy sector in WA.



Colin J Barnett
MINISTER FOR ENERGY

The Industry Development Division

This newsletter comes to you from one of the four divisions of the Office of Energy, the **Industry Development Division**.

Our objectives

The Division has the objective of identifying and facilitating competitive market conditions in WA's energy industry and encouraging businesses to participate. It does this through:

- helping to facilitate open access to Western Power and AlintaGas monopoly assets;
- facilitating approvals of new private sector undertakings;
- collating and disseminating information on WA's energy markets; and
- identifying and recommending further energy competition initiatives and implementing these if approved by the Government.

Our structure

The Industry Development Division has three main branches; Competition Promotion, Authorisations and Planning. Branch structure and contact details are listed in the Directory on the back page.

Making contact

In this newsletter we have included the name of a contact person in our office with each article. We urge you to make contact with them to discuss your area of interest.

In addition to the Office of Energy's range of publications, we are planning to have a site on the Internet to provide you with easy access to our information. The next publication will provide you with the home page address.

Please participate

The aim of this newsletter is to assist in the development of the energy industry in WA through encouraging communication and discussion of issues. We encourage you to contribute your news or suggest topics you would like covered, to ensure this newsletter is relevant to you, our reader.

We invite you to help by completing and returning the questionnaire card enclosed with this newsletter.

Energy News WA is published by the Office of Energy (Industry Development Division), Government of Western Australia. Full contact details are given in the Directory on the back page.

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The outcomes

Competition reform is all about reform of our laws and business practices to achieve greater efficiencies. Competition will produce more efficient use of energy and will ensure energy is used in the most productive manner.

While the economy as a whole will benefit from lower energy prices and greater output there will be winners and losers in the change process. The challenge for Government is to achieve the desirable efficiency outcomes while managing equity considerations. In Western Australia a balance must be achieved taking into account:

- urban and rural consumers;
- large and small consumers
- environmental considerations; and
- existing market players and new or potential interests.

Each of these groups has a different perspective and the role of the Government is to manage these competing aspirations. In many ways policy makers are faced with an impossible choice. If they favour energy companies, prices will not reduce as much as is possible. This will inhibit the creation of new industries and as a result, investment and new jobs. Favouring consumers by allowing competition between energy companies may impact badly on some companies, perhaps resulting in lost wages and jobs. There are no easy solutions. Despite the difficulties a great deal has been accomplished. (See box 'Achievements to date').

The need to regulate

It is somewhat of a paradox that in order to 'deregulate' (as the process of structural reform is sometimes called), regulation must occur. However, this is necessary to ensure that monopolies behave in a competitive manner.

The Government will not allow unfettered competition at all levels. Government regulation is needed to ensure that certain groups are not adversely affected by free market competition. This particularly applies to the energy corporations which have transitional obligations under existing contractual commitments, and obligations to rural and remote energy consumers.

The challenge for the Government is to provide the benefits of competition, comply with the spirit of the national reforms and manage the process to ensure an equitable outcome for all concerned.

Achievements to date

1 January 1995
Western Power, AlintaGas and the Office of Energy established.

August 1997
23 new private sector gas and electricity undertakings approved since January 1995

GAS

August 1994
North West Shelf Gas supply contract split into six separate contracts.

1 January 1995
Open access to AlintaGas's transmission system begins.

1 January 1995
Open access to AlintaGas's distribution system begins.

April 1995 and August 1996
Privately owned and operated Pilbara Energy and Goldfields Gas pipelines completed.

August 1995
Major natural gas contract agreed for iron ore processing in the Pilbara.

August 1997
Preliminary registrations of interest called for sale of Dampier to Bunbury natural gas pipeline.

December 1996
Public tender process used for gas reticulation in Kalgoorlie.

Currently in progress

- Sale of Dampier to Bunbury natural gas pipeline.
- Expressions of interest for gas reticulation in other regional areas to be called in 1997-98.
- Access levels to AlintaGas's distribution system under review.
- Restricted trading of LPG in Perth under review.

ELECTRICITY

January 1995
Obligation for Western Power to acquire future substantial electricity generation by public procurement.

1 January 1997
Open access to Western Power's transmission network fully available.

1 July 1997
Open access to electricity distribution network begins.

Currently in progress

Access levels to Western Power's distribution network under review.

Distribution system available

The first step in providing third party access to Western Australia's electricity distribution network was taken on 1 July 1997. Now any company with an average load of 10MW at a single site can access Western Power's distribution system to buy electricity from any electricity generator.

This latest energy reform provides a stimulus for increased competition in the supply of electricity to large industrial and mining companies. Since January 1995, Western Power has committed to 420 MW of additional generating capacity while private electricity generators have committed to the construction of an additional 760MW.

One such example is Parkeston power station on the Goldfields Gas Pipeline at Kalgoorlie which began operation in October last year. Goldfields Power Pty Ltd, the company that owns and operates the power station, is pleased to have access to the distribution system. General Manager Wayne Trumble said, "We now have the opportunity to market power for sale to others, and are actively pursuing this opportunity. There is now no reason why we can't sell power to any user in the South-West power grid who qualifies."

Open access to the distribution system will be phased in through the following stages:

- 1 July 1997 - access to customers with an average load of at least 10MW at a single site;
- 1 July 1998 - access to customers in the Pilbara, eastern Goldfields and non-interconnected areas with an average load of at least 5MW at a single site;
- 1 July 1999 - access to all other customers with an average load of at least 5MW at a single site, including the above.

See insert on publications for further details of the electricity distribution access regime. For further information about accessing the distribution system contact Michael Styles; for a further copy of the insert contact Nola Hart (see *Directory on back page*).

Reforming electricity supply

The deregulation process in electricity has involved the creation of Western Power as a corporatised Government entity and the opening up of the electricity transmission and distribution networks to third party users.

Western Power is now required to operate on a similar basis to any other private company including paying tax equivalent contributions and a dividend to the State Government. Many of the powers which the organisation was able to exercise as a Government utility have been removed to ensure that there is competitive neutrality.

To allow private electricity companies to enter the market, access to Western Power's transmission and distribution networks has been provided. Access to the distribution network is being phased in to allow Western Power time to meet its existing contract commitments and supply obligations. The distribution access levels are currently under review with the aim of providing greater access opportunities. The transmission network is accessible for all loads.

Access to Western Power's transmission lines in the south west of the State and the Pilbara became operative on 1 January this year. Western Power is required to allow anyone wishing to transport electricity through these wires to do so provided they meet appropriate technical standards and undertake to pay the access prices and charges published by Western Power.

The right to generate electricity for use on a private site has been available for many years but with access to Western Power's networks, private generators can now supply electricity to customers hundreds of kilometres away.

The Government is also allowing private generators to play a part in supplying electricity to Western Power. In the future Western Power will be obliged to undertake a public procurement process for any increase in power generating capacity which exceeds 3% of the current generating capacity in the south west grid (about 100MW).

For further information contact Richard Harris (see *Directory on back page*).

Approvals since January 1995

Landfill Gas and Power Pty Ltd	4MW
Murchison Zinc Company Pty Ltd	3.3MW
Water Corporation	1.2MW
Landfill Gas and Power Pty Ltd	1.12MW
St John of God Hospital Subiaco Inc.	1MW
Westralian Sands Ltd	8MW
Energy Developments Ltd	5MW
Steel Dale Industries	0.03MW



Parkeston power station now accesses the grid.



Photo courtesy of Edison Mission Energy

Kwinana Cogeneration Plant.

Cogeneration: a Kwinana example

The new energy environment has made cogeneration a good option for companies that consume a large amount of electricity and heat. A cogeneration plant can use the heat that is a by-product of electricity generation, hence two energy sources are utilised simultaneously in the one plant.

With the opening of access to the grid any surplus electricity could be sold to Western Power or any other large consumer, generating additional revenue in the process. Having the ability to supply third parties also means a company can make use of economies of scale, building a larger plant and selling any excess electricity generated.

A recent example of cogeneration is the Kwinana Cogeneration Plant operated by Edison Mission Energy (EME) on the BP site at Kwinana. At 116MW net electrical output, the plant is one of the larger cogeneration plants in WA. The plant runs on a mixture of refinery gas and natural gas. Output to Western Power's 132kV switchyard is via two existing 132kV overhead power lines.

The plant operates under a number of agreements, including an agreement for EME to supply BP with process steam and electricity, and a Power Purchase Agreement between EME and Western Power for the purchase of surplus electricity, an average of 76MW.

"This is a major cogeneration plant for WA" said Plant Manager Mark Bastick, "and with the deregulation of the electricity industry we can expect to see many more combined cycle and cogeneration plants."

Cogeneration is a viable option for WA's large resource sector with so many mineral processing operations requiring both electricity and heat. Structural reform of the energy industry is making cogeneration even more attractive.

For further information, contact Richard Harris (see *Directory on back page*).

Consultation committee in place

The Electricity Access Consultation Committee was established in August 1997 as an electricity stakeholder liaison group. Its role is to provide recommendations for consideration by Government on the effectiveness of the electricity access regimes.

The new committee replaces the former Electricity Transmission and Distribution Access Consultation Committees. The former committees carried out a valuable role in providing advice to Government via the Electricity Access Steering Committee on the formulation of the electricity transmission and distribution access regimes.

Representation on the Electricity Access Consultation Committee is as follows:

- Office of Energy
Vince Walsh (Chair)
Simon Thackray
Michael Styles (Executive Officer)
- Western Power Corporation
Pete Feldhusen
Phil Southwell
Gordon Bagworth
Ky Cao
- Electricity generators and consumers
Michael Carr, Trans Alta Energy
David Bitney, Pilbara Energy Pty Ltd
Mark Bastick, Edison Mission Energy
Richard Burden, Normandy Mining
Peter Jensen, Hamersley Iron
- Regional representative
Kathy Finlayson, Goldfields Esperance Development Commission
Chris Fitzhardinge, Department of Commerce and Trade (alternate)

Anyone with an interest in or concern about electricity transmission or distribution access is encouraged to discuss it with a committee member.

Pricing papers now available

The latest electricity transmission and distribution access pricing papers are now available from Western Power.

The transmission and distribution pricing papers provide sample calculations for network services, energy and demand balancing and network services. They also contain price schedules for the south west interconnected network and the north west interconnected network.

Copies of the electricity transmission pricing paper can be obtained from Western Power Corporation for \$50 by contacting Phil Southwell on (08) 9326 6687; copies of the electricity distribution pricing papers by contacting Pete Feldhusen there on (08) 9326 4911.

For further information on electricity transmission and distribution pricing issues contact Michael Styles (see *Directory on back page*).

Sale of the gas pipeline

Following careful consideration, the State Government announced in May this year the 100% sale of the Dampier to Bunbury Natural Gas Pipeline. The Government aims to complete the sale by the end of the year.

The sale has attracted widespread interest, with a number of groups negotiating to form consortiums as potential joint venture bidders. With a book value of over \$1 billion the pipeline represents a substantial investment and the new owners will become an important part of the State's commercial sector.

The sale of the pipeline will advance the reform process by separating ownership of gas transmission activity from the ownership and sale of natural gas. The separation of gas supply and of sale and transmission activities is a basic foundation of the structural reform process.

The sale of the pipeline should deliver a substantial return on the original investment made on behalf of WA taxpayers. It will enable the debt carried on Government accounts to be repaid with a positive potential impact on the State's financial position and credit rating.

Other key points announced in May include the following:

- the sale includes expansion rights for the new owner;
- the State Government will retain an easement as a gas corridor, expanding it from its current 30m to 100m;
- AlintaGas and Western Power will retain priority rights on capacity, ensuring the security of gas supply to residential and small business customers;
- regulation of tariffs for the first two years of operation under private ownership. It is intended that the cost of gas transmission will decline from \$1.25 per gigajoule at present to around \$1 per gigajoule by the year 2000;
- expressions of interest will be called by mid-1998 for new pipeline capacity to the South-West by the end of 2000.

For further information contact Richard Harris (see *Directory on back page*).



Photo courtesy of AlintaGas

Inside one of the compressor stations located along the Dampier to Bunbury Natural Gas Pipeline.

Reforming the gas market

Deregulating the natural gas market in Western Australia involves change on several fronts, many of which are covered on these pages.

The establishment of AlintaGas provided head to head competition between electricity and gas as the energy source for the majority of WA's energy consumers. The contract with the North West Shelf joint venture partners for the supply of natural gas has been segregated into separate contracts for Alcoa, Western Power, AlintaGas, Hamersley Iron and Robe River. Pricing arrangements under the new contracts have been the subject of ongoing negotiation, with lower prices a potential outcome for many gas users.

Impact in the Pilbara

The deregulation process has already produced benefits in the Pilbara where all gas supply and trading restrictions have been removed. Consumers are now free to negotiate supplies with any gas producer and to arrange pipeline transmission arrangements with existing or new pipeline owners. Since restrictions were removed, Pilbara prices have more than halved and are now at world competitive levels, and substantial sales have resulted.

In the South West

Deregulation in the south west of the State is occurring in stages, to allow for existing contractual commitments AlintaGas inherited from SECWA. Access by large consumers to the Dampier to Bunbury Natural Gas Pipeline began on 1 January 1995. By the year 2000 over 96% of gas consumed in the State will be open to competition, allowing those consumers to negotiate a gas supply directly with producers. This would of course be subject to the gas meeting quality and safety standards and the payment of transmission and distribution access prices and charges. These tariffs will be set by the pipeline system owners but will be subject to approval by the Government.

Approvals since January 1995

Landfill Gas and Power Pty Ltd	Distribution
Landfill Gas and Power Pty Ltd	Distribution
AGL Pipelines	Transmission
Anaconda Nickel NL	Transmission
Great Central Mines NL	Transmission
WMC Resources Ltd	Trading
Centaur Mining and Exploration Ltd	Transmission
AGL Pipelines	Transmission
AGL Pipelines	Transmission
Wesfarmers Kleenheat Gas Pty Ltd	Distribution
Plutonic Operations Ltd	Transmission
WMC Resources Ltd	Trading
Boral Gas (WA) Pty Ltd	Trading
Rottnest Island Authority	Distribution
Pilbara Energy Pty Ltd	Transmission

AlintaGas wins bid for Kalgoorlie

In 1996 the Office of Energy carried out a competitive bidding process to select a proponent to supply reticulated natural gas to the City of Kalgoorlie-Boulder. Following a rigorous selection process AlintaGas won preferred proponent status to provide a reticulated gas service to Kalgoorlie-Boulder.

The program of energy reform in WA meant that once the Goldfields Gas Pipeline was completed in August 1996 the provision of reticulated gas in Kalgoorlie was open to competition. In March 1996 the Office of Energy called for expressions of interest and four companies were shortlisted: Australian Gas and Light, Boral Energy, Wesfarmers Kleenheat and AlintaGas. Detailed proposals were then considered by a panel chaired by the Office of Energy, with representatives from the Kalgoorlie-Boulder City Council, WA Treasury, the Office of Energy, and an independent consultant. The main selection criteria applied were the price of gas to customers, the roll-out rate and infill programs, and the amount to be spent locally.

Another outcome of the reform program is that the tariffs for Kalgoorlie are to be independent of pricing structures for the South West and are designed to provide a commercial return to the gas supplier and distribution pipeline system owners.

On being granted preferred proponent status, AlintaGas CEO Mr Phil Harvey announced, "Our priority is to tap into local businesses and residences to provide a cost effective, reliable and clean energy source". It is intended that the first commercial customer will receive gas by the end of 1997.

For further information contact Neil Parry (see *Directory on back page*).



Enjoying the outdoors with a natural gas BBQ.

Photo courtesy of AlintaGas

Transmission and distribution access

The timetable for access to WA's gas transmission and distribution systems is progressing according to schedule.

From 1 January this year customers consuming more than 500 terajoules per annum at a single site have been able to choose their gas supplier and to have that gas transported through the main Dampier to Bunbury pipeline. These customers represent around 90% of gas consumption in the State.

The next stage will commence on 1 January 1998, allowing access to the gas and transmission systems by customers using at least 250 terajoules per annum at a single site.

The third stage of deregulation will see customers consuming at least 100 terajoules per annum at a single site having access from 1 January 2000.

With the full implementation of this program of access, 29 of AlintaGas's major customers will be able to negotiate directly to obtain gas from the supplier of their choice. This represents about 50% of AlintaGas's sales by volume.

Details of access levels are given in two publications, *Gas Transmission Access Order 1996* and *Gas Distribution Access Order 1996*, in the *WA Government Gazette* number 160, issued 29 October 1996. The gazette is \$2.50 and is available from the State Law Publisher, phone (08) 9321 7688.

For further information contact Richard Harris (see *Directory on back page*).

Distribution pricing papers

The latest gas distribution pricing papers are now available from AlintaGas. Formerly just one document, pricing will now be presented in two separate documents: a generic access pricing methods paper; and the annual schedule of charges. The pricing schedule titled *Gas Distribution Pricing Redetermination 1997/98* will be updated every year.

Gas distribution access pricing is reviewed annually by the Coordinator of Energy under Government legislation following a submission by AlintaGas. The accounts are also independently audited by the Auditor General to ensure that costs are allocated fairly.

With gas deregulation currently allowing access to the distribution system for those using more than 500TJ per year at a single site, there are now more companies for whom these pricing papers are relevant.

Copies of these documents can be obtained from AlintaGas, phone Ian Devenish on (08) 9486 2737. For further information on gas distribution issues contact Michael Styles (see *Directory on back page*).

Energy in WA 98 conference

The Office of Energy in association with the Australian Institute of Energy (Perth) has scheduled the second *Energy in Western Australia* conference for 18-19 March 1998 at the Sheraton Hotel in Perth. Speakers are to be confirmed shortly.

Following the format of last year's highly successful conference, the 1998 conference will feature relevant speakers on current topics of interest to energy stakeholders. The keynote address on day one will be presented by the Hon Minister for Energy, Colin Barnett.

Topics include:

- present and future State energy policy and reform, National Competition Policy;
- gas and electricity transmission and distribution developments;
- developments and opportunities for electricity generation and cogeneration;
- energy source and fuel developments; and
- energy innovation including renewables and energy efficiency.

For details of conference dates, venue and speakers and to register your interest please contact Michael Styles (see *Directory this page*).

Essential reading

The Office of Energy has recently released the third edition of *Energy Western Australia*. The annual publication contains a comprehensive overview of the different facilities within the energy industry of Western Australia and outlines current developments. *Energy Western Australia* is not only considered essential reading for those directly involved in the energy market, it also provides valuable assistance for those considering expanding their involvement into the energy sector of Western Australia.

To receive your 1997 edition, phone the Office of Energy or for further information, contact Rebecca Standen (see *Directory this page*).

Insert in this issue

There is an insert included in this issue of *Energy News WA*.

Publications on energy reform

- an A4 flier listing all relevant publications and legislation and where to source it.

If you would like a further copy of the insert, please contact Nola Hart (see *Directory this page*).

Directory

This newsletter is produced by the Industry Development Division of the Office of Energy.

OFFICE OF ENERGY 5th floor, 170 St Georges Tce
PERTH WESTERN AUSTRALIA 6000
Phone (08) 9321 1477
Fax (08) 9321 1474

INDUSTRY DEVELOPMENT DIVISION

Director Vince Walsh
Phone (08) 9327 5961
Email vwalsh@energy.wa.gov.au

Secretary Nola Hart
Phone (08) 9327 5133
Email nhart@energy.wa.gov.au

COMPETITION PROMOTION BRANCH

Senior Manager Richard Harris
Phone (08) 9327 5127
Email rharris@energy.wa.gov.au

Senior Analyst Simon Thackray
Phone (08) 9327 5123
Email sthackray@energy.wa.gov.au

Analyst Michael Styles
Phone (08) 9327 5121
Email mstyles@energy.wa.gov.au

AUTHORISATIONS BRANCH

Manager Neil Parry
Phone (08) 9327 5132
Email nparry@energy.wa.gov.au

Research Officer Kristin Bouckaert
Phone (08) 9327 5125
Email kbouckaert@energy.wa.gov.au

PLANNING BRANCH

Manager Rolando Custodio
Phone (08) 9327 5495
Email rcustodio@energy.wa.gov.au

Research Officer Rebecca Standen
Phone (08) 9327 5545
Email rstanden@energy.wa.gov.au

Newsletter Directory

Any comments regarding this newsletter may be directed by email or mail to Mr Richard Harris at the address listed above.

To obtain further copies of this newsletter or to advise us of mailing list changes please contact Nola Hart (see *Directory above*).

Editorial consultants

Murray Meaton, Economics Consulting Services
Jenelle Arntzen

Graphic design

Deep Blue Graphics