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Energy NEWS WA

GOVERNMENT OF WESTERN AUSTRALIA

Office of **Energy**

PROMOTING COMPETITION IN WESTERN AUSTRALIA'S ENERGY MARKETS

ISSUE FIVE

AUGUST 1999

# Gas trading and distribution licences

Applications seeking the grant of gas trading and distribution licences are expected to be able to be submitted to the Coordinator of Energy in Western Australia from August 1999, once the Energy Coordination Amendment Act 1999 is proclaimed and the associated Regulations and Supply Areas are gazetted.

It is proposed that licences will apply to supply areas which correspond with the existing Regional Development Commission boundaries. These divide the State into ten regions: Kimberley, Pilbara, Gascoyne, Mid-West, Wheatbelt, Goldfields-Esperance, Peel, South West, Great Southern and Perth Metropolitan (See map).

The term of a trading licence, which will be up to ten years, will be required for companies supplying gas to small businesses and residential customers who consume less than 1 terajoule of gas per year. That is equivalent to an annual gas bill of up to about $15,000.

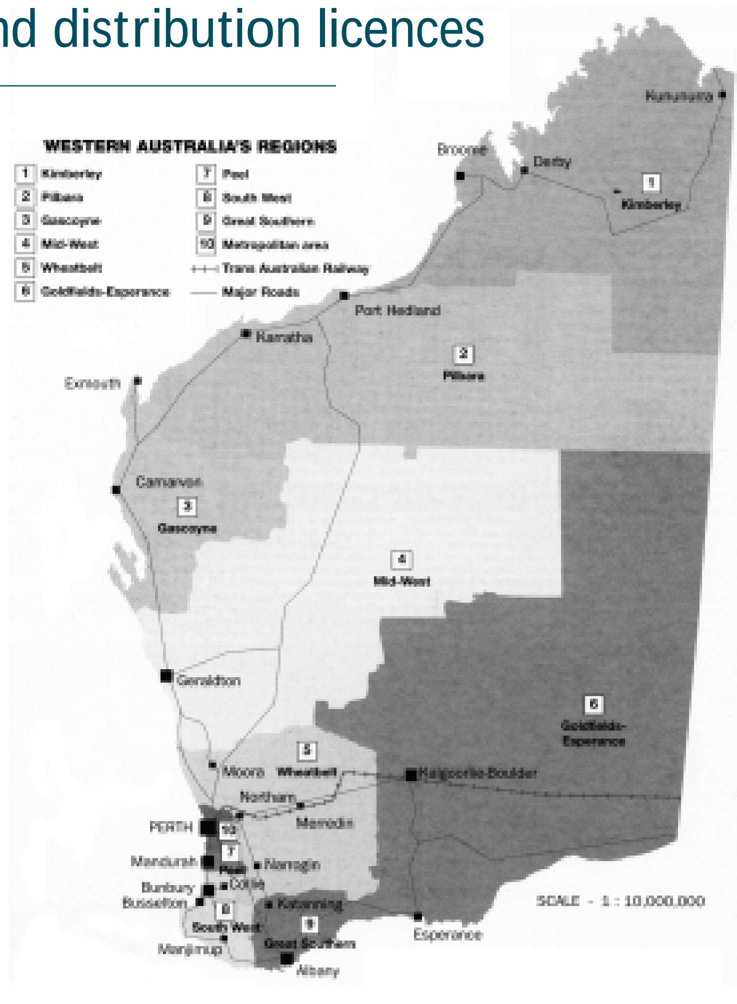
The term of a distribution licence, which will be up to 21 years, will apply for pipelines operating at a pressure of less than 1.9 megapascals. Pipelines equal to or above 1.9 megapascals will be required to be licenced under the Petroleum Pipelines Act 1969 administered by the Department of Minerals and Energy, on behalf of the Minister for Mines.

The licences, which will be issued by the Coordinator of Energy, are designed to protect small customers by requiring license holders to be technically and financially capable, and to grant licence holders facilitation powers to access land.

Licence conditions may include:

- standards of service;
- levels of reliability;
- customer dispute resolution procedures;
- standard customer contracts;
- obligations to supply;
- performance reporting; and
- compliance with industry codes and standards.

*Continued page 3*




*Map showing Western Australian regions.*

# This issue

# Ministerial Foreword

I was delighted to recently announce details of the sale of the State's gas utility, AlintaGas, to the Third Annual WA Power and Gas Conference. After considering a range of options, and having to balance a number of issues, the Government decided on a Cornerstone Initial Public Offering (IPO).

This will involve selling, by competitive tender, a maximum of 49 per cent of AlintaGas to a trade purchaser, followed by the State implementing an Initial Public Offering for the remaining ownership interest, a minimum of 51 per cent, by way of a prospectus.

The Government has made a fair and equitable decision on the sale procedure and conditions. Issues that needed to be considered included the safety and reliability of gas supply, ensuring the lowest feasible gas tariffs for small business and residential customers, recognising the interests of AlintaGas employees, and examining the impact of the sale of existing gas contracts.

Since the Government announced its intention to sell AlintaGas late last year, there has been an enormous amount of interest from industry players and potential shareholders.

It was very important to the Government from the outset, that Western Australians had an opportunity to own a part of AlintaGas through a public float. The Cornerstone IPO method achieves this aim.

As well, the interest of gas consumers has been paramount and as a condition of the sale, the Government will stipulate no increase in tariffs for 1999/00 or 2000/01 and only limited increases thereafter. The privatised AlintaGas will also be required to maintain its headquarters in Western Australia.

To address employee-related issues, an employee working group has been established to develop a comprehensive human resources plan to ensure fair and equitable treatment of all AlintaGas staff.

The sale of AlintaGas is an essential step towards the complete deregulation of the WA gas market which will occur on July 1 2002. By mid-2002, the gas industry would have gone from being highly regulated and government-dominated in the early 1990s, to fully deregulated and privatised.

With other developments in the electricity industry also reported in this issue of Energy News WA, Western Australia is moving satisfactorily towards our ultimate goal of an efficient, highly competitive energy industry delivering lower prices, reliable supplies and many other benefits. I hope you enjoy reading this edition of Energy News WA.

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It is also available on our web site, with back issues, on www.energy.wa.gov.au

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Fax: (08) 9321 1474
Email: **enquiries@energy.wa.gov.au**



*Colin J Barnett*

*MINISTER FOR ENERGY*

## Details of AlintaGas sale announced

A minimum of 51 per cent of AlintaGas will be sold by public float next year.

Prior to the float, up to 49 per cent will be sold by competitive tender to a cornerstone shareholder.

The sale will include AlintaGas' retail, trading and pipeline distribution system businesses.

It is expected the major shareholder will be selected early next year. A prospectus for the public float should be available about April and the float should take place mid-year.

Important conditions applied to the sale include:

- no increase in tariffs for 1999/00 or 2000/01;
- tariff increases will be limited to CPI in 2001/02;
- increases in any standard tariffs to residential users after July 2002 will be capped at no more than CPI plus two per cent in any year. On average, it's expected residential tariff increases in any year would not exceed CPI, save that any GST impact may be passed on in full;
- individual shareholdings, other than that of the cornerstone shareholder, will be limited to five per cent for a period of two years after the initial public offering;
- the cornerstone shareholder may not buy or sell AltinaGas shares for two years after the initial purchase;
- Western Power is prohibited from selling or disposing of gas into the AlintaGas trading and retail market for a period of up to five years;
- AlintaGas' headquarters is to remain in Western Australia.

Net proceeds from the sale will first be directed towards retiring AlintaGas' remaining debt, and then to a mix of retiring State debt and capital works projects.

In the current financial year, AlintaGas expects to record a profit of $42 million before tax on gas sales of $317 million. The corporation's debt is approximately $230 million.

## Guide explains choices

The Office of Energy has published a guide titled "Freedom to Choose" which explains the electricity access arrangements in Western Australia.

Sections outline the structure of the electricity market, what can be accessed, who can obtain access and when, and how to make an application for access.

Open access requires customers to make informed decisions about their electricity supplier. This publication provides the assistance needed to make those decisions.

*Copies of "Freedom to Choose" are available by contacting Vicki Hodgkin at the Office of Energy on 9321 1477.*

## Gas trading and distribution licences

*Continued from page 1*

Applicants for licences will be evaluated on their financial and technical soundness and customer service standards. One of the aims of the licencing regime, is that all small use customers, who do not have market power individually, will be supplied with gas on a fair and equitable basis.

Appeals against the conditions, or against the non-granting, renewal or transfer of licences, may be made to the independent Gas Review Board.

The Office of Energy is currently preparing licence application guidelines which will be forwarded to interested parties as soon as the Regulations and Supply Area Orders are completed and gazetted.

Existing operators will be deemed to have a licence for 12 months from the commencement of the Supply Areas and will have four months from the gazettal date of the Supply Areas in which to lodge an application for the appropriate licence.

*For further information contact Simon Thackray from the Office of Energy on (08) 9327 5132.*

## Energy Resources and Infrastructure Map

The Office of Energy's new Energy Resources and Infrastructure Map of WA is now available.

The purpose of the map is to provide information on and to promote Western Australia's energy resources and infrastructure. It is initially being produced in poster size, with a modified A4 version to be available later this year.

*The map is available FREE from the Office of Energy by telephoning 9321 1477 or by e-mailing enquiries@energy.wa.gov.au*

### ELECTRICITY APPROVALS JANUARY - JUNE 1999

| | |
|---|---|
| Alcoa of Australia | Generation |
| Southern Cross Energy | Transmission |
| Onslow Electric Power Pty Ltd | Generation |

### GAS APPROVALS JANUARY - JUNE 1999

| | |
|---|---|
| Southern Cross Energy | Distribution |
| CMS Gas Transmission | Trading, Transmission |

## **Gas Access** Regulator commences operations

The Independent Gas Pipeline Access Regulator (the Regulator) and the Office of Gas Access Regulation (*OffGAR*) have commenced operations.

The Regulator's principal function is to approve Access Arrangements. These set out the terms, conditions and price of access to gas pipelines and gas pipeline systems by third parties.

To date the Regulator has received two proposed Access Arrangements for approval. One is for the Parmelia Pipeline and the other for the AlintaGas distribution system.

Soon after they were lodged, public submissions were called for as part of the required public consultation process.

The first phase of the public consultation process for the Parmelia Pipeline has been completed and a Draft Decision by the Regulator is being prepared.

Public submissions on the AlintaGas distribution system closed on August 5 1999. An Issues Paper to assist with submissions was released on July 19 1999. Further details including copies of relevant documentation are available from the *OffGAR* web page at www.offgar.wa.gov.au.

Other activities by the Regulator include consideration of applications from owners of covered pipelines resulting in the granting of extensions of time to submit Access Arrangements. To assist pipeline owners in preparing Access Arrangements, *OffGAR* offers informal comments on draft arrangements, particularly as to their compliance with the provisions of the National Gas Pipelines Access Code.

Legislation requires that Access Arrangements be approved within six months of lodgement. To assist in meeting the tight time requirement, notifications of any lodgements, extensions of time or other relevant matters are sent to a list of interested parties. Where appropriate, advertisements may be placed in State and national newspapers or public forums may be arranged.

The Regulator has at least five Access Arrangements to consider in Western Australia over the coming 12 months. These are shown in Table 1.

**TABLE 1**

(DBNGP = Dampier Bunbury Natural Gas Pipeline; GGTP = Goldfields Gas Transmission Pipeline.

| PIPELINE | Owner/Operator | Expected lodgement date |
|---|---|---|
| Parmelia Pipeline (PLs 1,3,5 & 23) | CMS Gas Transmission Australia | Lodged on May 7 1999 |
| Mid and South West Gas Distribution System | AlintaGas | Lodged on June 30 1999 |
| Griffin (PL19) to DBNGP | SAGASCO SE P/L | August 1999 |
| DBNGP (PL 40) | Epic Energy | November 1999 |
| GGTP (PL 42) | Goldfields Gas Transmission P/L | November 1999 |

## Appointment confirmed

The appointment of Dr Ken Michael AM as the Independent Gas Pipelines Access Regulator was confirmed on June 2 1999. He had been acting in the position since February 1999.

The position is part-time and is supported by *OffGAR*, managed by Executive Director Peter Kolf.

For administrative convenience, and to provide a single point of contact on all matters relating to gas pipeline access, *OffGAR* also provides secretarial services to the Gas Disputes Arbitrator and the Gas Review Board.

However, the Arbitrator and the Board are independent. Separate administrative arrangements would be made in any case involving an appeal against the Regulator. Appeals are heard by the Gas Review Board while the Arbitrator is available to arbitrate any disputes between a prospective user and the pipeline service provider.

*OffGAR* has recently relocated to permanent offices on the sixth floor of the Governor Stirling Tower, 197 St George's Terrace, Perth.

*OffGAR may be contacted by telephone: 9213 1900, fax: 9213 1999 or e-mail: enquiry@offgar.wa.gov.au.*

# Apache increases capacity from Varanus Island

The commissioning of the Wonnich gas field in the Carnarvon Basin and the opening of a second sales pipeline from Varanus Island to the mainland has increased total capacity from the island to 500 terajoules a day - almost enough to supply the entire domestic market.

Two joint ventures operate from the Varanus gas hub, with Apache Energy being the common link.The combined facilities and diversity of gas supply provides for a high degree of reliability in gas supply from Varanus Island.

Apache holds 68.5 % of the Harriet Joint Venture (JV) with TAP Oil 12.2229% and Kufpec Australia 19.2771%.This JV holds the Campbell, Sinbad, Harriet, Rosette, Bambra, Agincourt, Tanami, Wonnich and Gipsy/Rose/Lee fields.

Santos (45%) is Apache's partner in the East Spar JV which holds the East Spar field.

Apache Energy, a subsidiary of the US-based Apache Corporation, is the operator for both JVs, which have separate processing facilities on the island but share use of the pipelines to the mainland.

The first of these is owned by Harriet and the second, a 16-inch pipeline, is owned by East Spar and Harriet.

The additional pipeline capacity was made necessary by two recent sales by East Spar to projects in the South West. CSBP's ammonia production facility commenced operations this month and the Fletcher Challenge Western Power Southwest Co-generation Project at the Worsley refinery is due to start up in early 2000.

Harriet and East Spar gas from Varanus island is supplied down the Goldfields Gas Pipeline to Mt Newman, Plutonic, Jundee, Wiluna, Leinster, Mt Keith, Murrin Murrin, Cawse, Parkeston Power Station and AlintaGas at Kalgoorlie.

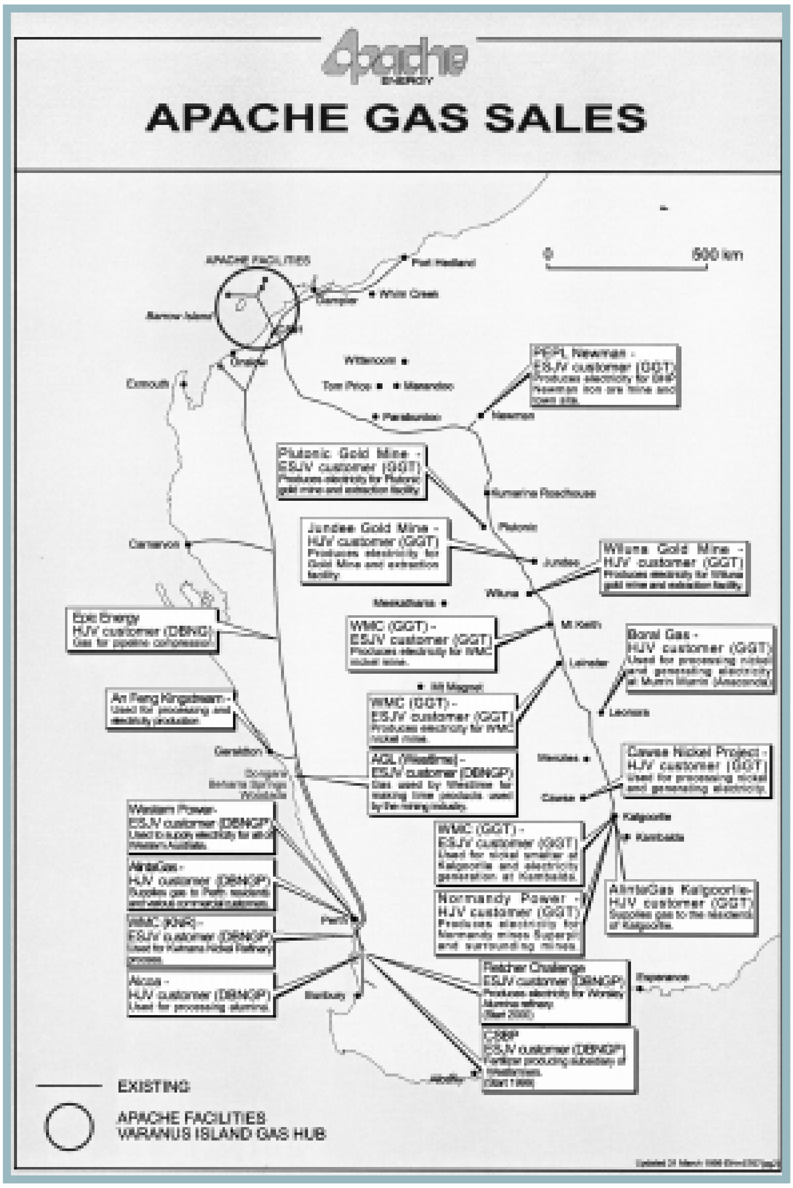
Harriet and East Spar customers on the Dampier Bunbury Natural Gas Pipeline are AGL (for Westlime), Epic Energy, Western Power, AlintaGas, WMC at Kwinana and Alcoa, as well as the Southwest Cogeneration JV and CSBP. Kingstream Steel at Geraldton is a future customer.

By the end of this year, about 25% of the State's total gas supplies will be delivered from Varanus Island, which currently has a production capacity of 360 terajoules per day.

With transmission capacity increased to 500 terajoules per day by the addition of the second sales pipeline, Apache is keen to see more customers come on line and is actively marketing gas in all areas of the state, consistent with the timetable for the deregulation of the AlintaGas gas market.

As well as the Harriet and East Spar JVs, Varanus Island could be further developed for additional gas supplies from adjacent fields such as the Reindeer and Caribou discoveries north of Cape Preston and the John Brookes discovery, north west of the island, which is strategically located in relation to the East Spar and Wonnich fields.

*For further information contact Russell Stephenson, Gas Marketing Manager, Apache Energy Ltd, (08) 9422 7445.*



# Duke seeks further WA opportunities

Duke Energy International, which earlier this year bought BHP's power business including the Newman and Port Hedland power stations and a share in the Goldfields Gas Transmission Pipeline, is now seeking further opportunities in the Western Australian energy market.

Duke's WA Manager, David Bitney, who previously managed the power stations for BHP, said the new owners brought a more entrepreneurial approach than had been possible with a mining company. They were actively seeking new customers and new business.

"We are open to investigation of any opportunities which present themselves or are presented to us," he said.

The company opened its Australian headquarters in Brisbane last year after winning a contract in May with the Tasmanian government to conduct feasibility studies into building a subsea gas pipeline across Bass Strait and converting the 240 MW Bell Bay Power Station from oil to gas firing.

In July, Duke purchased the Queensland Gas Pipeline, followed later in the year by BHP's power business, including operations in Western Australia, New South Wales and New Zealand, and in December by the Eastern Gas Pipeline project, from Longford in Victoria to Sydney.

Globally, Duke Energy operates in more than 50 countries and has assets worth more than $26 billion.

Apart from its Australian and New Zealand acquisitions, the other major operation in the Asia Pacific region is the 400 MW Puncakjaya Power Station in Indonesia to support Freeport Macmoran's copper and gold mines. This includes three diesel and three coal-fired stations.

Duke Energy has expertise in all aspects of natural gas exploration, production and delivery, electric power and thermal energy. It owns and operates more than 3000 km of gas pipelines.

Having established itself in this region, the company plans to use its project management, financing, operating and marketing expertise to develop critical mass and presence through further acquisitions and greenfield opportunities.

It prefers to assume majority ownership in projects and to operate the projects in which it has equity.

*For more information contact David Bitney, WA Manager, Duke Energy International, (08) 9320 4277.*

*Duke Energy's Port Hedland Power Station.*

# Electricity Access Charges

Electricity transmission and distribution access charges for the 1999/2000 financial year are currently being finalised.

The prices are based on a formula which is applied to the value of Western Power's transmission and distribution assets and prescribes a charge for access which is considered to be a fair rate of return on assets and also covers all operating costs.

Access prices for transmission will generally be higher in the South West interconnected system and lower in the North West interconnected system. Access prices in both distribution systems will generally be lower.

When the 1999/2000 Electricity Transmission and Distribution Pricing and Charges papers are finalised, copies will be available from Western Power.

*The respective contacts from Western Power Corporation are Phil Southwell, Manager, Transmission Access, on (08) 9326 6687, and Peter Mattner, Manager, Distribution Network Access on (08) 9326 4556.*

### 1-5 MW access

A pricing paper will be available later this year for access to Western Power's electricity distribution network for users with an average load of 1-5 MW per year.

Access for these users will come into effect on January 1, 2000.

The Office of Energy is currently reviewing the basis for the pricing structure to be employed for access to the distribution network for customers with average loads above 5 MW.

The previous pricing structure was implemented at a time when there was limited information on which to base such arrangements. Experience with the system currently in place has indicated the need for some modification.

Modifications to the existing transmission and distribution access pricing structures will be considered when they come up for triennial review at the end of the 1999/2000 financial year.

*For more information contact Michael Styles from the Office of Energy on (08) 9327 5121.*

## Decision soon on West Kimberley supplier

A decision is expected by the end of the year on the company selected to supply Western Power with electricity for the West Kimberley region.

Six detailed tenders were received from Tidal Energy Australia/ Leighton Contractors; Energy Equity Corporation/Woodside Energy; State West Power/Wesfarmers Energy; Alstrom Australia/Shell Australia; Burns and Roe Worley; and Modra Electric Power.

Proposals included tidal power and oil and gas-fired plants. Those which involve gas include delivery of fuel by road and by pipeline.

These proposals were shortlisted to two preferred bidders - Energy Equity Corporation / Woodside Energy Limited and Wesfarmers Energy / State West Power who will negotiate directly with Western Power.

Submissions are being evaluated on the basis of financial soundness of the bidder, economic benefits to the State and the community, environmental impact, total contract cost and technical, operational and management capability of the bidder.

Similar processes are taking place for the Mid West and Esperance regions.

Request for Tender documents for the Mid West have been issued and the tender period will close on 11 August 1999

Tender documents for Esperance are still being prepared.

*For more information contact John Filippone from the Office of Energy on (08) 9327 5935.*

## AGA 1999 Convention

The Australian Gas Association Convention will be held at the Hyatt Regency Hotel in Perth from 17-19 October 1999. The program will cover issues such as how natural gas can add value to industry, the prospects for gas in Western Australia, how new initiatives can stimulate the industry, where competition will take us next and what the future offers.

Six concurrent workshop sessions will discuss energy retailing, customer focus, gas power generation, cogeneration and fuel cells, together with issues relating to indoor air quality, energy efficiency, product certification and environmental opportunities and challenges.

A technical tour to the North West Shelf LNG Project at Karratha will be available on Wednesday, 20 October.

A Gas Industry Exhibition will be held in conjunction with the Convention.

*The registration brochure is available and further details can be obtained from Morag Cameron, Convention Manager on (02) 6247 3955 or on email: mcameron@orac.net.au.*

## Eastern States Snippets

**Federal:** Eight renewable energy projects have received funding of $6 million from the Federal Government under the Australian Greenhouse Office's Renewable Energy Commercialisation Program.

**Victoria:** The Longford Royal Commission has delivered its decision on the explosion at the Esso gas plant at Longford Victoria in September 1998. The Royal Commission found that the cause of the explosion had been inadequate training by Esso and the failure of employees to report a problem a month before. The explosion and fires led to almost the entire state of Victoria losing its gas supply. Senior Counsel assisting the Commission was critical in his assessment of Esso's management practices at the plant, including inadequacies in training.

**Victoria:** The Victorian Government has sold its last electricity asset, Ecogen Energy, to US-based AES Corporation for $350 million.

## Changes at the OOE

A number of recent staff changes have occurred at the Office of Energy:

Richard Harris has been appointed to the position of Director State Requirements.

Peter Hawken has been appointed to the position of Senior Manager Competition Promotion.

Simon Thackray has been appointed to the position of Manager Authorisations.

## Readership survey

The Office of Energy wishes to thank the more than 80 readers who responded to the readership survey included in our February issue.

The majority of respondents rated our publication either 4 or 5 out of 5 for readability, accuracy, immediacy and usefulness.

Most said they had learned more about energy reform from reading Energy News and a significant number said they now knew more about the Office of Energy.

From the scores and from written comments it appears some of our articles have been a little too technical and there is a need for more articles which highlight the users' point of view rather than the suppliers.

These issues will be addressed in this and future issues.

# Node rental system superior in principle says TransAlta

The system of renting entry and exit nodes on Western Power's transmission network was a good structure in principle and superior to Eastern States arrangements, Mike Carr of TransAlta Energy told a seminar held by the company recently.

However, he considered the charges associated with the principles a little high.

Mr Carr, who is TransAlta's Manager, Business Development, explained to an audience of potential customers that alternative producers paid rent according to the point at which they connected their supply to the network, and the points at which customers accessed the network.

These charges were passed on to the customer as part of the total price.

Different rents applied according to the location of the entry or exit points. Generally it was cheaper if the exit node was closer to Western Power's power stations or to a large industrial area.

In the Eastern States there was also a nodal pricing structure for transmission but it used a much smaller number of nodes. The superiority of the WA system was that it provided a greater degree of locational pricing signals for development decisions.

### Reliability

Mr Carr said one of the main questions customers raised when considering an alternative supplier was reliability.

"Customers are taking their power down the same wires, down the same streets, from the same sub-station as they have always taken it," he said. "The actual power input versus power output is purely a paper arrangement between the producer and Western Power. There is no other technical linkage from the customer to the producer."

The customer had a contract with the supplier and the supplier had a contract with Western Power. The contract with Western Power provided for continuity of supply if the alternative supplier suffered a production breakdown.

### Legal opinion

Peter Wiese, a solicitor with Clayton Utz, told the seminar that in situations where there is a contract between the alternative supplier and Western Power, customers need to be aware of the implications.

There are always risks associated with the continuity of electricity supply. In the past, when there was only one supplier, these were largely invisible and were packaged into the price paid by the customer. Under competition these risks have to be recognised and the responsibility for them allocated and costed.

The contract between the alternative supplier and Western Power includes charges for such things as imbalances between intake and offtake, standby generation and excess network usage.

If there is any excess usage in any part of a week, that excess usage will be deemed to have occurred across the whole week.

Western Power can interrupt and curtail supply if the imbalance is likely to affect the system.

Legislation limits Western Power's liability. It is only required to use "all reasonable endeavours" in maintaining its transmission system, but can contract to a higher standard of transmission service.

"Don't assume that the transmission system is sufficiently robust to guarantee supply of electricity," Mr Wiese said. "Unless you understand the risks involved, you won't understand what responsibility you've got and you may not price it accordingly."

### Perth Airport

Greg Manning, Electrical Engineer with Westralia Airports Corporation, told the TransAlta seminar that Perth airport's electricity bill had been reduced by 10 per cent since it had switched to an alternative supplier.

The Airport had begun negotiating with TransAlta and Western Power during February 1998 prior to deregulation for customers above an average load of 5 MW on 1st July 1998.

Usage figures for 12 months were supplied to both suppliers and bids were invited.

There was little difference between the two bids.

Continuity of supply had been a major consideration and once the Airports Corporation was convinced this would not be a problem, TransAlta's slightly lower price had been accepted.

A two-year contract had been entered into based on a flat rate per kWh used. This included all transmission and distribution network access charges. The airport has a reasonably flat load profile and this tariff structure was seen to be more desirable than a time based demand and energy tariff.

The 10 per cent saving calculation was based on the standard Western Power T1 tariff which applied previously. Western Power had submitted a considerably lower tariff when tendering in competition with an alternative supplier.

Since changing to TransAlta, the airport had been charged for switching and other services provided by Western Power. However, this was not significant compared with the overall savings.

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