

Regulator

Annual Report
2003

Excellence in Regulation



Western Australian Independent Gas Pipelines Access Regulator

ANNUAL REPORT 2002/03

2003

This report describes the functions and operations of the Western Australian Independent Gas Pipelines Access Regulator (the Regulator) and the Office of Gas Access Regulation (*OffGAR*) for the financial year ended 30 June 2003.

The Office of Gas Access Regulation provides support to the Regulator.

The report can also be viewed online at the *OffGAR* website:

www.offgar.wa.gov.au

Hon Eric Ripper BA, Dip Ed, MLA Treasurer of Western Australia

In accordance with Section 66 of the *Financial Administration and Audit Act 1985*, I hereby submit my Annual Report for the year ended 30 June 2003 for your information and presentation to Parliament.

The Annual Report has been prepared in accordance with the provisions of the *Financial Administration and Audit Act 1985* and Treasurer's Instructions.

DR KEN MICHAEL AM CitiWA

**INDEPENDENT GAS PIPELINES ACCESS
REGULATOR**

**CHIEF EXECUTIVE OFFICER
OFFICE OF GAS ACCESS REGULATION**

29 August 2003

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CONTENTS

2003

Agency Overview	4	Governance	49
Highlights	5	Enabling Legislation	49
The Regulator's Overview	6	Organisational Structure	50
Achievements	9	Expenditure	55
Issues and Trends	15	Funding and Pricing Policies	57
Planned Achievements	15	Compliance	61
Achievements	16	Publications	63
Financial Achievements	17	Boards and Committees	63
Outputs and Outcomes	18	Statement of Financial Performance	64
Methods of Achievement	19	Terminology and Abbreviations	84
The Challenge Ahead	20	Terminology	84
Report on Operations	21	Abbreviations	85
Regulatory Activities	21		
Outputs	21		
Approval of Access Arrangements	22		
Oversighting of Regulated Pipelines	25		
Output Measures and Performance Indicators	28		
Satisfaction Survey	39		

AGENCY OVERVIEW

2003

Purpose

The Western Australian Independent Gas Pipelines Access Regulator (the Regulator) has responsibility for ensuring that gas transportation services on regulated pipelines are provided on terms, conditions and prices that are fair and reasonable. This is achieved by the Regulator approving such terms, conditions and prices (referred to as Access Arrangements) to be consistent with a National Gas Pipelines Access Code (the Code).

Mission

The Regulator's mission is to promote free and fair trade in gas by facilitating the effective and efficient regulation of access to gas pipelines wholly located in Western Australia at the lowest practicable regulatory cost.

Vision

The Regulator's vision is to achieve a vigorously competitive natural gas market in Western Australia with minimal regulatory oversight.

Objectives

The Regulator's principal objectives are to:

- promote a competitive market for natural gas in which customers may choose suppliers, including producers, retailers and traders;
- prevent abuse of monopoly power;
- provide rights of access to natural gas pipelines on conditions that are fair and reasonable for the owners and operators of gas transmission and distribution pipelines and persons wishing to use the services of those pipelines;
- provide for resolution of disputes; and
- facilitate the development and operation of a national market for natural gas.

Clients

The clients of the Regulator are gas pipeline owners, pipeline users, consumers of gas and other interested parties.

Functions

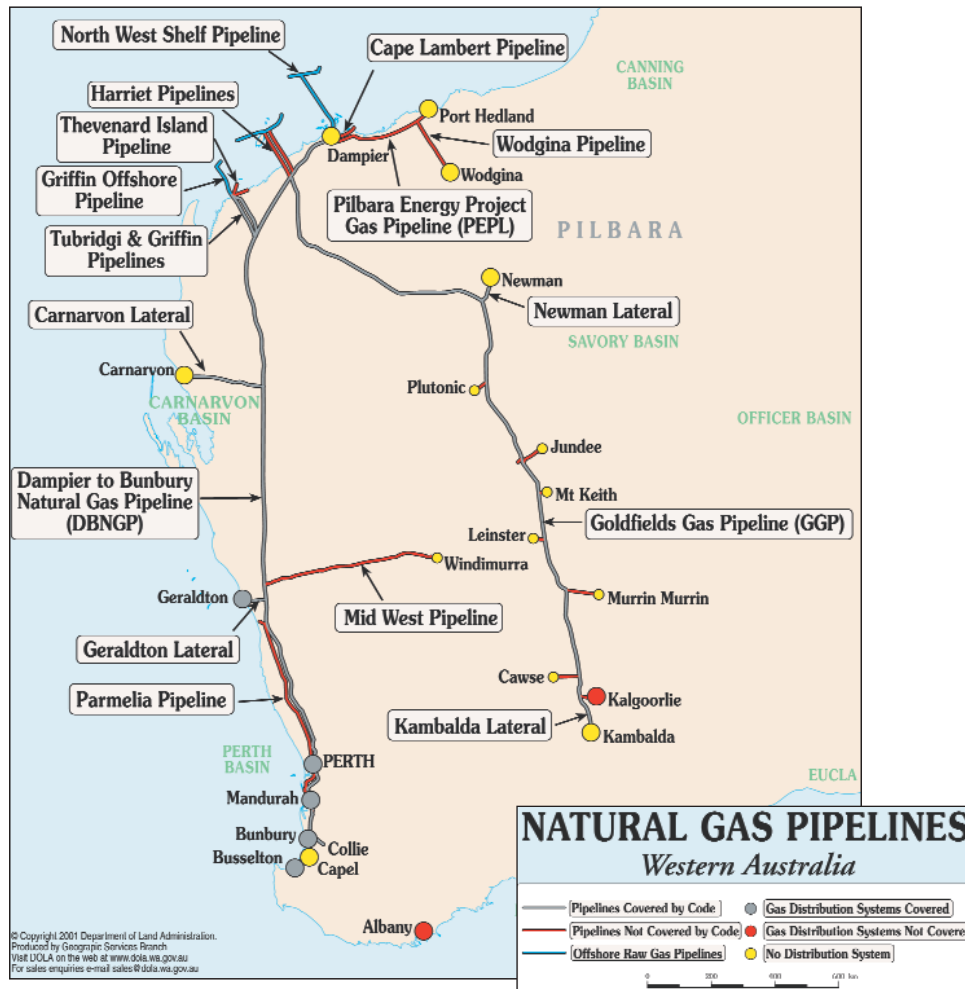
The main function of the Regulator is to approve Access Arrangements proposed by owners of regulated pipelines.

Support

The Regulator is the Chief Executive Officer of the Office of Gas Access Regulation (*OffGAR*), which provides support in the performance of his functions. The Regulator is also assisted by contract staff and expert consultants as required.

HIGHLIGHTS

2003

Map supplied by the Department of Land Information, P316 www.landonline.com.au

- The Final Decision on the proposed Access Arrangement for the Dampier to Bunbury Natural Gas Pipeline (DBNGP) was issued on 23 May 2003.
- The Supreme Court of WA handed down its decision for the DBNGP on 23 August 2002, but declaratory orders were not finalised until 20 December 2002.
- An information paper was issued on 27 December 2002 notifying that the Regulator could not, under the Code, pre-approve capital costs not directly part of a pipeline.
- The Code was amended on 17 April 2003 to expand the range of capital costs that may be pre-approved by the Regulator.
- The Regulator notified his intention on 6 November 2002 to amend his Draft Decision for the Goldfields Gas Pipeline (GGP).
- The owners of the GGP withdrew legal proceedings on 17 December 2002 relating to the Draft Decision for that pipeline.
- The owners of the GGP applied for revocation of the pipeline from the regulatory regime on 27 March 2003.
- Legislation was introduced in Parliament on 4 December 2002 for the establishment of an Economic Regulation Authority which will take over the work of OffGAR.
- Dr Ken Michael AM was reappointed as the Gas Pipelines Access Regulator on 15 April 2003.

THE REGULATOR'S OVERVIEW

2003



The past year has again been one of considerable challenge. This challenge was met through dedication and the application of principles developed over the four and a half years that the office of the Regulator and its support agency, the Office of Gas Access Regulation, have been established.

Again, special efforts were made to maintain the highest standards of integrity, probity and responsible care in administering the regulatory regime that guides access to regulated natural gas pipelines in Western Australia. These principles include maintaining an independent, open and transparent regulatory process providing all parties with an opportunity to comment on the matters under consideration.

By far the most significant activities were to progress the assessment of the proposed Access Arrangements for the Dampier to Bunbury Natural Gas Pipeline (DBNGP) and the Goldfields Gas Pipeline (GGP).

At the beginning of the financial year, we were awaiting the outcome of a decision by the Supreme Court of Western Australia that had been sought by the owners of the DBNGP, Epic Energy (WA) Transmission Pty Ltd (Epic Energy) almost 11 months earlier.

The decision of the Court, which was issued on 23 August 2002, was that my Draft Decision contained errors of law. However, the Court did not set aside my Draft Decision and found that Epic Energy was afforded procedural fairness.

The final orders of the Court were handed down on 20 December 2002. The Court provided valuable guidance on the construction of the National Gas Pipelines Access Code, which has had a significant impact on the way proposed Access Arrangements are assessed by regulators throughout Australia.

Much greater emphasis is now placed on the interrelationships between certain provisions of the Code, significantly increasing the complexity of the assessment.

The Final Decision on the DBNGP was issued on 23 May 2003, and required Epic Energy to submit a revised Access Arrangement by 4 July 2003. This was subsequently extended to 8 August 2003 at the request of Epic Energy.

THE REGULATOR'S OVERVIEW (continued)

2003

In relation to the GGP, on 13 December 2001, the owners of the pipeline issued a writ in the Supreme Court of Western Australia naming the State and myself as respondents. The owners of the GGP sought to have my Draft Decision overturned.

Following the court decision on the DBNGP, I issued a notice on 6 November 2002 indicating my intention to amend my Draft Decision for the GGP and setting out the process that I would follow.

On 17 December 2002, the owners of the GGP withdrew their court proceedings, but on 27 March 2003 made application to the National Competition Council (NCC) for revocation of the pipeline which, if successful, would remove that pipeline from regulation under the Code.

In addition, on 10 June 2003, WMC Resources Ltd required that I show cause before the Supreme Court why a Writ of Prohibition should not be issued forbidding me from considering or determining whether the Code shall not have effect in relation to the GGP. A hearing for this application has been set for 6 and 7 October 2003.

To date, I have approved Access Arrangements for three Western Australian pipeline systems: the Mid-West and South-West Gas Distribution Systems, the Parmelia Pipeline and the Tubridgi Pipeline System. However, coverage of the Parmelia Pipeline has been revoked and is no longer regulated under the Code.

I have also granted an extension of time for the Kalgoorlie to Kambalda Pipeline to submit a proposed Access Arrangement. This extension of time currently extends until 1 July 2004.

In respect of related regulatory activities, on 24 June 2002 AlintaGas Networks Pty Ltd (AGN) made application seeking my pre-approval of system development costs for the introduction of Full Retail Contestability (FRC) in Western Australia.

These costs relate to a Network Management Information System designed to handle customer transfers, billing, manage e-commerce workflows and manage issues associated with meter reading.

However, the Code did not allow me to agree to such costs. This matter was referred to the National Gas Pipelines Advisory Committee (NGPAC) resulting in the Code being amended. AGN submitted a new application on 26 June 2003, which I am currently considering.

With delays in the assessment of proposed Access Arrangements for the DBNGP and GGP, timeliness has emerged as an issue of major concern.

The three approvals that I have granted have taken an average of 19 months, as compared with the average of 22 months for 19 approvals in other jurisdictions.

The time elapsed in assessing the proposed Access Arrangements for the DBNGP and the GGP is 43 months. This compares with the other remaining pipeline in Australia for which an approval is pending (the Moomba to Sydney Pipeline) which has been under assessment for 51 months.

THE REGULATOR'S OVERVIEW (continued)

2003

The application of the Code has proved to be a particularly protracted process, especially where this has given rise to judicial or merits reviews. However, Access Arrangements have been approved for 22 pipeline systems across Australia taking an average of 21 months to be approved.

Dissatisfaction with the protracted nature of the process is reflected in responses to a recent survey of interested parties. The survey, which is discussed in more detail elsewhere in this document, indicates that satisfaction in responding to issues in a timely and effective manner has fallen by 50% in comparison with last year.

In other respects, the survey is consistent with responses in previous years with overall satisfaction levels having improved in relation to preventing the abuse of monopoly power, promoting national consistency in gas access regulation and in helping to secure rights of access to natural gas pipelines.

On 13 June 2003, the Productivity Commission was provided terms of reference for a review of the National Gas Access Regime to be completed within twelve months. It is my intention to contribute to this review to assist the Commission in considering matters to improve timeliness, reduce regulatory and compliance costs, and avoid the need for reviews and disputes.

My office also actively participated as a member of NGPAC, contributing to a number of issues leading to amendments of the Code.

In administration, equal employment opportunities, harassment and grievance policies and procedures were finalised, accounts payable procedures were refined and new records management plans and procedures were put in place.

With the impending move to the Economic Regulation Authority (ERA), which will assume responsibility for the regulation of access to gas pipelines, attention was focussed on the integration of this office with other regulatory areas that will comprise the ERA.

Once again, I particularly would like to thank the dedicated staff at OffGAR, and those providing assistance to myself and the agency, for their ongoing support and invaluable efforts.



DR KEN MICHAEL AM CitWA
INDEPENDENT GAS PIPELINES ACCESS
REGULATOR

ACHIEVEMENTS

2003

Achievements

The Final Decision on the DBNGP Access Arrangement was issued on 23 May 2003. Epic Energy (WA) Transmission Pty Ltd (Epic Energy) was given until 8 August 2003 to submit a revised Access Arrangement to be compliant with the Final Decision.

The one remaining major assessment to be completed in Western Australia is for a proposed Access Arrangement for the Goldfields Gas Pipeline (GGP). The Regulator is in the process of amending his Draft Decision in accordance with his notice of 6 November 2002. However, the owners of the GGP have made application to the National Competition Council (NCC) seeking revocation of the pipeline from regulation. The NCC is expected to issue its Draft Decision early in the next financial year.

Progress was made in the development of policies and processes consistent with a move toward the establishment of the Economic Regulation Authority (ERA), which will assume the responsibilities of the Office of Gas Access Regulation (*OffGAR*).

Indicators

The Regulator has two primary outputs. These are the approval of proposed Access Arrangements and the oversighting of regulated pipelines.

The effort involved in approving an Access Arrangement for a large pipeline, like the DBNGP, can be far greater than a smaller pipeline like the Tubridgi Pipeline System. In order to enable meaningful comparisons to be made between years, the concept of a standard \$500 million pipeline is used. This concept is explained in more detail under the heading Equivalent Standard Outputs in the section on Output Measures and Performance Indicators to follow.

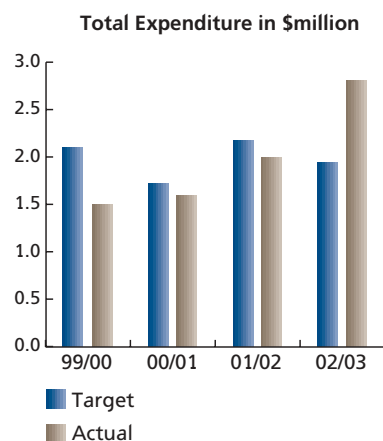
During 2002/03, the Regulator progressed assessments for the DBNGP and GGP pipelines to the equivalent of 0.8 Access Arrangements measured in terms of standard pipelines having a value of \$500 million. Over the same period, the Regulator oversighted the equivalent of 4.5 standard \$500 million regulated pipelines.

The following charts have been revised to reflect the additional time taken to assess the proposed Access Arrangements for the DBNGP and the GGP. The effect of this revision has been to decrease the rate of progress we reported towards Final Approvals in previous years and consequently increase the average cost of approvals in these years.

ACHIEVEMENTS (continued)

2003

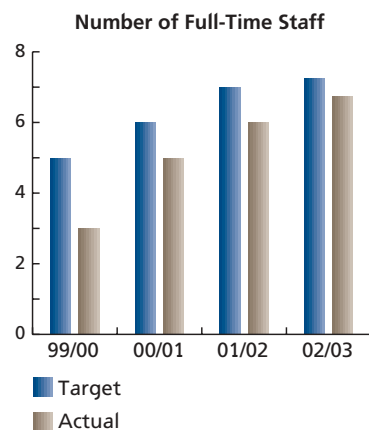
Expenditure



Total expenditure is higher than last year's expenditure and this year's target due to doubtful debts of \$800,000 which were included as expenses in the current year.

The total expenditure of \$2,817,000 includes \$939,000 for legal costs relating to legal proceedings initiated by Epic Energy and the owners of the GGP.

Staff



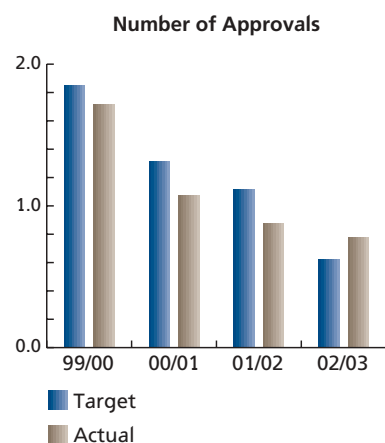
The number of permanent full-time positions approved to support the activities of the Regulator and Arbitrator has increased by 1 with the creation of a Manager, Assessments position in April 2003.

During the year, a Principal Research Analyst was appointed and a Senior Analyst transferred to Rail Regulation late in the year, leaving 6 of the 8 permanent full-time positions filled.

ACHIEVEMENTS (continued)

2003

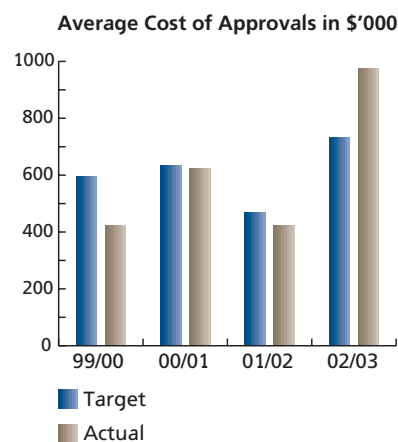
Number of Access Arrangements Approved



The number of equivalent standard Access Arrangements approved has declined from 0.9 in 2001/02 to 0.8 in 2002/03. This is because, as Access Arrangements are approved, the amount of remaining work declines. Moreover, finalising the remaining approvals has become more difficult.

The legal proceedings by Epic Energy and the owners of the GGP have contributed to delays in the approval of proposed Access Arrangements for these pipelines.

Cost of Approving Access Arrangements



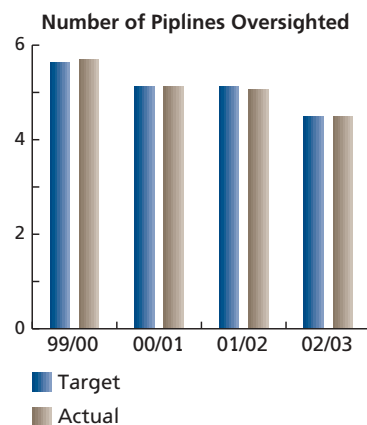
The average cost of approving an Access Arrangement has increased from \$423,000 in 2001/02 to \$975,000 in 2002/03. This is due to the additional effort and resources required to progress the assessment of the remaining Access Arrangements.

While the costs of legal proceedings are not included for the purposes of performance indicators, the legal proceedings by Epic Energy and the owners of the GGP have necessitated greater use of analytical and other expertise to deal with the complex issues involved.

ACHIEVEMENTS (continued)

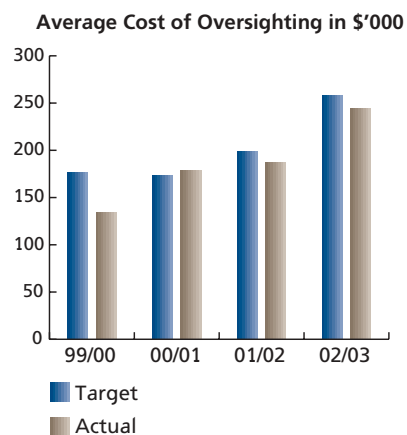
2003

Number of Regulated Pipelines Oversighted



The number of equivalent standard pipelines oversighted has decreased slightly from 5.1 to 4.5 over last year following the revocation of the Parmelia Pipeline on 1 April 2002. From this date, the Parmelia Pipeline ceased to be a regulated pipeline under the Code.

Cost of Oversighting Regulated Pipelines



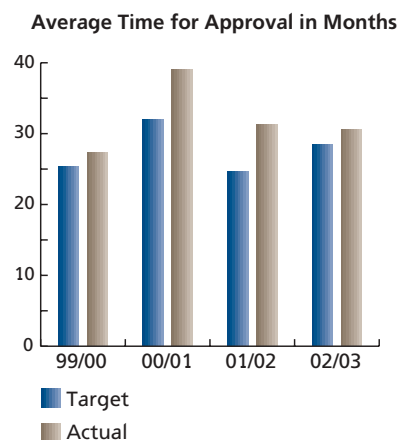
The average cost of overlooking an equivalent standard \$500 million pipeline has increased from \$188,000 in 2001/02 to \$245,000 in 2002/03.

As more Access Arrangements are approved, a greater proportion of cost is attributable to the overlooking role.

ACHIEVEMENTS (continued)

2003

Time Taken to Approve Access Arrangements

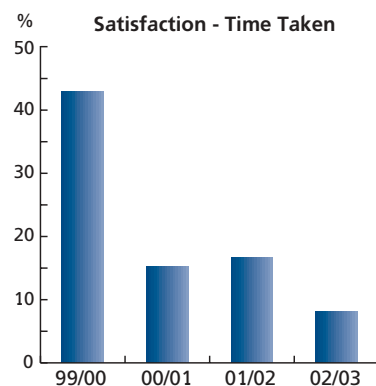


The average time for Access Arrangements to be approved has been 31 months for the past two years as the DBNGP and GGP Access Arrangements were being assessed.

In terms of individual Access Arrangements that have been approved, the three approvals in Western Australia have taken an average of 19 months compared to an average of 22 months for 19 approvals in other States.

The elapsed time since lodgement, for the two Access Arrangements in Western Australia that have not been approved, is 43 months. This compares with 51 months for the only other pipeline in Australia (the Moomba to Sydney Pipeline) for which an approval is pending.

Timeliness



The proportion of interested parties satisfied or very satisfied with *OffGAR* responding to issues in a timely manner is obtained from a survey of interested parties registered with *OffGAR*.

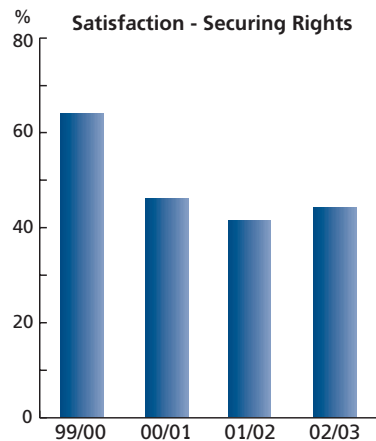
The survey indicated that interested parties were significantly less satisfied with *OffGAR* responding to issues in a timely manner in 2002/03 as compared with the previous year.

The survey results this year have been affected by significant shifts in responses from the owners and users of pipelines. This matter is discussed in more detail in the section on the Satisfaction Survey.

ACHIEVEMENTS (continued)

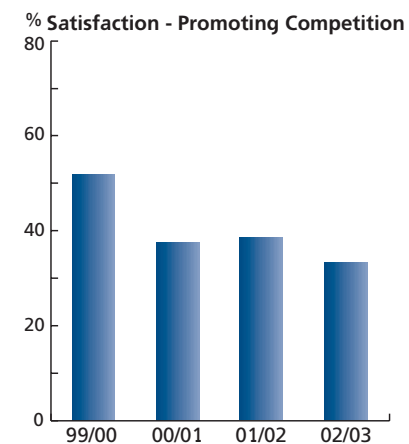
2003

Securing Rights of Access to Gas Pipelines



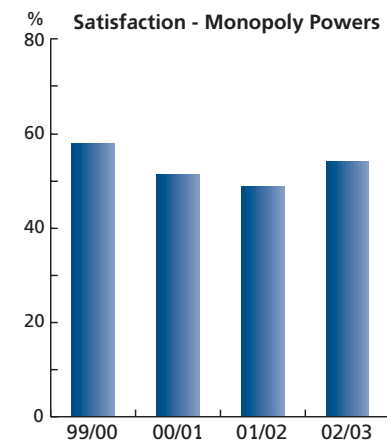
The proportion of parties satisfied or very satisfied with OffGAR's activities in "helping to secure rights of access to natural gas pipelines" in 2002/03 has not changed significantly from the previous year.

Promoting competition



The proportion of parties satisfied or very satisfied with OffGAR's activities in "promoting competition to natural gas pipelines" in 2002/03 is slightly lower than the previous two years.

Prevent Abuse of Monopoly Power



The proportion of parties satisfied or very satisfied with OffGAR's activities in "preventing abuse of monopoly power" in 2002/03 is marginally higher than the previous two years.

ISSUES AND TRENDS

2003

The Regulator's work program for the year has been a continuation of that which commenced when the office was first established in February 1999. At the time the enabling legislation was enacted, 11 pipelines were listed as regulated pipelines. Pipeline owners were required to make application to the Regulator for approval of "Access Arrangements" that specified the commercial terms, conditions and tariffs for the transport of gas on their pipelines by other parties.

At the beginning of the 2002/03 financial year, 6 pipelines had been revoked and hence deleted from the list of regulated pipelines, 2 had their Access Arrangements fully approved, 2 were being assessed and 1 had been granted an extension of time to 1 July 2004 by which to submit a proposed Access Arrangement.

PLANNED ACHIEVEMENTS

The most pressing issue facing the Regulator at the start of the financial year was the approval of the proposed Access Arrangements for the DBNGP and the GGP. As Draft Decisions issued by the Regulator for these pipelines were the subject of legal proceedings before the Supreme Court of Western Australia, the assessment process was impacted.

The Regulator also sought to progress, as much as possible, a review of the assessment process developed in Western Australia. Such a review is consistent with other reviews in progress, including a review of the National Gas Pipelines Access Regime which was commissioned on 13 June 2003 by the Commonwealth Government.

This review is being undertaken by the Productivity Commission with the Final Report due within the next 12 months.

Another important matter concerned the transition in Western Australia to an Economic Regulation Authority (ERA). At the end of the financial year the Bill to establish the ERA was scheduled for debate in the Legislative Council of Parliament. A substantial amount of preparatory work and planning has been done to prepare for the establishment of the ERA.

STATUS OF ACCESS ARRANGEMENTS as at 30 June 2003

AlintaGas Distribution Systems	Approved 18 July 2000
DBNGP	Final Decision issued 23 May 2003
Goldfields Gas Pipeline	Draft Decision to be amended
Kalgoorlie to Kambalda Pipeline	Extension of time to 1 July 2004
Tubridgi Pipeline System	Approved 19 October 2001

ISSUES AND TRENDS (continued)

2003

ACHIEVEMENTS

The Supreme Court of Western Australia handed down its decision on the Draft Decision for the DBNGP on 23 August 2002. The decision of the Court was, however, followed by a further hearing on 28 November 2002 at which submissions were made on declaratory orders and costs, with the decision of the Court being finalised on 20 December 2002.

Consequently, the Final Decision for the DBNGP could not be issued by 30 December 2002 as originally planned, but was issued on 23 May 2003 having regard to the decision of the Court, 46 further submissions from Epic Energy and other interested parties plus the original 105 submissions received prior to the Court decision.

With the release of the Final Decision, Epic Energy was given until 4 July 2003 to submit a revised Access Arrangement that complied with the Code in relation to the required amendments specified in the Final Decision. This date was extended to 8 August 2003, at Epic Energy's request.

The owners of the GGP withdrew their legal action in the Supreme Court of Western Australia after the Regulator issued a notice on 6 November 2002 stating that he would amend his Draft Decision taking into account, among other things, the decision of the Supreme Court relating to the DBNGP.

At the close of the financial year, work was continuing on amending the Draft Decision for the GGP.

On 10 June 2003, WMC Resources Ltd obtained an *Order Nisi* requiring the Regulator to show cause before the Full Court, why a Writ of Prohibition should not be issued forbidding the Regulator from considering or determining whether, under clause 21(3) of the State Agreement ratified by the *Goldfields Gas Pipeline Agreement Act 1994*, the National Third Party Access Code for Natural Gas Pipeline Systems (Code) shall not have effect in relation to the GGP.

Orders Nisi were also served on the State of Western Australia, the Minister for Energy and the Minister for State Development, Tourism and Small Business. A hearing for this application has been set for 6 and 7 October 2003.

On 24 June 2002, AlintaGas Networks Pty Ltd (AGN) made application seeking the Regulator's agreement on costs for the implementation of Full Retail Contestability (FRC) in the Western Australian gas market. FRC will make it possible for other participants to compete in the Western Australian retail gas market.

On 27 December 2002, the Regulator issued a notice explaining that he was unable to pre-approve systems development costs for FRC under the then wording of the Code.

The Code was amended on 17 April 2003 to allow systems development costs to be pre-approved. AGN submitted a new application on 26 June 2003 seeking pre-approval of these costs. In addition, AGN also requested a non-binding acknowledgment that FRC related non-capital costs would be likely to satisfy the requirements of the Code. Public submissions on the application by AGN have been invited. Submissions were to be lodged by 1 August 2003. After considering all submissions received by the closing date, the Regulator is required to issue a Draft Decision followed by a further period of public consultation leading to a Final Decision.

ISSUES AND TRENDS (continued)

2003

The decision of the Supreme Court of Western Australia in relation to the DBNGP has had a significant impact on the way in which proposed Access Arrangements are assessed by regulators throughout Australia. In particular, much greater emphasis is now placed on the interrelationships between certain provisions of the Code, significantly increasing the complexity of the assessment. This has increased the time and costs of undertaking such assessments.

The decision of the Supreme Court of Western Australia necessitated a review of the assessment process. The outcome of this review is reflected in the Final Decision for the DBNGP. The assessment process now involves a more formal approach by the Regulator as reflected in the information paper that was issued on 2 September 2002 for the DBNGP and the notice issued on the 6 November 2002 for the GGP.

OffGAR also actively participated as a member of the National Gas Pipelines Advisory Committee (NGPAC), particularly in relation to information collection powers of regulators under the Code and in relation to several amendments to the Code, including extending the Code to permit pre-approval of systems development costs.

The Economic Regulation Authority Bill 2002 was introduced to Parliament on 4 December 2002. Second and Third readings were made in March in the Lower House prior to the Bill being passed to the Upper House.

The Bill has been considered by the Legislative Council's Standing Committee on Public Administration and Finance, which has recommended that it be passed without amendment. The Bill is scheduled for debate in the early part of the coming financial year.

FINANCIAL ACHIEVEMENTS

Section 47(3) of the *Gas Pipelines Access (Western Australia) Act 1998* limits the expenditure that may be incurred in any one financial year to an amount specified by the Minister. The amount specified by the Minister for the year was \$1,950,500 and compares with the amount actually incurred of \$1,949,700. In 2001/02, the amount actually incurred was \$2,157,100 as compared with that approved by the Minister of \$2,179,000.

As the amount reported in the financial statements is calculated on an accrual basis, this amount will vary from the amount incurred. The total cost of services reported in the financial statements for the current year is \$2,817,000 and compares with \$1,997,000 in 2001/02.

By regulation, the Regulator is able to recoup operating expenses from pipeline operators in Western Australia. OffGAR seeks to break even each year, but the net costs of services resulted in a deficit of \$925,000 including an amount of \$800,000 for doubtful debts that have been expensed.

The doubtful debts represent the cost of legal proceedings relating to the DBNGP and GGP. This expenditure was necessary to respond to court proceedings initiated by Epic Energy and the owners of the GGP in respect of Draft Decisions issued by the Regulator. To recover these costs, invoices were issued on the pipeline owners in accordance with the *Gas Pipelines Access (Western Australia) (Funding) Regulations 1999* (Funding Regulations).

ISSUES AND TRENDS (continued)

2003

On 28 November 2002, Epic Energy commenced proceedings in the Supreme Court of Western Australia seeking declarations as to the validity, or alternatively, the proper construction of the Funding Regulations.

The Court delivered its decision on 15 August 2003. The Court held that the Regulations were valid and upheld the ability of the Regulator to recover operating expenses through standing charges assessed under the Regulations. However, the Court upheld Epic Energy's contention that section 87 of the *Gas Pipelines Access (Western Australia) Act 1998* did not authorise the imposition of fees to recover costs of the Regulator participating in judicial review proceedings, which costs were to be in the discretion of the Court. The immediate effect of the decision of the Court is that the Regulator is unable to recover costs of \$800,000, which have been incurred to date in respect of judicial review proceedings.

An amount of \$845,000 as receivables was outstanding as at 30 June 2003.

Full details of the operations of the Regulator are disclosed in the 2002/03 financial statements included in this report.

The Regulator has been found to have acted properly in all cases before the Western Australian Supreme Court and no costs have been awarded against the Regulator in any proceedings to date.

OUTPUTS AND OUTCOMES

The desired outcomes of the Regulator are to promote competition, prevent abuse of monopoly power, provide rights of access to gas pipelines, provide for resolution of disputes and facilitate a national market for gas.

These desired outcomes are referred to in the enabling legislation and represent the Government's higher level desired outcomes.

The Regulator's range of activities and services can be classified into two categories. One is the approving of proposed Access Arrangements submitted to the Regulator by owners of regulated gas pipelines. The other category involves ancillary activities and services that are unrelated to the Access Arrangement approval process, but are necessary as part of the ongoing oversighting of regulated pipelines.

Examples of activities and services that fall into the oversighting category include activities relating to the approval or imposition of ring fencing obligations, approval of contracts between owners of regulated pipelines and firms associated with the owners, pre-approval of proposed new facilities expenditure, and the undertaking of reviews and studies relating to the functions of the Regulator.

The outputs of the Regulator are therefore the approving of Access Arrangements and the oversighting of regulated pipelines.

The effectiveness with which the Regulator's functions are performed in delivering outputs can be assessed by reference to the successful operation of approved Access Arrangements, which includes responses from interested parties to surveys commissioned by the agency.

In order to enable meaningful comparisons to be made between years, the concept of a standard \$500 million pipeline is used. This approach is adopted to provide more meaningful and accurate performance indicators.

ISSUES AND TRENDS (continued)

2003

During the financial year the Regulator assessed the equivalent of 0.8 standard Access Arrangements and oversighted the equivalent of 4.5 standard pipelines. This compares with 0.9 equivalent standard Access Arrangements assessed during the 2001/02 financial year and 5.1 equivalent standard pipelines oversighted.

The cost of assessing a standard Access Arrangement increased during the financial year to \$975,000 and the cost of oversighting a standard Access Arrangement increased to \$245,000. This compares with a cost of \$423,000 for approving a standard Access Arrangement and \$188,000 for oversighting a standard pipeline in 2001/02.

The significant increase in assessment costs is attributed to difficulties experienced in approving the proposed Access Arrangements for the DBNGP and GGP. These difficulties are in part due to complexities experienced as a result of the sale of the DBNGP and certain provisions of the *Goldfields Gas Pipelines Agreement Act 1994*. The difficulties experienced are not typical of the pipelines and pipeline systems that have been assessed under the Code.

In relation to the costs of oversighting pipelines, these have increased mainly because coverage of the Parmelia Pipeline was revoked last financial year with the result that overhead costs have necessarily been spread over fewer pipelines.

The Regulator incurred expenditure of \$139,000 as a consequence of legal proceedings initiated by Epic Energy and the owners of the Goldfields Gas Pipeline in the previous year.

METHODS OF ACHIEVEMENT

The methods used in performing the Regulator's functions are delineated by the legislation. The regime provided for under the *Gas Pipelines Access (Western Australia) Act 1998* sets up a transparent process for approval by the Regulator of proposed Access Arrangements and also provides for ring fencing obligations and certain contracts between an owner of a pipeline and any associated company.

By way of a general description of the approach adopted by the Code, the Regulator is asked to approve or not approve applications giving weight to principles and other factors specified in the Code. The decision of the Full Court of the Supreme Court of Western Australia in relation to the DBNGP made a number of

points of general guidance about the manner in which proposed Access Arrangements are to be assessed under the Code. In particular, the Court held that while it will generally be the objectives in section 8.1 that will guide the Regulator in determining a Reference Tariff and Reference Tariff Policy, the factors in section 2.24 should guide the Regulator in reconciling these objectives where there is a tension between them.

The regime places a strong emphasis on transparency and public disclosure. This is reflected in the requirement for comprehensive public consultation and the process of Draft Decision and Final Decision followed by final approval. Under the legislation, public consultation is required both prior to and following a Draft Decision.

The Regulator has given strong support to the public processes specified in the legislation and considerable emphasis has been placed on the efficiency with which public consultation processes have been conducted.

Particular attention has also been given to maintaining a high standard website, providing all interested parties easy access to relevant documents, public submissions, transcripts and other material.

ISSUES AND TRENDS (continued)

2003

The Regulator has ensured that all interested parties have the opportunity to consult with him on procedural and regulatory matters. No public forums were required this year, but numerous meetings were held with interested parties.

In addition to the formal requirements set down in the Code, the Regulator has also adopted a number of procedural policies such as the following:

- Unless confidential, relevant information made available to the Regulator is made public.
- Matters raised with the Regulator that are of general interest are made public.
- The Regulator has reserved the right to express views on regulatory process, but does not comment on matters of government policy.

THE CHALLENGE AHEAD

The approval of proposed Access Arrangements for the DBNGP and the GGP remain the most pressing matters facing the Regulator.

Epic Energy is required to submit a revised Access Arrangement that either incorporates or substantially incorporates the amendments specified by the Regulator or otherwise addresses, to the Regulator's satisfaction, the matters the Regulator identified in the Final Decision as being the reasons for requiring the amendments in the Final Decision for the DBNGP. This revised Access Arrangement is required to be lodged by 8 August 2003.

If a revised Access Arrangement is not approved for the DBNGP, the Regulator is required to issue his own Access Arrangement. If the Regulator decides to issue his own, Epic Energy and any other interested party that has made a submission to the Regulator may apply to the Western Australian Gas Review Board for a review of the Regulator's decision.

The hearing dates for the *Orders Nisi* served by WMC in the Supreme Court regarding the GGP is 6 and 7 October 2003, and the NCC recommendation on revocation is due 4 September 2003.

Currently the assessment of the proposed Access Arrangement for the GGP is being progressed in accordance with the notice issued by the Regulator on 6 November 2002.

Work is also underway to prepare for the review of Access Arrangements which is scheduled to commence on 1 April 2004. A number of discussion papers are being prepared designed to focus attention on some of the key issues of the review. The two pipeline systems which are scheduled for review on the 1 April 2004 are the AGN Mid-West and South-West Gas Distribution Systems and the DBNGP.

Another important issue is the transition in Western Australia to an Economic Regulation Authority, which will see the functions of the Regulator being transferred to the Authority.

The challenge will be to make this transition as smoothly as possible without disrupting the current work program of the Regulator while at the same time ensuring that the benefits of a larger agency are reflected in administrative and regulatory cost savings to the benefit of gas pipeline operators that are responsible for the funding of OffGAR.

REPORT ON OPERATIONS

2003

REGULATORY ACTIVITIES

The activities of the Regulator are substantially guided by the provisions of the *National Third Party Access Code for Natural Gas Pipelines* (the Code).

The Code

The Code was agreed by all Australian governments in 1997. It is included as a Schedule to the *Gas Pipelines Access (Western Australia) Act 1998*. Its objectives include:

- facilitating the development and operation of a national market for natural gas; and
- providing rights of access to natural gas pipelines on conditions that are fair and reasonable for both Service Providers and Users; and
- promoting a competitive market for natural gas in which customers may choose suppliers, including producers, retailers and traders; and
- preventing abuse of monopoly power; and
- providing for resolution of disputes.

Core provisions of the Code include:

- enabling access to gas pipelines on fair and reasonable commercial terms and conditions;
- establishing reference tariffs for standard (reference) services, using a uniform process and established principles. Reference tariffs apply unless the service provider and user agree on other arrangements;
- ensuring that sufficient information is provided to users for them to judge the fairness of the tariff;
- facilitating the trading of unused pipeline capacity and providing a fair basis for making new capacity available;
- promoting competition in upstream (exploration and production) and downstream (retail and trading) gas markets;
- ensuring the monopoly component of a pipeline business is ring fenced from components of the business operating in competitive markets; and
- providing for dispute resolution and appeal mechanisms.

Not all gas pipelines in Western Australia are covered by the Code. The decision on whether a Western Australian gas pipeline should be covered by the Code lies with the Treasurer of Western Australia on the recommendation of the National Competition Council.

Once a decision is made for a pipeline to be covered, the service provider has 90 days to submit a proposed Access Arrangement to the Regulator who then has six months to give approval. There are provisions for extending these times.

A current copy of the Code may be viewed on the website of the Code Registrar at www.coderegistrar.sa.gov.au.

OUTPUTS

For the purposes of performance measurement, the outputs of the Regulator have been classified into the approval of Access Arrangements and the oversighting of covered gas pipelines located in Western Australia.

Output 1 includes all matters relating to the assessment or review of an Access Arrangement including approving competitive tender approaches for determining reference tariffs.

REPORT ON OPERATIONS (continued)

2003

Output 2 includes granting waivers of ring fencing obligations or imposing additional ring fencing obligations, assessing and approving Associate Contracts and enforcement where breaches of the legislation arise. Other activities, such as granting extensions of time for parties to meet specified time limits, undertaking public consultations and holding public forums on any relevant matter, may be relevant to either output 1 or output 2, but are included as an activity under output 2.

The specific activities of the Regulator during the reporting year are discussed below.

APPROVAL OF ACCESS ARRANGEMENTS

The Regulator's functions relate to natural gas pipelines that are wholly located in Western Australia and that are regulated by the Code. A pipeline is regulated if a determination is made that a pipeline is "covered" by the Code. The National Competition Council (NCC) recommends to the relevant Minister whether a pipeline should be covered. Section 1.9 of the Code provides that the NCC must recommend that a pipeline be covered if it is satisfied of all of the following:

- (a) that access (or increased access) to the pipeline would promote competition in at least one market;
- (b) that it would be uneconomic for anyone to develop another pipeline to provide the services provided by the pipeline;
- (c) that access (or increased access) to the pipeline can be provided without undue risk to human health or safety; and
- (d) that access (or increased access) to the pipeline would not be contrary to the public interest.

At 30 June 2003, there were 25 covered pipelines in Australia of which 21 have approved Access Arrangements.

All except the DBNGP, GGP, the Moomba to Sydney Pipeline and the Kalgoorlie to Kambalda Pipeline have approved Access Arrangements.

The average time taken for final approvals of Access Arrangements in Australia is 22 months as compared with 19 months for Western Australia.

Of the Access Arrangements that have not been approved, the average time taken to 30 June 2003 is 51 months for Australia compared to 43 months for Western Australia.

There are 5 regulated pipelines in Western Australia:

Mid-West and South-West Gas Distribution Systems;
Dampier to Bunbury Natural Gas Pipeline;
Goldfields Gas Pipeline;
Tubridgi Pipeline System; and
Kalgoorlie to Kambalda Pipeline.

Mid-West and South-West Gas Distribution Systems

The Access Arrangement for the Mid-West and South-West Gas Distribution Systems was approved on 18 July 2000 and has been fully operational for just over three years.

On 24 June 2002, AlintaGas Networks Pty Ltd (AGN) submitted its first application seeking the Regulator's binding agreement, under section 8.21 of the Code, to the costs of developing systems associated with the introduction of Full Retail Contestability (FRC) in Western Australia. The effect of this agreement would have the costs of the investment by AGN added to its capital base when its Access Arrangement is reviewed in April 2004 and reference tariffs for use of the Mid-West and South-West Gas Distribution Systems would be adjusted accordingly.

REPORT ON OPERATIONS (continued)

2003

AGN also requested that the Regulator provide a non-binding acknowledgement that FRC related non-capital costs would be likely to satisfy the requirements of section 8.37 of the Code.

The Regulator could not agree to the application by AGN, because section 8.21 did not provide for the approval of capital costs of the type proposed by AGN. The matter was raised with the National Gas Pipelines Advisory Committee (NGPAC) and, as a result, the Code was amended on 17 April 2003 (Seventh Amending Agreement), the effect of which was to widen the range of capital costs that could be agreed.

On 26 June 2003, AGN submitted a new proposal seeking the Regulator's binding agreement in respect of capital costs and a non-binding agreement to non-capital costs, as before.

The application by AGN required that public submissions be called for a period of at least 28 days before issuing a Draft Decision and then for a further period of at least 14 days prior to issuing the Final Decision. The first round of public submissions is due on 1 August 2003.

Dampier to Bunbury Natural Gas Pipeline (DBNGP)

On 15 December 1999, Epic Energy (WA) Transmission Pty Ltd (Epic Energy) submitted a proposed Access Arrangement for the DBNGP.

Epic Energy is jointly owned by two American energy companies and an Australian investment group. The companies are El Paso and Dominion Energy, and the investment group comprises AMP Asset Management, Axiom Funds Management and Hastings Fund Management.

The Regulator issued a Draft Decision on 21 June 2001, which did not approve the proposed Access Arrangement and specified amendments that must be made before the Regulator would give his approval.

On 16 August 2001, Epic Energy issued a writ in the Supreme Court of Western Australia with the Regulator as respondent. Epic Energy sought to have the Draft Decision quashed.

The Supreme Court of WA handed down its decision on 23 August 2002, but declaratory orders were not finalised until 20 December 2002.

After receiving a further 46 submissions following the court decision, the Regulator issued his Final Decision on 23 May 2003.

Epic Energy was initially given until 4 July 2003 to submit a revised Access Arrangement. However, on application by Epic Energy, an extension of time was granted until 8 August 2003.

Goldfields Gas Pipeline (GGP)

In December 1999, Goldfields Gas Transmission Pty Ltd (GGT) submitted a proposed Access Arrangement for the GGP on behalf of the owners of the pipeline. The GGP is owned by an unincorporated joint venture comprising:

- Southern Cross Pipelines Australia Pty Ltd whose individual share is 62.7%;
- Southern Cross Pipelines (NPL) Australia Pty Ltd whose individual share is 25.5%; and
- Duke Energy WA Power Pty Ltd whose individual share is 11.8%.

Southern Cross Pipelines comprises the Australian Pipeline Trust Ltd (45%), CMS Gas Transmission Australia Pty Ltd (45%) and TransAlta Energy Australia Pty Ltd (10%). The pipeline is operated by GGT for and on behalf of each of the owners.

REPORT ON OPERATIONS (continued)

2003

The Regulator's Draft Decision for the GGP was issued on 10 April 2001.

On 13 December 2001, the owners issued a writ in the Supreme Court of Western Australia with the Regulator and the State of Western Australia as respondents. The owners sought to have the Draft Decision overturned.

The owners of the GGP withdrew this legal action after the Regulator issued a notice on 6 November 2002 stating that he would amend his Draft Decision taking into account, among other things, the decision of the Supreme Court relating to the DBNGP.

On 27 March 2003, the owners of the GGP made application to the National Competition Council (NCC) seeking revocation of the pipeline from coverage under the regulatory regime. The NCC is expected to issue its Draft Decision on coverage on 4 September 2003.

On 10 June 2003, WMC Resources Ltd obtained an *Order Nisi* requiring the Western Australian Independent Gas Pipelines Access Regulator to show cause before the Full Court why a Writ of Prohibition should not be issued forbidding the Regulator from considering or determining whether, under clause 21(3) of the State Agreement ratified by the *Goldfields Gas Pipeline Agreement Act 1994*,

the Code shall not have effect in relation to the GGP.

The *Orders Nisi* were also served on the State of Western Australia, the Minister for Energy and the Minister for State Development, Tourism and Small Business. A hearing for this application has been set for 6 and 7 October 2003.

Work is progressing on an amended Draft Decision in accordance with the Regulator's notice of 6 November 2002.

Kalgoorlie to Kambalda Pipeline

On 1 December 2000, the Regulator granted Southern Cross Pipelines Australia Pty Ltd, the owner and operator of the Kalgoorlie to Kambalda Pipeline, an extension of time to submit a proposed Access Arrangement to 1 December 2002. The extension of time was granted subject to anyone making application to the Regulator seeking access to the pipeline. In that event, the extension of time would be withdrawn and submission of an Access Arrangement would be required within 90 days of the date of the application.

Following an application by a proposed user seeking access to the pipeline, the Regulator advised the owners, on 27 March 2002, that a proposed Access Arrangement was required by 1 July 2002. Following negotiations between owners of the pipeline and the prospective user, a satisfactory agreement was reached allowing the Regulator to grant a new extension of time until 1 July 2004.

Tubridgi Pipeline System

The Tubridgi Pipeline System comprises the Tubridgi and Griffin Pipelines, which run parallel to each other in the north-west of the State. The pipelines are owned by a joint venture and are operated by Origin Energy.

The Access Arrangement was lodged for the Tubridgi Pipeline System on 21 October 1999 and approved on 19 October 2001.

REPORT ON OPERATIONS (continued)

2003

OVERSIGHTING OF REGULATED PIPELINES

While the assessment and review of Access Arrangements represent the major part of the Regulator's activities, there is an additional range of ancillary functions that have been grouped together for reporting purposes. This group of activities is referred to as the oversighting of regulated gas pipelines. The functions of the Regulator included in this category are:

- making application to the National Competition Council, at the request of another person, for coverage of a pipeline;
- notifying a pipeline service provider of the requirement to submit separate Access Arrangements under section 2.4 of the Code;
- assessing changes to reference tariffs under section 3.30 of the Code;
- approving guidelines prepared by a pipeline service provider under section 4.2(b) of the Code;
- applying accounting guidelines to a pipeline service provider under section 4.2(b) of the Code;
- imposing additional ring fencing obligations under section 4.3 of the Code;
- monitoring compliance with ring fencing obligations under sections 4.12 to 4.14 of the Code;
- assessing an application for the issue of a notice waiving ring fencing obligations under section 4.16 of the Code;
- assessing an information package for the purposes of section 5.2 of the Code;
- assessing an application for approval to enter into an Associate Contract under section 7.1 of the Code;
- providing further information under section 7.14 of the Code;
- assessing an application for extension of time under section 7.19 of the Code;
- assessing a written application under section 8.21 of the Code seeking pre-approval of proposed capital expenditure under section 8.16 of the Code;
- initiating civil proceedings in respect of a civil penalty provision, a regulatory provision or a conduct provision under the gas access law;

Also included under the oversighting of gas pipelines are the Regulator's functions relating to:

- membership of the National Gas Pipelines Advisory Committee (NGPAC);
- membership on the Gas Retail Deregulation Steering Group;
- participation in the National Regulators' Forum; and
- the work related to the preparation and release for public comment, discussion or issues papers and the holding of public consultations concerning any matter relevant to the Regulator's functions under the Code (section 2.1 of the Code).

The oversighting activities of the Regulator for 2002/03 included:

- issuing of 9 extensions of time;
- application by AlintaGas Networks P/L seeking the Regulator's agreement on costs for the implementation of FRC in the Western Australian gas market;
- successful application to NGPAC to amend the Code to allow for a new category of capital costs to be included in section 8.21;

REPORT ON OPERATIONS (continued)

2003

- participation in 3 meetings of NGPAC;
- attendance at 12 meetings of the Gas Retail Deregulation Steering Group and some associated working groups;
- attendance at 3 meetings of the Regulators' Forum; and
- providing 3 presentations at conferences held during the year.

National Gas Pipelines Advisory Committee (NGPAC)

NGPAC is the body responsible for maintaining the Code.

It advises Ministers from the Commonwealth, States and Territories on the operation of gas pipeline access regulation and on amendments to the Code to improve the regulatory regime. The Code may be modified by agreement of the Ministers.

NGPAC is central to the proper operation of the regulatory approach to gas pipeline access agreed by Australian governments. The Committee has a working group of officials to address the detail of regulatory issues and to put forward drafting changes.

In August 2000 the Regulator, Dr Ken Michael AM, was appointed to NGPAC for two years as one of two State regulators on the Committee. The Executive Director of OffGAR, Mr Peter Kolf, was appointed as the Regulator's alternate and also appointed to the NGPAC Working Group for two years.

The Regulator's membership on NGPAC lapsed in August 2002, however, he was invited to continue until arrangements could be made for another jurisdictional regulator to be appointed to the Committee. The handover is scheduled to take place early in the new financial year.

The Code forms part of the uniform *Gas Pipelines Access Law* under the *Natural Gas Pipelines Access Agreement* entered into between all States, Territories and the Commonwealth, in November 1997. The agreement allows for changes to be made to the Code on recommendation of NGPAC. For changes affecting core provisions, the agreement of all relevant Ministers is required. For other changes, two thirds of relevant Ministers must agree.

A current copy of the Code is maintained by the Code Registrar based in South Australia and can be downloaded from the Code Registrar's website at www.coderegistrar.sa.gov.au/code.htm.

Changes to the Code become law in Western Australia when they are gazetted in South Australia, however, any changes to the Code are also gazetted in Western Australia.

Details of the changes made to the Code, since its enactment as part of the *Gas Pipelines Access (Western Australia) Act 1998*, are also available from the Code Registrar's website referred to previously.

Full Retail Contestability in Gas Distribution

During 2002/03, OffGAR had a continuing involvement in the introduction of Full Retail Contestability (FRC) to the Mid-West and South-West Gas Distribution Systems.

The Gas Retail Deregulation Project (GRDP) was established by the Western Australian Government to consult and advise on the necessary codes, rules, systems and procedures to support the introduction of FRC to introduce competition into the residential and small business gas market.

REPORT ON OPERATIONS (continued)

2003

OffGAR is represented on the Gas Retail Deregulation Steering Group as an observer, to respond to matters concerning access regulation affecting the GRDP, which was established in May 2001.

One of the important developments in this area was the establishment of the Retail Energy Market Company (REMCo) that was incorporated on 8 January 2003. REMCo is an industry owned, funded and managed company to operate the Western Australian and South Australian gas distribution markets. REMCo has a responsibility to develop information systems to accommodate the transfer of gas customers between retailers in the competitive market.

As of 1 July 2002, all gas customers connected to the gas distribution networks consuming more than 1 terajoule of gas per annum were able to switch between retailers. Smaller gas customers will be able to choose their gas retailer commencing May 2004.

The *Energy Legislation Amendment Bill 2003* was introduced into Parliament in June 2003. The Bill facilitates the gas distribution network competitive framework and gas customer protection mechanisms.

National Regulators' Forum

Regulators from the Commonwealth, States and Territories across the full range of regulated services and regulated industries meet about three times each year. The Australian Competition and Consumer Commission (ACCC) provides the necessary secretarial support and chairs the forum.

Regulators discuss issues relevant to regulatory regimes within their various jurisdictions. The forum seeks to promote consistency and best practice in regulation throughout Australia. The forum also provides regulators with the opportunity to discuss topical issues such as benchmarking, rate of return, information collection and other relevant matters. The forum issues information papers and a newsletter entitled "Network" with input from regulators across Australia. Further information on the Regulators Forum is available from the ACCC website at www.accc.gov.au.

REPORT ON OPERATIONS (continued)

2003

OUTPUT MEASURES AND PERFORMANCE INDICATORS

Treasurer's Instruction 904 requires information to be provided on the quantity, quality, timeliness and cost of the agency's outputs.

Performance measures on each of these outputs are set out in the following pages. Explanatory notes on the calculation and interpretation of performance measures are provided for each of the tables presented. In addition, a brief general overview on the units of measurement adopted is also provided to assist interpretation.

Equivalent Standard Outputs

The output measures presented in this report are expressed in terms of equivalent units that have been standardised for a pipeline or pipeline system whose capital value is \$500 million.

The need to adopt equivalent units of measurement arises because the assessment of an Access Arrangement typically takes more than 12 months with the result that a substantial amount of work in progress may exist at the end of a financial year. If, for example, an approval takes one year commencing on 1 January, then this would be reported as an equivalent of half of an

Access Arrangement being completed in one financial year and the other half the following financial year.

In addition, as the capital value of pipelines can vary widely and that the composition of pipelines under regulation varies from one year to the next, there is a need to adopt a reference pipeline that remains constant from year to year. The reference pipeline for the purposes of this report has been standardised to have a value of \$500 million, which is close to the current average value of the pipelines under regulation.

To achieve consistency over time, the concept of a standard \$500 million pipeline means that if two Access Arrangements are assessed and approved within a financial year for pipelines each valued at \$250 million, then this would be reported as the equivalent of one Access Arrangement having been approved for a standard \$500 million pipeline.

The performance indicators in the following tables have been revised to reflect the additional time taken to assess the proposed Access Arrangements for the DBNGP and the GGP. The effect of this revision has been to increase the average cost of approvals in previous years. This increase in costs arises because the rate of progress towards final approvals reported in previous years is reduced owing to the extended time taken.

REPORT ON OPERATIONS (continued)

2003

Quantity

The formal outputs of the agency are the number of equivalent standard Access Arrangements approved and the number of equivalent standard pipelines or pipeline systems covered by the Code and oversighted by the Regulator during the financial year.

While no approvals of Access Arrangements were issued for the year, the Final Decision for the proposed Access Arrangement for the DBNGP was issued on 23 May 2003 and considerable progress was made towards an amended Draft Decision for the GGP.

It is estimated that the equivalent of 0.8 standard Access Arrangements were approved during the financial year. The target for the year was 0.6 standard approvals. This resulted from work on the DBNGP and GGP extending beyond the expected final approval dates.

In 2001/02 the equivalent of 1.1 standard approvals were approved compared to a target of 0.9.

The equivalent of 4.5 standard pipelines were oversighted in the 2002/03 financial year. The revocation of the Parmelia Pipeline from coverage by the regulatory regime, on 1 April 2002, reduced this number from 5.1 last year.

QUANTITY

Number of equivalent standard ⁽¹⁾ :	2002/03		2001/02	
	Target	Actual	Target	Actual
Access Arrangements Approved	0.6	0.8	0.9	1.1
Regulated Pipelines Oversighted	4.5	4.5	5.1	5.1

⁽¹⁾ A standard pipeline is defined as one having a capital base value of \$500 million.

REPORT ON OPERATIONS (continued)

2003

Quality

Assessments have been made of perceptions of quality of outputs through "satisfaction surveys" of persons registered as "interested parties" with OffGAR. These interested parties are registered with OffGAR to regularly receive notices and other information on gas access regulation matters.

The survey undertaken for the 2002/03 reporting period was similar to that for the 2001/02 period, with the intent of enabling comparison of results across periods.

The survey of interested parties showed that 44% of respondents were satisfied or very satisfied with the agency's activities in "helping to secure rights of access to natural gas pipelines", which is a slight improvement on 42% last year.

The survey results this year have been affected by a significant shift in responses from the owners and users of pipelines, which is further discussed in the Satisfaction Survey to follow.

	QUALITY			
	2002/03		2001/02	
	Target	Actual	Target	Actual
Proportion of interested parties satisfied or very satisfied with the agency's activities in:				
Helping to secure rights of access to natural gas pipelines	75%	44%	75%	42%

REPORT ON OPERATIONS (continued)

2003

Timeliness

The survey of interested parties indicated that the proportion satisfied or very satisfied with the agency responding to issues in a timely manner was 8%, as compared to 17% last year.

The issue of timeliness appears to be a universal problem for the National Gas Access Regime more generally. This is indicated by only 15% of respondents

indicating satisfaction with the National Gas Access Regime making provision for issues to be addressed in a timely manner and 61% considering that it provides for this poorly or very poorly.

National comparisons of the time taken to approve Access Arrangements indicate that OffGAR has performed slightly better than the national average.

The 3 Access Arrangements approved in Western Australia took an average of 19 months as compared with a national average of 22 months for 19 approvals.

The time that has elapsed in assessing the proposed Access Arrangements for the DBNGP and the GGP is 43 months. This compares with the other remaining pipeline in Australia for which an approval is pending (the Moomba to Sydney Pipeline) which has been under assessment for 51 months.

TIMELINESS

	2002/03		2001/02	
	Target	Actual	Target	Actual
Average time taken ⁽¹⁾ : months	17	25	17	25
Proportion of interested parties satisfied or very satisfied with the agency responding to issues in a timely manner in respect of Access Arrangements assessed and covered pipelines oversighted	75%	8%	75%	17%

⁽¹⁾ Average estimated time until Access Arrangements are approved.

REPORT ON OPERATIONS (continued)

2003

Cost

Performance indicators showing the average cost for assessing and oversighting pipelines are presented in the table below.

The cost per equivalent standard pipeline, shown in the table below, is based on expenditure reported in the financial statements which use the accrual method of accounting.

These amounts do not include \$939,000 for legal costs relating to legal proceedings initiated by Epic Energy and Goldfields Gas Transmission. While such legal costs are part of the assessment process, these are accounted for separately.

Cost per equivalent standard pipeline:	COST			
	2002/03		2001/02	
	Target	Actual	Target	Actual
Assessed	\$732,000	\$975,000	\$468,000	\$423,000
Oversighted	\$259,000	\$245,000	\$199,000	\$188,000

Financial figures are based on actual expenditure for the reporting period exclusive of goods and services tax for an equivalent standard \$500 million pipeline.

REPORT ON OPERATIONS (continued)

2003

Key Performance Indicators**Statement of Certification**

I hereby certify that the accompanying performance indicators are based on proper records, are relevant and appropriate for assisting users to assess the performance of the Western Australian Independent Gas Pipelines Access Regulator and fairly represent the performance of the Western Australian Independent Gas Pipelines Access Regulator for the year ended 30 June 2003.



DR KEN MICHAEL AM CitWA
INDEPENDENT GAS PIPELINES ACCESS
REGULATOR
CHIEF EXECUTIVE OFFICER
OFFICE OF GAS ACCESS REGULATION
29 August 2003

REPORT ON OPERATIONS (continued)

2003

Independent Audit Opinion

To the Parliament of Western Australia

**WESTERN AUSTRALIAN INDEPENDENT GAS
PIPELINES ACCESS REGULATOR****PERFORMANCE INDICATORS FOR THE
YEAR ENDED JUNE 30, 2003****Audit Opinion**

In my opinion, the key effectiveness and efficiency performance indicators of the Western Australian Independent Gas Pipelines Access Regulator are relevant and appropriate to help users assess the Regulator's performance and fairly represent the indicated performance for the year ended 30 June 2003.

Scope***The Regulator's Role***

The Regulator is responsible for developing and maintaining proper records and systems for preparing performance indicators.

The performance indicators consist of key indicators of effectiveness and efficiency.

Summary of my Role

As required by the *Financial Administration and Audit Act 1985*, I have independently audited the performance indicators to express an opinion on them. This was done by looking at a sample of the evidence.

An audit does not guarantee that every amount and disclosure in the performance indicators is error free, nor does it examine all evidence and every transaction. However, my audit procedures should identify errors or omissions significant enough to adversely affect the decisions of users of the performance indicators.



**D D R PEARSON
AUDITOR GENERAL**

31 October 2003

4th Floor Dumas House, 2 Havelock Street
West Perth 6005 Western Australia
Tel: 08 9222 7500 Fax: 08 9322 5664

REPORT ON OPERATIONS (continued)

2003

Key Performance Indicators for 2002/03

The Regulator's key performance indicators derive from objectives set by the enabling legislation, the *Gas Pipelines Access (Western Australia) Act 1998*. The Preamble to this legislation states:

"The Commonwealth, the States of New South Wales, Victoria, Queensland, South Australia, Western Australia and Tasmania, the Northern Territory and the Australian Capital Territory agreed in November 1997 to the enactment of legislation in the Commonwealth and those States and Territories so that a uniform national framework applies for third party access to all gas pipelines that:

- (a) facilitates the development and operation of a national market for natural gas; and
- (b) prevents abuse of monopoly power; and
- (c) promotes a competitive market for natural gas in which customers may choose suppliers, including producers, retailers and traders; and
- (d) provides rights of access to natural gas pipelines on conditions that are fair and reasonable for the owners and operators of gas transmission and distribution pipelines and persons wishing to use the services of those pipelines; and

(e) provides for resolution of disputes."

While these objectives are set at a national level, gas pipelines in Western Australia do not currently extend beyond this State.

The desired outcomes for the Regulator and the Office of Gas Access Regulation (*OffGAR*) were determined to be as follows:

- to facilitate a national market for natural gas;
- to prevent abuse of monopoly power;
- to promote competition; and
- to provide rights of access to natural gas pipelines.

Effectiveness

The effectiveness indicators for each of the Regulator's outcomes are indicated by the percentage of interested parties that consider the Regulator and *OffGAR* have helped to:

- promote national consistency in gas access regulation;
- prevent abuse of monopoly power;
- promote competition; and
- provide rights of access to natural gas pipelines.

For the purposes of determining the effectiveness of the Regulator and *OffGAR* in achieving the desired outcomes, a survey was undertaken sampling a representative number of interested parties on the regulatory process. Details of this survey are provided in the Satisfaction Survey section to follow.

REPORT ON OPERATIONS (continued)

2003

EFFECTIVENESS

Desired Outcome	Satisfied or Very Satisfied that OffGAR has helped to:	Percentage	Standard Error Rate	Percentage	Standard Error Rate
		2002/03	2002/03	2001/02	2001/02
To facilitate a national market for natural gas	Promote national consistency in gas access regulation	43%	9.6%	38%	5.9%
To prevent abuse of monopoly power	Prevent abuse of monopoly power	54%	9.6%	49%	3.5%
To promote competition	Promote competition	33%	8.7%	38%	3.5%
To provide rights of access to natural gas pipelines	Provide rights of access to natural gas pipelines	44%	9.2%	42%	3.0%

The survey population of 53 required 45 responses to achieve a standard error rate of +/- 5%. Despite repeated approaches to the respondent (or an alternate respondent) via emails and telephone calls, the response rate did not meet the target level as can be seen in the following table of responses.

Effectiveness Indicator	Total Number of Respondents	Satisfied or Very Satisfied
To facilitate a national market for natural gas	35	15
To prevent abuse of monopoly power	35	19
To promote competition	36	12
To provide rights of access to natural gas pipelines	36	16

REPORT ON OPERATIONS (continued)

2003

Efficiency

The efficiency indicators for approving Access Arrangements are the cost and time taken.

The concept of equivalent units of output is used recognising that the approval of Access Arrangements involves many months of work with the result that an appreciable amount of partly completed work may remain at the end of a reporting period. Equivalent units of output are a measure of both completed and partly completed work in terms of fully completed work.

The equivalent units of output concept is also appropriate in the case of the Regulator's second output, which is the number of regulated pipelines oversighted. A regulated pipeline is defined as one that is "covered" by the National Gas Access Code. On recommendation of the National Competition Council, the Treasurer of Western Australia decides whether a pipeline should be covered or not. The use of equivalent units of measurement, in the case of Output 2 (oversighting gas pipelines), recognises that pipelines may be covered for part of the year only.

The concept of a standard pipeline is used recognising that the size, value and complexity of pipelines varies considerably. For example, the demands placed on the Regulator by several smaller pipelines in one year may be equivalent to those of a single pipeline in another year. To ensure that the units of measurement are reasonably consistent from one year to the next, a standard pipeline has been defined as one having a capital base value of \$500 million. The value of \$500 million is close to the current average value of the pipelines under regulation.

While the capital base value of a pipeline is an indicator of the likely demands that will be placed on the Regulator by that pipeline, it is important to recognise that the relationship between value and the demands placed on the Regulator will not be linear.

Precisely the same issue arises in relation to the Regulator's recovery of core function costs (eg overheads of maintaining the Office) from providers of regulated pipeline services. In that case, a non-linear relationship has been established between the capital base value and the amount to be recovered from each provider of regulated pipeline services that takes into account, as much as reasonably possible, the level of service expected to be provided to each regulated pipeline.

This non-linear relationship is used to determine the proportion of core function costs to be contributed by each provider of regulated pipeline services. The resulting proportions are prescribed for each provider in the *Gas Pipelines Access (Western Australia) (Funding) Regulations 1999*.

The actual proportions given in the Funding Regulations are set out in the following table.

REPORT ON OPERATIONS (continued)

2003

Pipeline	Percentage
AlintaGas Networks Pty Ltd	23.39%
Epic Energy (WA) Transmission Pty Ltd	49.90%
Goldfields Gas Transmission	20.66%
Sagasco SE Inc	3.30%
Southern Cross Pipelines Pty Ltd	2.75%

The proportions set out in the above table have been used to weight each regulated pipeline for the purposes of measuring it in terms of a standard \$500 million pipeline. The efficiency indicator for Output 2 (oversighting gas pipelines) is the cost per equivalent covered pipeline oversighted.

		Efficiency	
Output	Performance Indicator	Value 2002/03	Value ⁽⁴⁾ 2001/02
1. Approved Access Arrangements	Cost per equivalent standard Access Arrangement approved	\$975,000 ⁽¹⁾	\$423,000
	Time per equivalent standard Access Arrangement approved (months)	31 ⁽²⁾	31
2. Oversight of gas pipelines	Cost per equivalent standard regulated gas pipeline oversighted	\$245,000 ⁽³⁾	\$188,000

Notes:

- (1) Cost per approval has increased due to the additional effort and resources required to progress the assessment of the remaining Access Arrangements.
- (2) Average estimated time to approve a proposed Access Arrangement.
- (3) Cost per regulated pipeline oversighted has increased primarily due to a greater proportion of the cost being attributable to the oversighting role.
- (4) The 2001/02 values have been revised to reflect the additional time taken to assess the DBNGP and GGP Access Arrangements.

REPORT ON OPERATIONS (continued)

2003

SATISFACTION SURVEY

Each year a satisfaction survey is undertaken of parties that have an interest in gas access regulation in Western Australia. These parties are registered with *OffGAR* to regularly receive notices and other information on gas access regulation matters.

The aim of the survey is to gauge industry perceptions of *OffGAR*'s efficiency and effectiveness and to provide performance indicators on how well *OffGAR*:

- promotes national consistency in gas access regulation;
- promotes competition in the gas industry;
- prevents abuse of monopoly power;
- helps to secure rights of access to natural gas pipelines;
- responds to issues in a timely manner;
- addresses issues in an effective manner;
- provides adequate information on gas access matters in WA; and
- provides quality information on gas access matters in WA.

Respondents were asked the following questions in relation to each of the above:

- (a) How important is this to your company?
- (b) How well do you think the National Gas Access Regime provides for this?
- (c) How satisfied are you with *OffGAR*'s performance in this?

An additional question was included this year asking respondents to rate the service they had received from the staff at *OffGAR*. The purpose of this question was to measure the performance of the staff as distinct from the outputs of the office.

The survey is undertaken by an independent market research firm experienced in conducting surveys of this type. This also ensures anonymity for respondents.

The survey population of interested parties comprises gas pipeline service providers (which may be owners or operators of gas pipelines), gas pipeline users and others that have an interest in the regulation of access to gas pipelines.

An interested party is generally a company having several representatives registered with *OffGAR* via the *OffGAR* website. The total population of interested parties was 68 consisting of 144 contact names. The survey sought a response from one representative of each company registered with *OffGAR*. Of the 68 interested parties, 15 were found to be out of scope, meaning that they no longer qualified as interested parties.

The survey consultant experienced particular difficulties this year in obtaining responses to the survey. Of the remaining 53 within scope, only 37 responded giving a response rate of 70%.

The major findings are summarised in the first of the following graphs. As can be seen, the satisfaction rating ranges from 8% for timeliness to 57% for provision of adequate information.

In general, the overall satisfaction ratings for 2002/03 were similar to the ratings for 2001/02 on many of the questions asked, although there were some significant shifts in responses.

REPORT ON OPERATIONS (continued)

2003

Users of pipelines indicated generally higher levels of satisfaction, and increased their satisfaction rating for access to pipelines from 18% to 62%.

Owners of pipelines did not express any level of satisfaction on any of the questions asked except that concerning the service they had received from staff at *OffGAR*. As shown in the Owners/Operators chart, this represents a major change from last year.

Despite this, overall satisfaction levels have improved by 11% and 13% respectively over last year in preventing the abuse of monopoly power and promoting national consistency in gas access regulation. Satisfaction levels have also improved in helping to secure rights of access to natural gas pipelines. However, the satisfaction rating for responding to issues in a timely and effective manner has fallen by 50%.

The perception that *OffGAR* has not been responding to issues in a timely manner is of particular concern considering that, relative to national averages, responses in Western Australia have been as good or better. While it has taken 43 months to get the proposed Access Arrangement for the DBNGP to the Final Decision stage, little recognition appears to have been given to the 16 months delay caused by court proceedings

initiated by Epic Energy, the 10 months of public consultation at the request of interested parties, and further delays attributable to matters of confidentiality that were beyond the control of the Regulator.

Respondents were generally less satisfied with the performance of *OffGAR* than they were with the National Gas Access Regime except in relation to the provision of adequate and quality information.

In general, respondents felt that most issues were important to them, with most statements considered important or very important by over 80% of respondents.

In response to the new question about the performance of the *OffGAR* staff, the majority of survey respondents (54%) were satisfied or very satisfied, while 19% expressed dissatisfaction.

REPORT ON OPERATIONS (continued)

2003

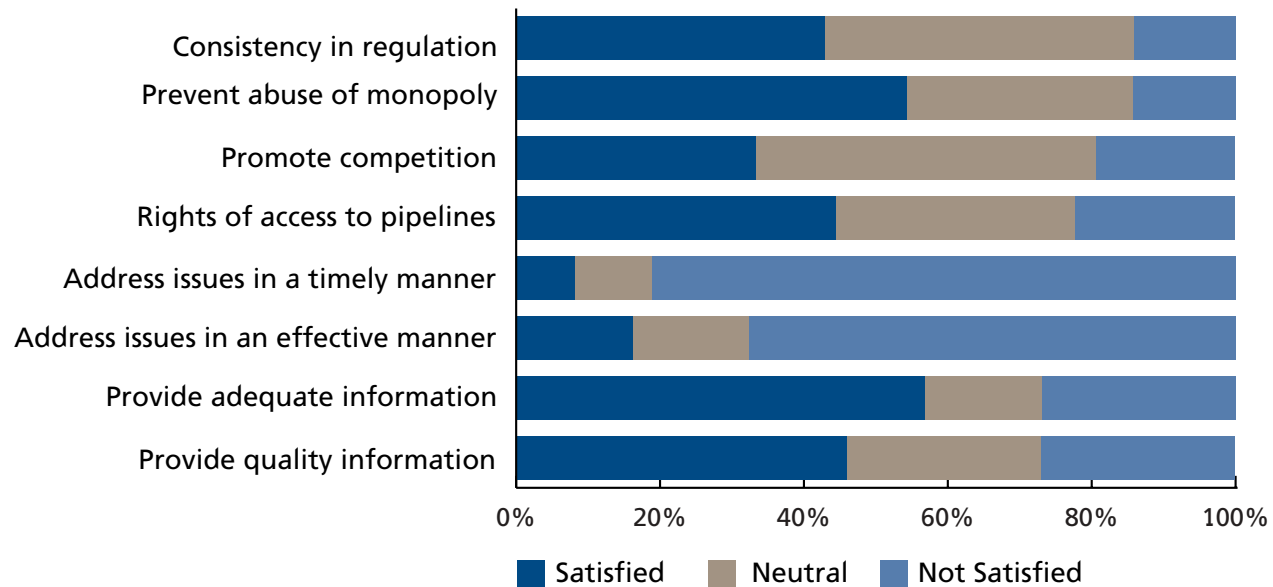
RESPONSES TO SURVEY OF INTERESTED PARTIES

	This is important or very important	This is provided for or well provided for by the National Gas Access Regime	Satisfied or very satisfied with OffGAR's performance	Satisfied or very satisfied with OffGAR's performance
Criterion	2002/03	2002/03	2002/03	2001/02
Promoting national consistency in gas access regulation	68%	49%	43%	38%
Preventing abuse of monopoly power	87%	73%	54%	49%
Promoting competition in the gas industry	84%	55%	33%	38%
Helping to secure rights of access to natural gas pipelines	64%	62%	44%	42%
Addressing issues in a timely manner	89%	15%	8%	17%
Addressing issues in an effective manner	92%	21%	16%	31%
Providing adequate information on gas access matters in WA	87%	39%	57%	65%
Providing quality information on gas access matters in WA	87%	35%	46%	58%

REPORT ON OPERATIONS (continued)

2003

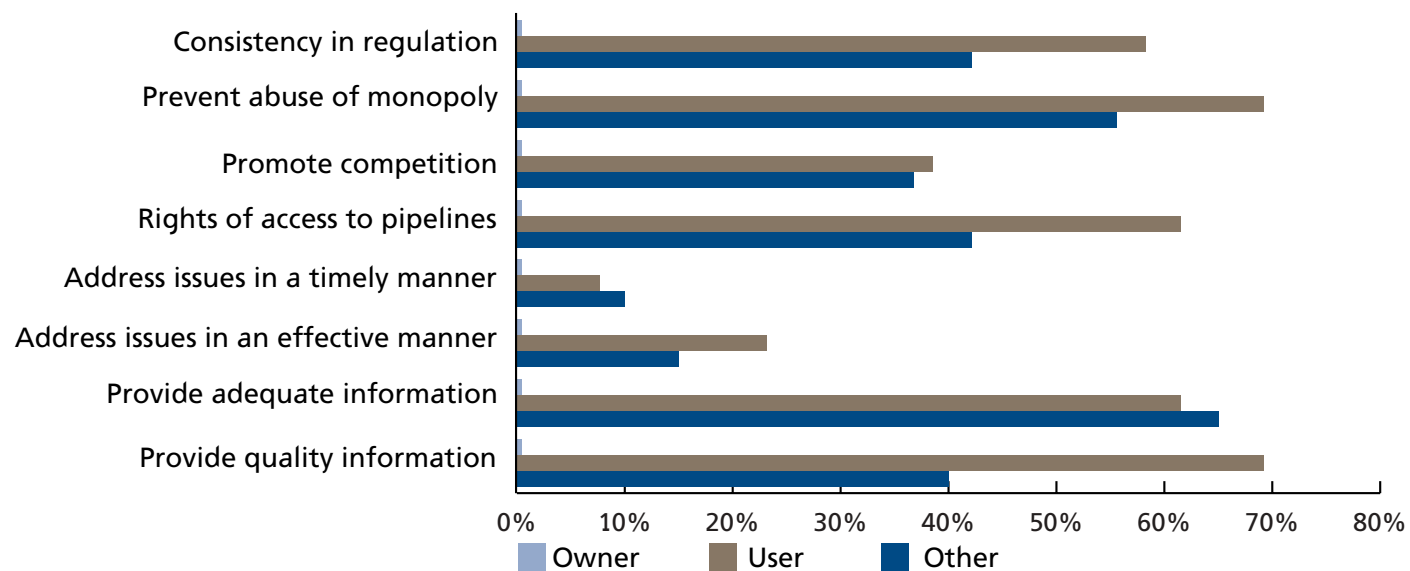
Percent Satisfied or Very Satisfied with OffGAR



REPORT ON OPERATIONS (continued)

2003

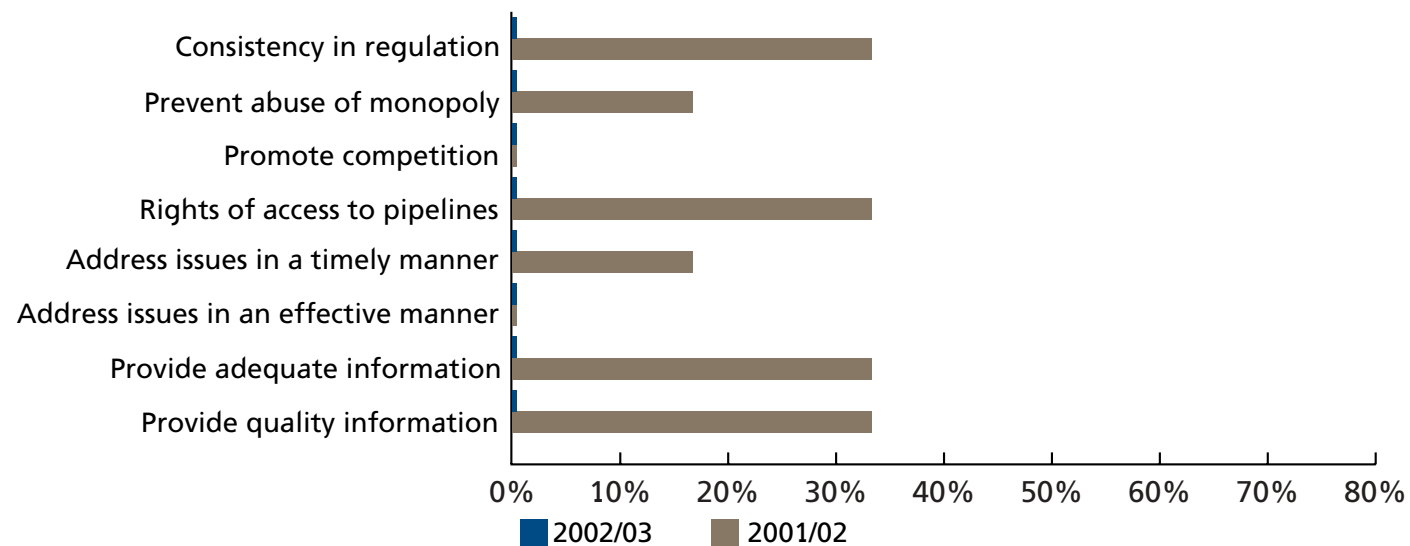
Percent Satisfied or Very Satisfied with OffGAR
Classified by Type of Respondent



REPORT ON OPERATIONS (continued)

2003

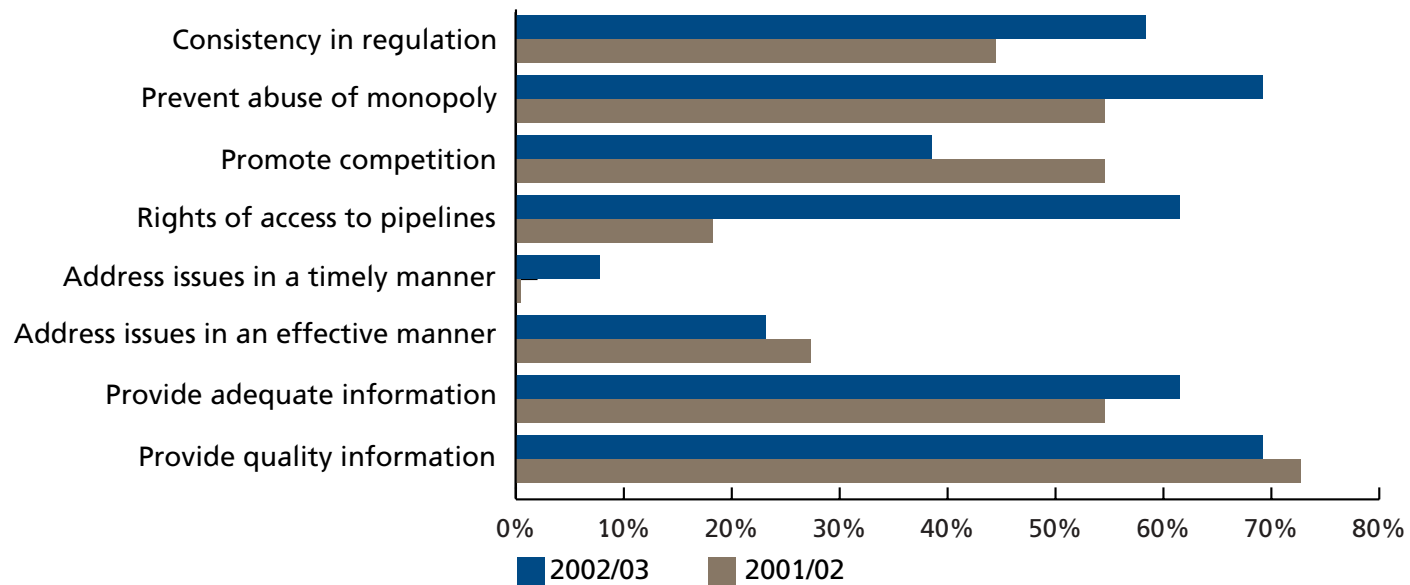
Percent Satisfied or Very Satisfied with OffGAR
Owners/Operators



REPORT ON OPERATIONS (continued)

2003

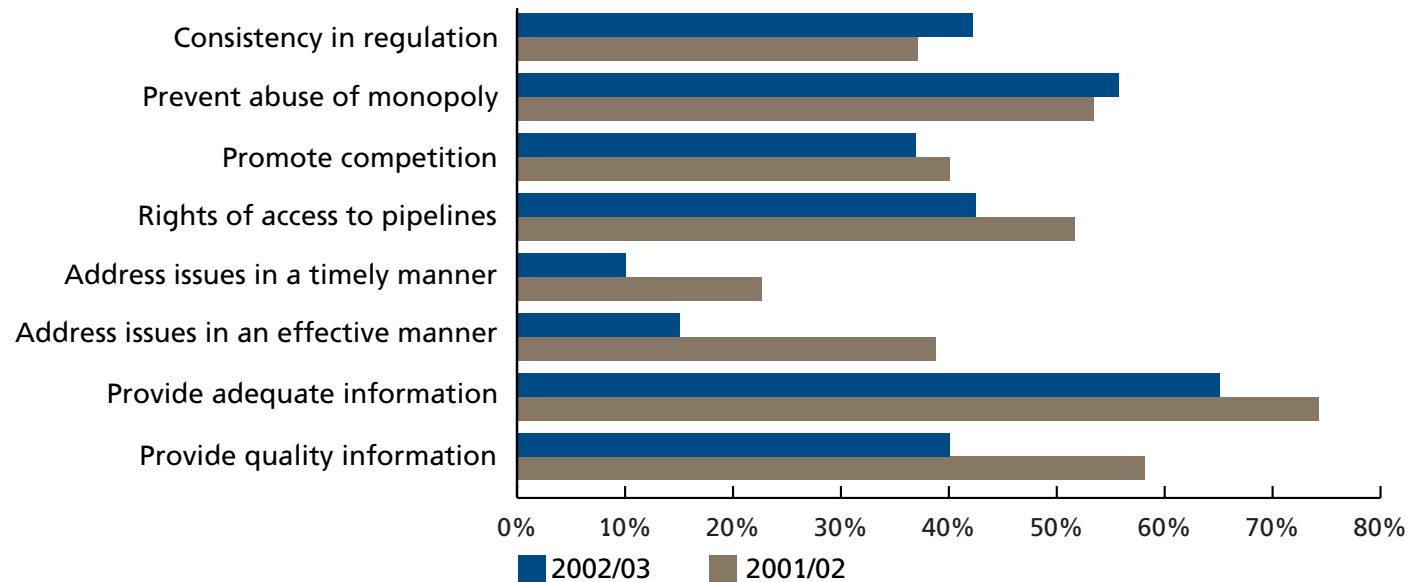
Percent Satisfied or Very Satisfied with OffGAR
Users/Consumers



REPORT ON OPERATIONS (continued)

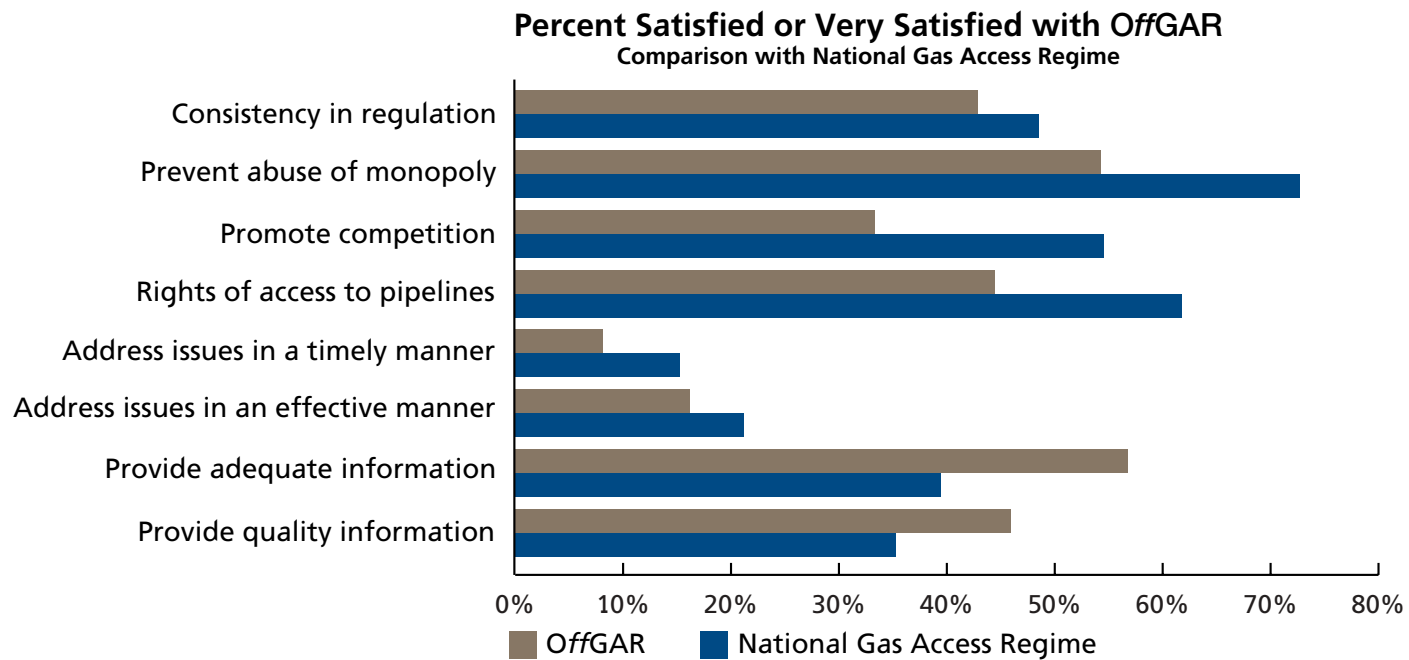
2003

Percent Satisfied or Very Satisfied with OffGAR
Others



REPORT ON OPERATIONS (continued)

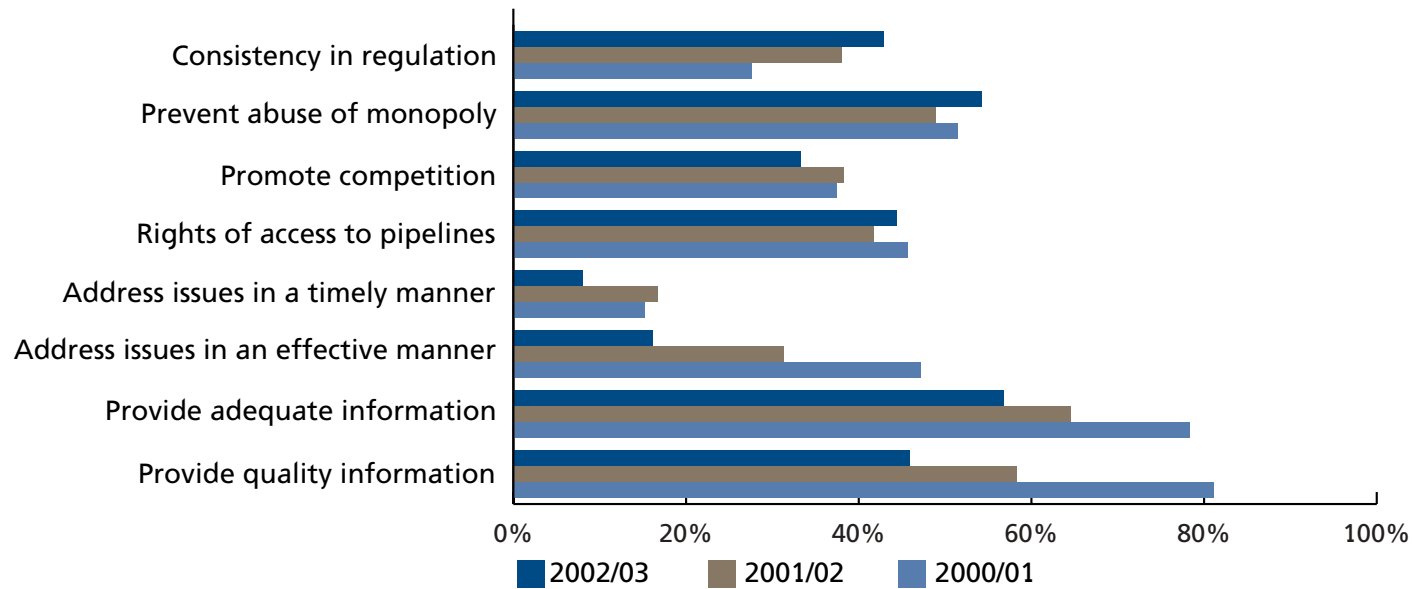
2003



REPORT ON OPERATIONS (continued)

2003

Percent Satisfied or Very Satisfied with OffGAR
Three Year Comparison



GOVERNANCE

2003

ENABLING LEGISLATION

The office of the Western Australian Independent Gas Pipelines Access Regulator was established under Section 27 of the *Gas Pipelines Access (Western Australia) Act 1998*. The Regulator is appointed by the Governor and the position is not an office of the Western Australian public service.

Section 42 of the Act requires public service officers to be appointed, or made available, to enable the Regulator to perform his or her functions. OffGAR was established under the *Public Sector Management Act 1994* for this purpose. Through Section 27(4) of the *Gas Pipelines Access (Western Australia) Act 1998*, the Regulator is the chief employee of this public sector entity, having similar functions to those of a Chief Executive Officer.

Section 37 of the Act specifies that the Regulator is independent of direction or control by the Crown or any Minister or officer of the Crown in the performance of the Regulator's functions. The Minister can only direct the Regulator in respect of general policies to be followed by the Regulator in matters of administration, including financial administration, and may not constrain the Regulator with respect to the performance of the Regulator's functions.

The Act makes the *Gas Pipelines Access Law* (included as Schedules 1 and 2 of the Act) a law of Western Australia. The *Gas Pipelines Access Law* is the uniform legislation enacted by Australian governments for the regulation of access to gas pipelines and includes the *National Third Party Access Code for Natural Gas Pipeline Systems* (the Code). The Code establishes the regulatory regime and specifies many of the functions of the Regulator.

The *Gas Pipelines Access (Western Australia) (Funding) Regulations 1999*, gazetted in January 2000 under the *Gas Pipelines Access (Western Australia) Act 1998*, provide for costs incurred in connection with the performance of the functions of the Regulator to be recovered from pipeline operators. The regulations set out the methodology for determination of the amounts payable by operators of covered pipelines to which the activities of the Regulator relate.

Responsible Minister

The Minister responsible for the administration of the *Gas Pipelines Access (Western Australia) Act 1998* is the Hon Eric Ripper MLA, Treasurer of Western Australia.

The Regulator

The office of the Western Australian Independent Gas Pipelines Access Regulator (the Regulator) is held by Dr Ken Michael AM CitWA. Dr Michael was appointed to the position in June 1999 for a period of 3 years. He remained in the position from June 2002 in an acting capacity, and was reappointed in April 2003 for a further 5 years.

GOVERNANCE (continued)

2003

ORGANISATIONAL STRUCTURE

The office of the Regulator was established in February 1999 together with the Office of Gas Access Regulation (*OffGAR*).

OffGAR is a small public sector agency that provides secretarial and administrative services to the Regulator and operates under the Regulator's budget.

OffGAR also provides secretariat support to the Gas Disputes Arbitrator whose position is also established by the *Gas Pipelines Access (Western Australia) Act 1998*. Under an

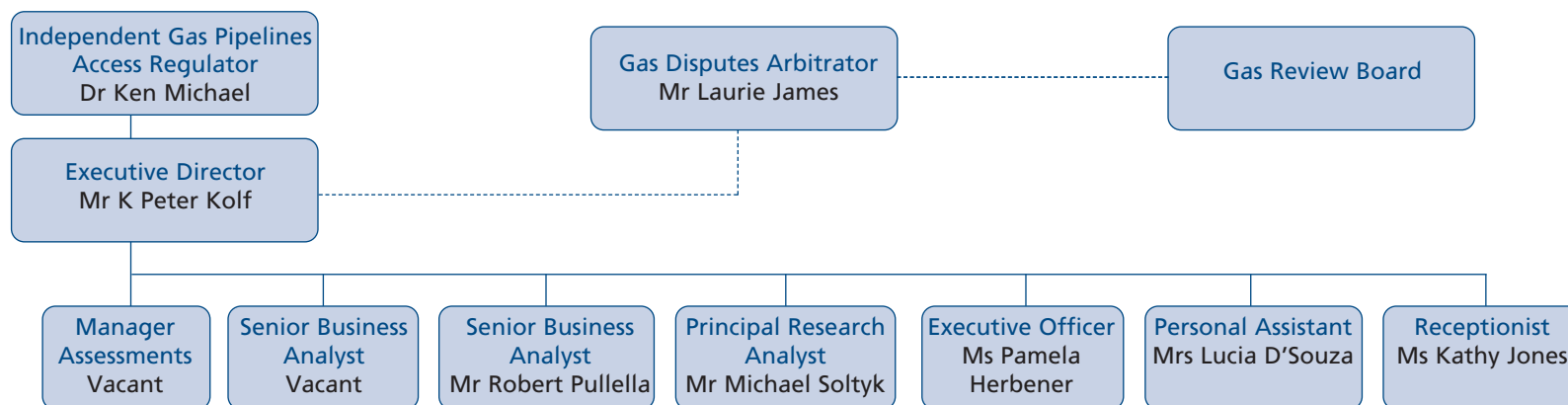
agreed administrative arrangement between the Regulator and the Arbitrator, the Executive Director of *OffGAR* performs the duties of Registrar of the Western Australian Gas Review Board. Should a conflict of interest arise in the Executive Director providing support to the Arbitrator or the Gas Review Board, then support may be arranged from elsewhere.

OffGAR staff are the initial point of contact in day-to-day dealings on matters concerning the *Gas Pipelines Access (Western Australia) Act 1998* and the Code.

While *OffGAR* staff may provide advice or other assistance in relation to these matters, it is the Regulator, and not *OffGAR*, who is responsible for making decisions on regulatory matters.

While the Regulator and Arbitrator are entitled to the assistance of *OffGAR* staff to enable them to perform their respective functions, the Regulator and Arbitrator may obtain professional, technical or other assistance from other sources.

The organisational structure as at 30 June 2003 is shown below.

ORGANISATIONAL STRUCTURE AT 30 JUNE 2003

GOVERNANCE (continued)

2003

Corporate Executive

The corporate executive of *OffGAR* comprises the Regulator, in the position of Chief Executive Officer of *OffGAR*, and the Executive Director.

Senior Officers

Dr Ken Michael AM CitWA - Western Australian Independent Gas Pipelines Access Regulator and Chief Executive Officer of *OffGAR*.

Dr Michael has a Bachelor of Engineering degree with first class honours from the University of Western Australia and has a Doctor of Philosophy from the University of London. Dr Michael is Chancellor of the University of Western Australia, Chairman of the Board of Trustees of the Western Australian Museum and Chairman of the East Perth Redevelopment Authority. He is a former Commissioner of Main Roads Western Australia and concurrently served as Public Service Commissioner in 1993/94. He is also a former Chairman of Commissioners of the City of Albany.

Dr Michael was appointed to the position of Regulator for a period of 3 years in June 1999 after having acted in the position since February 1999. He remained in the position from June 2002 in an acting capacity, and was reappointed in April 2003 for a further 5 years.

Mr K Peter Kolf - Executive Director, *OffGAR*.

Mr Kolf has a Master of Economics degree from Adelaide University and a Bachelor of Commerce degree with honours from the University of Melbourne. His career includes the positions of Senior Manager with the Western Australian Office of Energy; Director, Air Fare Economics with the Independent Air Fares Committee (responsible for regulating air fares under the two airlines policy); and Manager, Pricing Policy, Telecom Australia.

Mr Kolf was appointed to the position of Executive Director in June 1999 after having acted in the position since February 1999.

Staff Profile

The permanent staffing structure of *OffGAR* is indicated in the chart above.

In July 2002, Mr Michael Soltyk was appointed as Principal Research Analyst and, in April 2003, Mr Michael Jansen, Senior Business Analyst, transferred to the Office of Rail Regulation.

A new position of Manager, Assessments was created in April 2003 to provide managerial direction and coordination of assessments. This position has not yet been filled.

Contract Staff

In addition to permanent staff, *OffGAR* also employs contract staff to assist the office meet particular demands on the office.

Contract staff are as follows:

Mr Peter Hanlon
Dr Ursula Kretzer
Mr Nick Parkhurst

PERMANENT EMPLOYEES

Classifications	Number of Employees 30 June 2003	Number of Employees 30 June 2002
Level 9	1	1
Level 6	2	2
Level 4	1	1
Level 2	1	1
Level 1	1	1
Total	6	6

GOVERNANCE (continued)

2003

Figure 1
OffGAR PERSONNEL



From left to right

(Standing): Kathy Jones, Dr Ursula Kretzer, Nick Parkhurst, Kristin Munro, Michael Soltyk, Peter Hanlon, Lucia D'Souza.

(Seated): Robert Püllella, Pam Herbener, Dr Ken Michael AM, Peter Kolf.

GOVERNANCE (continued)

2003

Staffing Policies

With the exception of the Regulator, all permanent and contract staff are employed under the provisions of the *Public Sector Management Act (WA) 1994*. The OffGAR Workplace Agreement and Government Officers Salaries, Allowances and Conditions General Agreement prescribed the conditions of employment for all staff during the year. In accordance with Government policy, the OffGAR Workplace Agreement ceased to exist and on 1 January 2003, all staff that were not already employed under the General Agreement, transferred to that agreement.

All staff recruitment is performed in accordance with the public sector standards in human resource management and the approved procedures under the *Public Sector Management Act (WA) 1994*.

Human Resource Policies

Human resource services are provided to OffGAR by the Office of Energy in accordance with the policies of the Office of Energy.

By virtue of the technically complex and specialised tasks that must be undertaken in performing the functions of the Regulator, OffGAR employs relatively few permanent

staff and has, in the past, relied on the use of specialist external consultants and contract staff to provide necessary expertise on an "as needed" basis.

Workers' Compensation

There were no claims for workers' compensation during 2002/03.

Corporate Services

The *Gas Pipelines Access (Western Australia) Act 1998* provides for the Regulator to enter into arrangements with public sector agencies to make use of their employees or the facilities of the agency.

During the current financial year, OffGAR had a service level agreement with the Office of Energy for the provision of corporate services including financial services, administrative services, human resource management and advice on information systems and information management. The agreement with the Office of Energy expired in May 2001, but was extended on a month-by-month basis.

During June 2003, the payroll and human resource services provided to OffGAR were transferred to the Department of Treasury and Finance as a result of the corporate division of the Office of Energy being abolished from 1 July 2003. The Office of

Energy is now scheduled to receive corporate services from the Department of Treasury and Finance under a corporate service level agreement. However, finance services will continue to be provided to OffGAR by the Office of Energy until arrangements are in place for Department of Treasury and Finance to take over.

Accounting Systems Development

As a result of the arrangements for funding of activities through charges to operators of covered pipelines, the Regulator and OffGAR have a requirement for accounting systems that can store financial information and produce financial reports on a project basis.

Accounting services are provided to OffGAR by the Office of Energy. In 2002/03, further development of accounting systems was undertaken to meet the specific requirements of OffGAR. Accounting services are scheduled to transfer to the department of Treasury and Finance in the forthcoming financial year.

GOVERNANCE (continued)

2003

Complaints Handling

There are three main areas that may be the source of complaints in the case of the Regulator and OffGAR. These are the administration of the Office, employment related matters and matters concerning the regulatory functions of the Regulator.

Handling of complaints relating to administration of the Office and employment related matters are dealt with under the OffGAR Code of Conduct. The Code of Conduct, which is available in both hard copy form at reception and on the OffGAR website, advises anyone having a serious concern about the actions of any OffGAR member in relation to their observance of the Code of Conduct, to contact the Executive Director or the Chief Executive Officer of OffGAR.

Staff and consultants to OffGAR are also provided supporting documentation to the Code of Conduct that sets out relevant policies in some detail, including the handling of complaints on administrative and employment matters.

There were no formal complaints lodged on administrative or employment related matters during the reporting period.

On matters relating to the functions of the Regulator, which involve the Regulator having to balance the competing interests of pipeline owners, users, prospective users of pipelines and other interested parties such as users and producers of gas, a variety of circumstances can give rise to complaints. Complaints relating to regulatory matters are handled through comprehensive public consultation involving submissions, public forums, specific purpose conferences with the Regulator and meetings with OffGAR. Submissions may be made on either a public or confidential basis. All public submissions are published on the OffGAR website.

State Records Act 2000

Section 19 of the *State Records Act 2000* requires a record keeping plan to be prepared which sets out how records are to be created and maintained. The records of the Regulator are managed by OffGAR. At the close of the financial year a compliance check list had been completed and a plan formulated on how the record keeping plan is to be developed.

GOVERNANCE (continued)

2003

EXPENDITURE

Incurring of Expenditure

Subsection 47(3) of the *Gas Pipelines Access (Western Australia) Act 1998* provides that, while subsection 42(1) of the *Financial Administration and Audit Act 1985* does not apply in respect of the Regulator, the expenditure that may be incurred by the Regulator in any one financial year is limited to the amount specified by the Minister.

The table showing incurred expenditure indicates the amount specified by the Minister that could be incurred during 2002/03 as compared with the amount that was actually incurred.

INCURRED EXPENDITURE**for the year ended 30 June 2003**

	Specified by Minister \$	Actual \$	Change %
Staff Costs	770,000	737,394	-4.2
Office Accommodation	78,000	102,000 ⁽²⁾	30.8
Consultants' Administration	45,000	24,712	-45.1
Consultants' Regulatory matters	25,000	17,533	-29.9
Other Administration Expenses	382,500	432,784	13.15
Sub Total	1,300,500	1,314,423	1.07
Expert Advice	300,000	489,424	63.1
Sub Total	1,600,500	1,803,847	12.7
Legal Costs Epic Energy and GGT	350,000 ⁽¹⁾	145,822	-58.3
Total Expenditure	1,950,000	1,949,668	0

⁽¹⁾ Approved 14 March 2003.

⁽²⁾ Includes 12 months prepayment for 2003/04 and a 25% increase in rental charges.

GOVERNANCE (continued)

2003

Expenditure on Consultants

Section 43 of the *Gas Pipelines Access (Western Australia) Act 1998* provides for the Regulator to engage consultants.

Consultants engaged by OffGAR during the year were managed under a panel contract that has been in place since 1 August 2001. This panel arrangement expires in August 2003 and planning is underway to renew the panel arrangement for legal and economic services only. Any requirement for consultants for a service other than legal or economic will be sourced in compliance with State Supply Policies.

Work areas in which consultancies have been commissioned include:

- analysis and assistance in the preparation of regulatory decisions;
- expert legal, regulatory, financial, economic and technical advice on the assessment of proposed Access Arrangements;
- expert legal and regulatory advice in relation to legal action brought against the Regulator;
- expert regulatory, financial and economic advice on specific regulatory studies;
- internal audit, risk management and accounting systems development; and
- human resource and other specialised administrative assistance and advice.

Expenditure on consultancies during 2002/03 is summarised in the table below. This expenditure includes once-off costs incurred as a result of the legal proceedings initiated by Epic Energy and the owners of the GGP.

**EXPENDITURE ON CONSULTANTS
for the year ended 30 June 2003**

Value of Consultancy	Number of Consultancies Commissioned ⁽¹⁾	Expenditure in 2002/03
Up to \$50,000	18	\$230,166
Over \$50,000	4	\$624,574
TOTAL	22	\$854,740

⁽¹⁾ A consultancy is defined as the total of all work performed by a consultant on a specific project.

GOVERNANCE (continued)

2003

FUNDING AND PRICING POLICIES

The activities of the Regulator, including the activities of *OffGAR*, are funded by fees and charges payable by the operators of covered pipelines and by other persons in accordance with the provisions of the *Gas Pipelines Access (Western Australia) (Funding) Regulations 1999* (Funding Regulations) gazetted 14 January 2000.

Payments to the Regulator by operators of covered pipelines comprise standing charges and service charges, determined in

accordance with Regulations 3 and 5 respectively, of the Funding Regulations.

Standing Charges comprise charges levied on pipeline operators in respect of costs incurred by the Regulator and *OffGAR* that are not directly attributable to activities in respect of particular pipeline systems. The pipeline operators that are liable for Standing Charges and the percentage allocations of costs between these pipeline operators are set out in Schedule 1 of the Funding Regulations.

The Service Charges payable by pipeline operators comprise charges levied in respect of the performance by the Regulator or *OffGAR* of certain functions listed in Schedule 2 of the Funding Regulations.

The total amounts of Standing Charges and Service Charges paid by pipeline operators in the year ending 30 June 2003 are indicated in the table below.

**CHARGES PAID BY PIPELINE OPERATORS
for the year ended 30 June 2003**

Service Provider	Standing Charges	Service Charges	Service Charges Levied but not yet Received	Standing Charges Levied but not yet Received
AlintaGas Networks Pty Ltd	\$259,754	\$52,176	\$0	\$81,605
Epic Energy (WA) Transmission Pty Ltd	\$605,638	\$336,931	\$161,249	\$174,093
Goldfields Gas Transmission	\$231,075	\$57,672	\$52,567	\$72,080
Sagasco SE Inc	\$46,130	\$0	\$0	\$11,513
Southern Cross Pipelines Pty Ltd	\$38,911	\$0	\$0	\$9,594
TOTAL	\$1,181,508	\$446,779	\$213,816	\$348,885

GOVERNANCE (continued)

2003

Standing Charges and Service Charges are assessed in arrears for each pipeline operator. In accordance with Regulation 4 of the *Gas Pipelines Access (Western Australia) (Funding) Regulations 1999*, Standing Charges are assessed at the end of each calendar quarter. In accordance with Regulation 5 of the Funding Regulations, Service Charges are raised when expenditure has been incurred by the Regulator and are issued on a monthly basis.

The *Gas Pipelines Access (Western Australia) (Funding) Regulations 1999* also provide for the Regulator to levy fees in respect of:

- provision of documents prepared by or on behalf of the Regulator;
- admission to a meeting held by the Regulator for the purposes of public consultation;
- lodgement of notifications of a dispute under section 6.1 of the Code; and
- interest on any outstanding amounts.

There were no document fees received in 2002/03.

Interest charges raised in 2002/03 amounted to \$60,339.

In December 2002 the *Gas Pipelines Access (Western Australia) (Funding) Amendment Regulations 2002* were gazetted which allowed minor administrative changes to the Funding Regulations and re-allocated percentage ratios following the revocation of the Parmelia Pipeline. This change did not occur until 8 months after the Parmelia Pipeline was revoked and the changes were not retrospective. Consequently, an amount of \$47,000 for the Parmelia Pipeline could not be recovered.

A Treasurer's advance of \$650,000 was made to OffGAR on 11 February 2002 to fund the costs of legal proceedings brought against the Regulator by Epic Energy. A further Treasurer's Advance of \$350,000 was made on 14 March 2003 to fund the costs of legal proceedings brought against the Regulator by the owners of the Goldfields Gas Pipeline (GGP).

Both Epic Energy and the owners of the GGP dispute the Regulator's ability to recover the legal costs as a service charge from the parties initiating the legal action.

On 28 November 2002, Epic Energy commenced proceedings in the Supreme Court of Western Australia seeking declarations as to the validity, or alternatively, the proper construction of the Funding Regulations.

The Court delivered its decision on 15 August 2003. The Court held that the Regulations were valid and upheld the ability of the Regulator to recover operating expenses through standing charges assessed under the Regulations.

However, the Court upheld Epic Energy's contention that section 87 of the *Gas Pipelines Access (Western Australia) Act 1998* did not authorise the imposition of fees to recover costs of the Regulator participating in judicial review proceedings, which costs were to be in the discretion of the Court. The immediate effect of the decision of the Court is that the Regulator is unable to recover costs of \$800,000, which have been incurred to date in respect of judicial review proceedings. This amount has been identified as a doubtful debt.

GOVERNANCE (continued)

2003

Website

OffGAR continued to update its website (www.offgar.wa.gov.au) during the year to ensure public accessibility to current information on the State's gas pipelines access regulatory process.

The website can be used to access information on the regulatory regime, and on the operations and activities of the Regulator and OffGAR. All notices issued by the Regulator are placed on the site. Documents such as proposed Access Arrangements, issues papers, public submissions, Draft Decisions, Final Decisions and approvals can be downloaded from the site.

Information received by the Regulator in submissions relating to regulatory decisions is made public unless it is designated as confidential. No document received is made available to any person, other than to OffGAR staff and authorised consultants, unless it is made publicly available or the provider of confidential information has given express permission for its release.

The website was used extensively throughout the year. The number of times that Internet visitors accessed a new screen or document from www.offgar.wa.gov.au averaged around 10,000 per month. Not surprisingly, the busiest month was May 2003 when the DBNGP Final Decision was issued with 28,000 requests.

Internal Audit

An internal audit of OffGAR was undertaken in accordance with requirements of section 55(f) of the *Financial Administration and Audit Act 1985* and relevant Treasurer's Instructions.

This year's audit focussed on purchasing, accounts payable, payroll, FBT processes and the service charges raised by the Agency. The primary objectives of the audit review was to determine the:

- level of compliance with relevant laws, established procedures and regulations;
- reliability and integrity of information; and
- accomplishment of specified goals and objectives.

The auditors classified OffGAR's management controls to be of a "very good quality". A small number of observations were made that warranted a minor risk rating that will be attended to in the forthcoming year.

Findings from previous audit reviews have been addressed.

Accounting Manual

During the year the Department of Treasury and Finance undertook a substantial rewrite and restructure of the Treasurer's Instructions. As a result a number of changes are required to be made to the OffGAR Accounting Manual.

It is planned for the manual to be reviewed and updated early in the 2003/2004 financial year.

Code of Conduct

All OffGAR employees and consultants to OffGAR are bound by the Western Australian Public Sector Code of Ethics.

OffGAR produced a document at the end of the previous financial year which expanded on the Code of Conduct as recommended by the Commissioner of Public Sector Standards. The purpose of this supporting document would be to more clearly relate the broad principles and values presented in the Code to everyday behaviour of executive staff, other employees and consultants. During the year this document has been relayed to all staff and consultants working with OffGAR and indications are that the code is being complied with by staff, management and consultants.

A copy of the Code of Conduct can be accessed from the Publications Section of the OffGAR website at www.offgar.wa.gov.au.

GOVERNANCE (continued)

2003

Review of Risk Management Policy

The Risk Management Policy and Risk Register continue to be monitored on an annual basis and are reviewed as part of the internal audit function.

Progress has been made this year on the preparation of a Disaster Recovery Plan and action has been taken to improve the security of the computer network.

Impacting Legislation

The following written laws impact on the Regulator as Chief Executive Officer of the Office of Gas Access Regulation:

Anti-Corruption Commission Act 1988;

Disability Services Act 1993;

Electoral Act 1907;

Equal Opportunity Act 1984;

Financial Administration and Audit Act 1985;

Government Employees Superannuation Act 1987;

Industrial Relations Act 1979;

Library Board of Western Australia Act 1951;

Minimum Conditions of Employment Act 1993;

Occupational Safety and Health Act 1984;

Public and Bank Holidays Act 1972;

Public Sector Management Act 1994;

Salaries and Allowances Act 1975;

Superannuation and Family Benefits Act 1938;

Workers' Compensation and Rehabilitation Act 1981; and

Workplace Agreement Act 1993.

The *Freedom of Information Act 1992* impacts on the Regulator only in relation to administrative functions.

GOVERNANCE (continued)

2003

Statement of Compliance**Compliance with Public Sector Management Act Section 31(1) for the Year ended 30 June 2003**

In the administration of the Office of Gas Access Regulation, I have complied with the Public Sector Standards in Human Resource Management, the Western Australian Public Sector Code of Ethics and the Office of Gas Access Regulation Code of Conduct.

Procedures are in place designed to ensure ongoing compliance and appropriate internal assessments have been made.

No Applications for Breach of Standards were made during the year.



**DR KEN MICHAEL AM CitWA
CHIEF EXECUTIVE OFFICER
OFFICE OF GAS ACCESS REGULATION**

29 August 2003

GOVERNANCE (continued)

2003

Shares in Subsidiary Bodies

Treasurer's Instruction 903 requires inclusion in the report on operations, details of shares in any subsidiary body of the agency held as a nominee or held beneficially by a Senior Officer of the agency. There are no such shares.

Interest in Existing or Proposed Contracts

Treasurer's Instruction 903 requires inclusion in the report on operations particulars of any interest in any existing or proposed contract which a Senior Officer, or a firm of which a Senior Officer is a member, or an entity in which a Senior Officer has a substantial financial interest, has made with the agency or any related or affiliated body. There are no such interests.

Electoral Act Disclosure Requirements

Section 175ZE of the *Electoral Act 1907* requires public agencies to include a statement in their Annual Reports detailing all the expenditure incurred by or on behalf of the public agencies during the reporting period in relation to advertising agencies, market research organisations, polling organisations, direct mail organisations and media advertising agencies.

Expenditure was incurred by OffGAR during the period 1 July 2002 to 30 June 2003 as shown in the following table.

ELECTORAL ACT DISCLOSURE REQUIREMENTS
for the year ended 30 June 2003

Advertising Agencies	nil
Market Research Organisations	
Data Analysis Australia	\$1,936
Polling Organisations	nil
Direct Mail Organisations	nil
Media Advertising Organisations	
Marketforce Productions	\$8,111

Note: Amounts shown include GST.

GOVERNANCE (continued)

2003

Directions Given

Section 37(2) of the *Gas Pipelines Access (Western Australia) Act 1998* provides for the Minister to give directions in writing to the Regulator in relation to general policies to be followed by the Regulator in matters of administration, including financial administration. The text of any such direction is required to be included in the Regulator's Annual Report.

No directions under Section 37(2) of the *Gas Pipelines Access (Western Australia) Act 1998* were given to the Regulator during the year.

PUBLICATIONS

The following publications were issued by the Office of Gas Access Regulation for the Regulator during the 2002/03 year:

- Annual Report 2001/02.
- Information paper on the process of the Regulator following the Supreme Court decision in relation to the DBNGP.
- Procedure to be adopted for amending the GGP Draft Decision following the Supreme Court decision in relation to the DBNGP.
- 2003 Tariff Variations for the Mid-West and South-West Gas Distribution Systems.
- Information Paper on the Recovery of Costs for Full Retail Contestability.
- Final Decision: Access Arrangement - Dampier to Bunbury Natural Gas Pipeline.

All publications are on OffGAR's website www.offgar.wa.gov.au and are available for viewing or downloading.

BOARDS AND COMMITTEES

The Regulator is a member of the National Gas Pipelines Advisory Committee (NGPAC).

The Executive Director, OffGAR, is a member of NGPAC's Working Group.

FINANCIAL STATEMENTS

2003

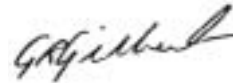
Statement of Certification

The accompanying financial statements of the Western Australian Independent Gas Pipelines Access Regulator have been prepared in compliance with the provisions of the *Financial Administration and Audit Act 1985* from proper accounts and records to present fairly the financial transactions for the financial year ending 30 June 2003 and the financial position as at 30 June 2003.

At the date of signing we are not aware of any circumstances which would render any particulars included in the financial statements misleading or inaccurate.



DR KEN MICHAEL AM CitWA
ACCOUNTABLE AUTHORITY
15 August 2003



GEOFF GILBERT
PRINCIPAL ACCOUNTING OFFICER
15 August 2003

FINANCIAL STATEMENTS (continued)

2003

Independent Audit Opinion

To the Parliament of Western Australia

**WESTERN AUSTRALIAN INDEPENDENT
GAS PIPELINES ACCESS REGULATOR**

**FINANCIAL STATEMENTS FOR THE
YEAR ENDED JUNE 30, 2003**

Audit Opinion

In my opinion,

- (i) the controls exercised by the Western Australian Independent Gas Pipelines Access Regulator provide reasonable assurance that the receipt and expenditure of moneys, the acquisition and disposal of property, and the incurring of liabilities have been in accordance with legislative provisions; and
- (ii) the financial statements are based on proper accounts and present fairly in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia and the Treasurer's Instructions,

the financial position of the Regulator at June 30, 2003 and its financial performance and cash flows for the year ended on that date.

Scope***The Regulator's Role***

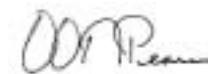
The Regulator is responsible for keeping proper accounts and maintaining adequate systems of internal control, preparing the financial statements, and complying with the *Financial Administration and Audit Act 1985* (the Act) and other relevant written law.

The financial statements consist of the Statement of Financial Performance, Statement of Financial Position, Statement of Cash Flows and the Notes to the Financial Statements.

Summary of my Role

As required by the Act, I have independently audited the accounts and financial statements to express an opinion on the controls and financial statements. This was done by looking at a sample of the evidence.

An audit does not guarantee that every amount and disclosure in the financial statements is error free. The term "reasonable assurance" recognises that an audit does not examine all evidence and every transaction. However, my audit procedures should identify errors or omissions significant enough to adversely affect the decisions of users of the financial statements.



D D R PEARSON
AUDITOR GENERAL
October 31, 2003

4th Floor Dumas House, 2 Havelock Street
West Perth 6005 Western Australia
Tel: 08 9222 7500 Fax: 08 9322 5664

Western Australian Independent Gas Pipelines Access Regulator

Statement of Financial Performance for the year ended 30 June 2003

2003

	Note	2002/03 \$'000	2001/02 \$'000
COST OF SERVICES			
Expenses From Ordinary Activities			
Employee Expenses	2	786	714
Supplies and Services	3	727	323
Depreciation Expense	4	31	38
Administration Expenses	5	391	860
Accommodation Expenses	6	82	62
Other Expenses from Ordinary Activities	7	800	0
Total Cost of Services		2,817	1,997
Revenues From Ordinary Activities			
User Charges and Fees	8	1,775	1,966
Other Revenues from Ordinary Activities	9	90	51
Total Revenues From Ordinary Activities		1,865	2,017
NET COST OF/(SURPLUS FROM) SERVICES	20(b)	952	(20)
REVENUES FROM STATE GOVERNMENT			
Resources Received Free of Charge	10	27	15
Total Revenues From State Government		27	15
CHANGE IN NET ASSETS		(925)	35
Total changes in equity other than those resulting from transactions with WA State Government as owners		(925)	35

The Statement of Financial Performance should be read in conjunction with the accompanying notes.

Western Australian Independent Gas Pipelines Access Regulator

Statement of Financial Position as at 30 June 2003

2003

	Note	2002/03 \$'000	2001/02 \$'000
ASSETS			
Current Assets			
Cash Assets	11	491	618
Receivables	12	845	1,121
Other Assets	13	9	2
Total Current Assets		1,345	1,741
Non-current Assets			
Equipment	14	45	49
Total Non-Current Assets		45	49
TOTAL ASSETS		1,390	1,790
LIABILITIES			
Current Liabilities			
Payables	15	149	3
Amounts Due to The Treasurer	16	1,000	650
Provisions	17(a)	69	95
Other Liabilities	18	17	14
Total Current Liabilities		1,235	762
Non-current Liabilities			
Provisions	17(b)	52	0
Total Non-Current Liabilities		52	0
TOTAL LIABILITIES		1,287	762
NET ASSETS		103	1,028
EQUITY			
Accumulated Surplus	19	103	1,028
TOTAL EQUITY		103	1,028

The Statement of Financial Position should be read in conjunction with the accompanying notes.

[BACK](#)
[NEXT](#)

Western Australian Independent Gas Pipelines Access Regulator

Statement of Cash Flows for the year ended 30 June 2003

2003

Western Australian Independent Gas Pipelines Access Regulator

	Note	2002/03 \$'000	2001/02 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments			
Employee Costs		(705)	(649)
Superannuation		(52)	(48)
Supplies, Services and Administration Payments		(1,027)	(1,329)
GST Payments on Purchases		(108)	(140)
Receipts			
User Charges and Fees		1,280	1,290
Interest Received		54	27
GST Receipts from User Charges		60	75
GST Receipts from Taxation Authority		48	65
Net Cash Provided by/(Used in) Operating Activities	20(b)	(450)	(709)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of Non-Current Physical Assets		(27)	(18)
Net Cash Provided by/(Used in) Investing Activities		(27)	(18)
CASH FLOWS FROM FINANCING ACTIVITIES			
Treasurer's Advice		350	650
Net Cash Provided by/(Used in) Financing Activities		350	650
NET INCREASE/(DECREASE) IN CASH HELD		(127)	(77)
Cash Assets at the Beginning of the Financial Year		618	695
CASH ASSETS AT THE END OF THE FINANCIAL YEAR	20(a)	491	618

The Statement of Cash Flows should be read in conjunction with the accompanying notes.

BACK

NEXT

Western Australian Independent Gas Pipelines Access Regulator

Notes to the Financial Statements: 30 June 2003

2003

1. SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been adopted in the preparation of the financial statements. Unless otherwise stated these policies are consistent with those adopted in the previous year.

General Statement

The financial statements constitute a general purpose financial report which has been prepared in accordance with Accounting Standards, Statements of Accounting Concepts and other authoritative pronouncements of the Australian Accounting Standards Board and Urgent Issues Group (UIG) Consensus Views as applied by the Treasurer's Instructions. Several of these are modified by the Treasurer's Instructions to vary the application, disclosure, format and wording. The *Financial Administration and Audit Act 1985* and the Treasurer's Instructions are legislative provisions governing the preparation of financial statements and take precedence over Accounting Standards, Statements of Accounting Concepts and other authoritative pronouncements of the Australian Accounting Standards Board, and UIG Consensus Views.

The modifications are intended to fulfil the requirements of general application to the public sector, together with the need for greater disclosure and also to satisfy accountability requirements.

If any such modification has a material or significant financial effect upon the reported results, details of that modification and where practicable, the resulting financial effect is disclosed in individual notes to these financial statements.

Basis of Accounting

The statements have been prepared on the accrual basis of reporting using the historical cost convention.

a. Estimates of the Regulator

The level to which the Regulator can incur expenditure is approved by the Minister. The Regulator recovers the costs of his operations from the State's pipeline operators [See b) Funding, below].

b. Funding

Funding of the Regulator for the year ended 30 June 2003 was provided through authority to recover the costs of operations from pipeline owners in Western Australia to the extent provided for in the Gas Pipelines Access (Western Australia) (Funding) Regulations 1999.

c. Grants and Other Contributions

Grants, donations, gifts and other non-reciprocal contributions are recognised as revenue when the Regulator obtains control over the assets comprising the contributions. Control is normally obtained on their receipt.

Contributions are recognised at their fair value. Contributions of service are only recognised when a fair value can be reliably determined and the services would be purchased if not donated.

d. Revenue Recognition

Revenue from the recovery of costs, Standing and Service Charges and fees is recognised quarterly when the Regulator charges pipeline operators.

e. Acquisition of Assets

The cost method of accounting is used for all acquisitions of assets. Cost is measured at the fair value of the assets given up or liabilities undertaken at the date of acquisition plus incidental costs directly attributable to the acquisition.

Western Australian Independent Gas Pipelines Access Regulator

Notes to the Financial Statements: 30 June 2003

2003

f. Depreciation of Non-Current Assets

All non-current assets having a limited useful life are systematically depreciated over their useful lives in a manner which reflects the consumption of their future economic benefit.

Depreciation is calculated on the straight line basis, using rates which are reviewed annually. Useful lives for each class of depreciable asset are:

Computing Equipment 3 to 5 years

Other Office Equipment 5 to 7 years

g. Leases

The Regulator has no finance leases. The Regulator has entered into a number of operating lease arrangements for the rent of accommodation and for leased motor vehicle, where the lessors effectively retain all of the risks and benefits incident to ownership of the items held under the operating leases. Equal instalments of the lease payments are charged to the Statement of Financial Performance over the lease term as this is representative of the pattern of benefits to be derived from the leased property.

h. Receivables

Receivables are recognised at the amounts receivable as they are due for settlement 30 days from the date of recognition.

i. Payables

Payables, including accruals not yet billed, are recognised when the Regulator becomes obliged to make future payments as a result of a purchase of assets or services. Payables are generally settled within 30 days.

j. Amounts Due to the Treasurer

The amount due to the Treasurer is in respect of a Treasurer's Advance, approval of which is renewed for each financial year. The amount is therefore repayable within a maximum period of one year. No interest is charged on this advance.

k. Employee Benefits**Annual Leave**

This benefit is recognised at nominal remuneration rates and is measured at the amount unpaid at the reporting date in respect to employees' service up to that date.

Long Service Leave

These benefits are calculated at nominal remuneration rates. A liability for long service leave is recognised after an employee has completed four years of service.

This method of measurement of the liability is consistent with the requirements of Australian Accounting Standard AASB 1028 "Employee Benefits".

Superannuation

Staff may contribute to the Pension Scheme, a defined benefits pension scheme now closed to new members, or the Gold State Superannuation Scheme, a defined benefit and lump sum benefit scheme now also closed to new members. All staff who do not contribute to either of these schemes become non-contributory members of the West State Superannuation Scheme, an accumulation fund complying with the Commonwealth Government's *Superannuation Guarantee (Administration) Act 1992*. All of these schemes are administered by the Government Employees Superannuation Board (GESB).

Western Australian Independent Gas Pipelines Access Regulator

Notes to the Financial Statements: 30 June 2003

2003

The liabilities for superannuation charges under the Gold State Superannuation Scheme and West State Superannuation Scheme are extinguished by payment of employer contributions to the GESB.

The note disclosure required by paragraph 6.10 of AASB 1028 (being the employer's share of the difference between employees' accrued superannuation benefits and the attributable net market value of plan assets) has not been provided. State scheme deficiencies are recognised by the State in its whole of government reporting. The GESB's records are not structured to provide the information for the Authority. Accordingly, deriving the information for the Authority is impractical under current arrangements, and thus any benefits thereof would be exceeded by the cost of obtaining the information.

l. Resources Received Free of Charge or For Nominal Value

Resources received free of charge or for nominal value which can be reliably measured are recognised as revenues and as assets or expenses as appropriate at fair value.

m. Accrued Salaries

Accrued salaries (refer not 18) represent the amount due to staff but unpaid at the end of the financial year, as the end of the last pay period for that financial year does not coincide with the end of the financial year. The Regulator considers the carrying amount to be the net fair value.

n. Comparative Figures

Comparative figures are, where appropriate, reclassified so as to be comparable with the figures presented in the current financial year.

o. Rounding

Amounts in the financial statements have been rounded to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Western Australian Independent Gas Pipelines Access Regulator

Notes to the Financial Statements: 30 June 2003

2003

	2002/03 \$'000	2001/02 \$'000
2. EMPLOYEE EXPENSES		
Wages and Salaries	668	623
Superannuation	52	48
Other Related Expenses (i)	66	43
	786	714
(i) These employee expenses include superannuation, workers compensation premiums and other employment on-costs associated with the recognition of annual and long service leave liability. The related on-costs liability is included in employee benefits liabilities at Note 17.		
3. SUPPLIES AND SERVICES		
Consultants and Contractors	727	323
	727	323
4. DEPRECIATION EXPENSE		
Computing Equipment	22	30
Other Office Equipment	9	8
	31	38
5. ADMINISTRATION EXPENSES		
General Administration Expenses	252	189
Legal costs	139	671
	391	860
Legal costs in 2001/02 are attributable to the Regulator's involvement in actions taken by Epic Energy and Goldfields Gas Transmission challenging draft decisions issued by the Regulator in the Supreme Court of Western Australia.		
6. ACCOMMODATION EXPENSES		
Lease Expenses	78	61
Repairs and Maintenance	4	1
	82	62

Western Australian Independent Gas Pipelines Access Regulator

Notes to the Financial Statements: 30 June 2003

2003

	2002/03 \$'000	2001/02 \$'000
7. OTHER EXPENSES FROM ORDINARY ACTIVITIES		
Doubtful Debts Expense	800	0
	800	0
8. USER CHARGES AND FEES		
Recoup of Operating Costs, Standing Charges, Service Charges and Fees	1,775	1,966
	1,775	1,966
9. OTHER REVENUES FROM ORDINARY ACTIVITIES		
These consist of:		
Recoup of Shared Administrative Costs with Office of Rail Access Regulation	12	7
Interest Received on Bank Balances	11	27
Interest Received From Outstanding Debtors	54	14
Contributions by Senior Officers to the Government Motor Vehicle Scheme	2	2
Other Revenue	11	1
	90	51
10. RESOURCES RECEIVED FREE OF CHARGE		
Resources received free of charge determined on the basis of the following estimates provided by agencies:		
Office of the Auditor General	6	5
Crown Solicitor's Office	21	10
	27	15
11. CASH ASSETS		
Operating Account	491	618
	491	618

Western Australian Independent Gas Pipelines Access Regulator

Notes to the Financial Statements: 30 June 2003

2003

	2002/03 \$'000	2001/02 \$'000
12. RECEIVABLES		
Accounts Receivable	1,632	1,104
Less Provision for Doubtful Debts	800	0
	<hr/>	<hr/>
	832	1,104
GST	13	17
	<hr/>	<hr/>
	845	1,121
13. OTHER ASSETS		
Prepayments	9	2
	<hr/>	<hr/>
	9	2
14. EQUIPMENT		
Computing Equipment		
At Cost	120	103
Accumulated Depreciation	86	72
	<hr/>	<hr/>
	34	31
Other Office Equipment		
At Cost	57	47
Accumulated Depreciation	46	29
	<hr/>	<hr/>
	11	18
	<hr/>	<hr/>
	45	49

Western Australian Independent Gas Pipelines Access Regulator

Notes to the Financial Statements: 30 June 2003

Reconciliations of the carrying amounts of plant and equipment at the beginning and end of the current and previous financial year are set out below:

	Other Office Equipment \$000	Computing Equipment \$000	Total \$000
2003			
Carrying Amount at Start of Year	18	31	49
Additions	2	25	27
Disposals	0	0	0
Revaluation Increments	0	0	0
Depreciation	(9)	(22)	(31)
Carrying Amount at End of Year	11	34	45
2002			
Carrying Amount at Start of Year	30	39	69
Additions	0	18	18
Disposals	0	0	0
Revaluation Increments	0	0	0
Depreciation	(12)	(26)	(38)
Carrying Amount at End of Year	18	31	49

Western Australian Independent Gas Pipelines Access Regulator

Notes to the Financial Statements: 30 June 2003

2003

	2002/03 \$'000	2001/02 \$'000
15. PAYABLES		
Amounts Payable for Goods and Services Received	149	3
	<hr/> 149	<hr/> 3
(The carrying amount of payables approximates their net fair values)		
16. AMOUNTS DUE TO THE TREASURER		
Treasurer's Advance (Advance from Government)	1,000	650
	<hr/> 1,000	<hr/> 650
17. PROVISIONS EMPLOYEE BENEFITS		
(a) Current: Annual Leave	69	56
	<hr/> 69	<hr/> 56
(b) Non-Current:		
Long Service Leave	52	39
	<hr/> 52	<hr/> 39
The settlement of annual and long service leave liabilities gives rise to the payment of employment on-costs including superannuation and workers compensation premiums. The liability for such on-costs is included here. The associated expense is included under Other related expenses (under Employee expenses) at Note 2. The superannuation liability has been established from data supplied by the Government Employees Superannuation Board. The Regulator considers the carrying amount of employee benefits to approximate their net fair value.		
(c) Employee Benefit Liabilities		
The aggregate employee benefit liability recognised and included in the financial statements is as follows:		
Provision for Employee Benefits:		
Current	69	56
Non-Current	52	39
	<hr/> 121	<hr/> 95

Western Australian Independent Gas Pipelines Access Regulator

Notes to the Financial Statements: 30 June 2003

2003

	2002/03 \$'000	2001/02 \$'000
18. OTHER LIABILITIES		
Accrued salaries owing for the 7 working days from 20 to 30 June 2003 (2002: 6 working days)	17	14
	17	14
19. EQUITY		
Accumulated Surplus/(Deficiency)		
Opening Balance	1,028	993
Change in Net Assets	(925)	35
Closing Balance	103	1,028
20. NOTES TO THE STATEMENT OF CASH FLOWS		
(a) Reconciliation of Cash		
Cash at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:		
Cash Assets	491	618
	491	618

Western Australian Independent Gas Pipelines Access Regulator

Notes to the Financial Statements: 30 June 2003

2003

	2002/03 \$'000	2001/02 \$'000
(b) Reconciliation of Net Cost of Services to Net Cash Flows Provided by/(Used in) Operating Activities		
Net Cost of Services	(952)	20
Non-Cash Items		
Doubtful Debts Expense	800	0
Depreciation and Amortisation Expense	31	38
Resources Received Free of Charge	27	15
(Increase)/Decrease in Assets:		
Accounts Receivable	(524)	(715)
Other Current Assets	(7)	15
Increase/(Decrease) in Liabilities:		
Accounts Payable	146	(99)
Amounts due to the Treasurer	350	650
Employee Benefits Liabilities	26	23
Other Liabilities	3	(6)
Cash From Non-Operating Activities:		
Treasurer's Advance	(350)	(650)
Net Cash Provided by/(Used in) Operating Activities	(450)	(709)

21. COMMITMENTS FOR EXPENDITURE

Commitments in relation to non-cancellable operating leases contracted for at the reporting date but not recognised as liabilities are payable:

Within one year	86	55
Later than one year and not later than five years	7	0
Later than five years	0	0
	93	55

These commitments are all inclusive of GST.

Western Australian Independent Gas Pipelines Access Regulator

Notes to the Financial Statements: 30 June 2003

2003

22. CONTINGENT LIABILITIES

The Regulator has no contingent liabilities as at 30 June 2003.

23. EVENTS OCCURRING AFTER REPORTING DATE

On 28 November 2002 Epic Energy (WA) Transmission Pty Ltd commenced proceedings in the Supreme Court of Western Australia seeking declarations as to the validity, or alternatively, the proper construction of the Gas Pipelines (Western Australia) (Funding) Regulations 1999 ("the Regulations").

The Court delivered its decision on 15 August 2003. The Court held that the Regulations were valid and upheld the ability of the Regulator to recover operating expenses through standing charges assessed under the Regulations. However, the Court upheld Epic Energy's contentions that the charges imposed under the Regulations had to be reasonable and that section 87 of the *Gas Pipelines Access (Western Australia) Act 1998* did not authorise the imposition of fees to recover costs of the Regulator participating in judicial review proceedings, which costs were to be in the discretion of the Court. The immediate effect of the decision of the Court is that the Regulator was unable to recover costs of \$800,000, which have been incurred to date in respect of judicial review proceedings. This amount has been identified as a doubtful debt under note 12.

Western Australian Independent Gas Pipelines Access Regulator

Notes to the Financial Statements: 30 June 2003

2003

24. FINANCIAL INSTRUMENTS**(a) Interest Rate Risk Exposure**

The following table details the Regulator's exposure to interest rate risk as at the reporting date:

	2003				2002			
	Weighted average effective interest rate %	Floating interest rate \$'000	Non interest bearing \$'000	Total \$'000	Weighted average effective interest rate %	Floating interest rate \$'000	Non interest bearing \$'000	Total \$'000
Assets								
Cash Assets	4.25	491	0	491	4.36	618	0	618
Accounts Receivable	9.85	845	0	845	11.50	671	450	1,121
Total Financial Assets		1,336	0	1,336		1,289	450	1,739
Liabilities								
Accounts Payable	N/A	0	149	149	N/A	0	3	3
Treasurer's Advance	N/A	0	1,000	1,000	N/A	0	650	650
Total Financial Liabilities		0	1,149	1,149		0	653	653
Net Financial Assets		1,336	(1,149)	187		1,289	(203)	1,086

(b) Credit Risk

The carrying amount of financial assets recorded in the financial statements, net of any provisions for losses, represents the Regulator's maximum exposure to credit risk without taking account of any collateral or other security obtained.

(c) Net Fair Value of Financial Instruments

The carrying amount of financial assets and financial liabilities recorded in the financial statements are not materially different from the net fair values, determined in accordance with the accounting policies disclosed in Note 1 to the financial statements.

Western Australian Independent Gas Pipelines Access Regulator

Notes to the Financial Statements: 30 June 2003

2003

25. REMUNERATION OF THE ACCOUNTABLE AUTHORITY AND SENIOR OFFICERS**Remuneration of Accountable Authority**

The Accountable Authority's total of fees, salaries superannuation and other benefits received, or due and receivable, for the financial year, who fall within the following bands:

110,001 - 120,000

Total Remuneration of the Accountable Authority is:

2002/03 \$'000	2001/02 \$'000
1	1
114	115

The Accountable Authority is not a member of the Pension Scheme.

Remuneration of Senior Officers

The number of Senior Officers whose total of fees, salaries and other benefits received, or due and receivable, for the financial year, who fall within the following bands is:

110,001 - 120,000

120,001 - 130,000

Total Remuneration of the Senior Officer is:

1	0
0	1
112	125

The superannuation included here represents the superannuation expense incurred by the Regulator in respect of the senior officer. The senior officer is not a member of the Pension Scheme.

26. SUPPLEMENTARY FINANCIAL INFORMATION

There have been no assets or other public property written off during the financial year, neither have there been instances of losses through theft, default or other causes during the financial year.

Western Australian Independent Gas Pipelines Access Regulator

Notes to the Financial Statements: 30 June 2003

2003

	Estimate \$'000	2002/03 Actual \$'000	Variance \$'000
27. EXPLANATORY STATEMENTS			
i) Significant Variances Between Estimates and Actual Results for the Financial Year			
Operations of the Office of the Regulator			
Expenditure	1,950	2,817	867
Revenue	1,950	1,865	(85)
<p>The difference between the estimate expenditure and actual expenditure for the year largely reflects the provision of Doubtful Debt (\$800,000, as per note 12) that has been recognised, as some of the legal costs incurred may not now be recoverable. In addition, increases in access arrangement activity resulted in higher than budgeted expenditure. There is usually correlation between the collection of revenue and expenditure levels of the Regulator's office, as costs incurred in operations are recouped from the pipeline owners to the extent provided for in the <i>Gas Pipelines Access (Western Australia) (Funding) Regulations 1999</i>.</p>			
ii) Significant Variances Between Actual and Prior Year Actual Results			
Operations of the Office of the Regulator			
Expenditure	2,817	1,997	820
Revenue	1,865	1,966	(101)

The increased expenditure in 2002/03 reflects recognition of Doubtful Debts expense of \$800,000.

Western Australian Independent Gas Pipelines Access Regulator

Notes to the Financial Statements: 30 June 2003

2003

28. OUTPUT INFORMATION

	OUTPUT 1 Approved Access Arrangements		OUTPUT 2 Oversight of Gas Pipelines		OUTPUT TOTAL	
	2002/03 \$'000	2001/02 \$'000	2002/03 \$'000	2001/02 \$'000	2002/03 \$'000	2001/02 \$'000
COST OF SERVICES						
Expenses From Ordinary Activities						
Employee Expenses	117	106	669	608	786	714
Supplies and Services	595	224	132	99	727	323
Depreciation Expense	5	6	26	32	31	38
Administration Expenses	177	699	214	161	391	860
Accommodation Expenses	12	9	70	53	82	62
Other Expenses From Ordinary Activities	800	0	0	0	800	0
Total Costs of Services	1,705	1,044	1,112	953	2,817	1,997
Revenues from Ordinary Activities						
User Charges and Fees	775	992	1,000	974	1,775	1,966
Other Revenues From Ordinary Activities	13	8	77	43	90	51
Total Revenues from Ordinary Activities	788	1,000	1,077	1,017	1,865	2,017
NET COST OF SERVICES	917	44	35	(64)	952	(20)
REVENUES FROM STATE GOVERNMENT						
Resources Received Free of Charge	4	2	23	13	27	15
Total Revenues from State Government	4	2	23	13	27	15
CHANGE IN NET ASSETS	(913)	(42)	(12)	77	(925)	35

TERMINOLOGY AND ABBREVIATIONS

2003

A number of terms and commonly used abbreviations have specific meanings within the regulatory framework for natural gas pipelines and in relation to the activities of the Regulator. To assist in the reading of this annual report, these terms and abbreviations are defined as follows.

TERMINOLOGY

Access Arrangement: a documented arrangement for access to a natural gas pipeline or gas distribution network setting out the general policies of the service provider in relation to the provision of pipeline services, the terms and conditions for a set of standard or "reference" services, and the prices (reference tariffs) for these services.

Associate Contract: a contract, arrangement or understanding between a provider of pipeline services and an associated business in connection with the provision of a pipeline service.

Code: the National Third Party Access Code for Natural Gas Pipeline Systems, as contained in Schedule 2 of the *Gas Pipelines Access (Western Australia) Act 1998*.

Covered Pipeline: a pipeline or part of a pipeline that is subject to regulation under the provisions of the Code.

Distribution System: a system or network of gas pipelines established for the transportation of gas typically from a high-pressure gas transmission pipeline to locations of gas consumption.

Draft Decision: the draft decision issued by the Regulator as referred to in the Code.

Equivalent Standard Pipeline: a gas pipeline measured on the basis of capital value that is set at \$500 million and:

- is weighted to take into account the level of service estimated to be provided to such a regulated pipeline;
- takes into account completed and partly completed work in terms of fully completed work; and
- recognises that pipelines may be regulated for part of the year only.

Final Decision: the final decision issued by the Regulator as referred to in the Code.

Funding Regulations: *Gas Pipelines Access (Western Australia) (Funding) Regulations 1999*.

National Gas Pipelines Access Code (the Code): the National Third Party Access Code for Natural Gas Pipeline Systems, as contained in Schedule 2 of the *Gas Pipelines Access (Western Australia) Act 1998*.

Pipeline: a gas pipeline or pipeline system.

Regulator: Western Australian Independent Gas Pipelines Access Regulator.

Ring Fencing: the legal, financial and/or operational segregation of business activities of a pipeline service provider from other business activities of that service provider, particularly activities relating to the trading of natural gas.

Reference Service: a service for, or relating to, the transportation of gas that is specified in an Access Arrangement and for a reference tariff that is specified in that Access Arrangement.

Reference Tariff: a schedule of charges and/or set of criteria that, when applied to the characteristics of a user of a reference service, determine the charge payable for the service by the user to the service provider.

Transmission Pipeline: a gas pipeline used for the transportation of gas typically between a location of gas supply or production to the general location of gas use, but not typically to end users of gas with the exception of very large users of gas that may take gas delivery directly from transmission pipelines.

TERMINOLOGY AND ABBREVIATIONS

ABBREVIATIONS

AGN:	AlintaGas Networks Pty Ltd
CMS:	CMS Gas Transmission of Australia
DBNGP:	Dampier to Bunbury Natural Gas Pipeline
ERA:	Economic Regulation Authority
FRC:	Full Retail Contestability
GGP:	Goldfields Gas Pipeline
GRDP:	Gas Retail Deregulation Project
NGPAC:	National Gas Pipelines Advisory Committee
OffGAR:	Office of Gas Access Regulation