

GAS SUPPLY (GAS QUALITY SPECIFICATIONS) BILL 2009

Introduction and First Reading

Bill introduced, on motion by **Mr C.J. Barnett (Premier)**, and read a first time.

Explanatory memorandum presented by the Premier.

Second Reading

MR C.J. BARNETT (Cottesloe — Premier) [12.17 pm]: I move —

That the bill be now read a second time.

The purpose of the bill is to enable gas producers to supply gas into gas transmission pipelines at a broader specification than is currently permitted. This will facilitate the development of a greater range of gas fields to supply the domestic market, leading to increased competition and enhanced security of supply through a greater diversity of gas resources.

By way of historical background, as the former Minister for Energy in the Court government in 1995, I established a committee to review the gas specification applying to the Dampier to Bunbury natural gas pipeline. This resulted in the Dampier to Bunbury Pipeline Regulations 1998, which established a broader gas specification for that pipeline. These regulations ceased to have legal effect on 23 May 2003, when it was expected that the Economic Regulator would set the specification under the Gas Access Code. Due to various contractual issues, this outcome did not eventuate, and the gas specification applying to transmission pipelines remained a barrier to the development of broader specification gas fields.

I am advised that the Minister for Energy under the Carpenter government was supportive of the need to broaden the gas specification, and that the calling of last year's state election prevented the release of an issues paper on the matter. The Liberal-National government has developed this important legislation as a priority and is introducing it to the house within its first year in government. Considerable consultation with industry participants and stakeholders has informed the drafting of the bill.

The bill provides gas producers with a choice as to whether they will process gas to bring it within the specification prescribed for each relevant pipeline, or will supply gas outside the reference specification and compensate prescribed adversely affected parties. In addition, the bill establishes a rectification program that will either modify pre-1980 gas appliances to make them safe to operate on the lower energy content gas that may flow to natural gas distribution systems as a result of this bill, or replace them.

The bill provides that regulations may specify a standard specification, which is the broadest specification at which gas may be supplied to end users under the scheme; and a reference specification for each pipeline and an equivalent for each gas storage facility. The reference specification is likely to be the specification that the pipeline operator used to control the gas entering its pipeline on 1 January 2009, but could be adjusted to reflect contractual specifications or commercial risks undertaken by the operator. This specification will provide the trigger for determining when compensation is payable.

Gas transmission pipelines will be classified in the regulations as either PIA pipelines or part 4 pipelines. PIA pipelines will be covered by part 2 of the bill, and will likely be those that are fully utilised such that there is a reasonable expectation that the pipeline operator would be unable to meet its contractual commitments if gas were supplied below its reference specification. All other pipelines will be part 4 pipelines. The intent of this distinction is to ensure that transmission pipelines are not materially advantaged or disadvantaged by the supply of broad specification gas.

Part 2—Gas quality and capacity of PIA pipelines: A broader specification gas producer must establish a pipeline impact agreement with each PIA pipeline into which its gas will physically flow. The PIA may be negotiated by the parties, or the gas producer may choose a default contract prescribed in regulations. The relevant effects on a PIA pipeline's capacity, operations and maintenance, being the effects of receiving gas outside its reference specification, will be addressed through the PIA. Compensation for, or remediation of, capacity effects will be available before the broader specification gas flows. Compensation for operations and maintenance effects will also be available. The bill enables a PIA pipeline operator to control the flow of gas into its pipeline to ensure that the gas it is receiving is within either the pipeline's reference specification or the quality and quantity limits set by a PIA. The bill also enables the pipeline operator to allocate gas flows to the appropriate parties, in the event those limits are breached. Regulations will provide for adjustments to the scheme during specified short-term supply disruptions.

Part 3—Modifying gas contracts: Regulations under part 3 of the bill will modify gas contracts. For the scheme to work, almost every gas contract must be modified to override provisions that might otherwise restrict the flow

of broader specification gas—for example, because the gas flow may lead to liability or breach—or lead to unintended consequences—for example, as a result of a force majeure clause.

Part 4—Compensation for certain gas consumers and operators: Part 4 of the bill deals with the compensation scheme for certain gas consumers and the operators of gas storage facilities and part 4 pipelines. These parties should not be materially disadvantaged by the operation of the scheme and gas producers should not be exposed to speculative or opportunistic claims. Under Part 4, consumers and operators will be entitled to compensation for the effects of broader specification gas only after it has been received, when the effect has been suffered and the cost of rectifying it incurred. Consumers are entitled to compensation only during the term of a contract that was in force on 1 January 2009, without extension. Regardless of the contract length, any entitlement to compensation ends at 1 January 2029.

Part 5—Rectification program: Certain pre-1980 gas appliances may be unsafe when operated on lower energy content gas. The bill provides for the establishment of the rectification program under which unsafe appliances may be serviced to make them safe, or replaced. The program will be funded by gas producers who supply low energy content gas during a period of 10 years after the completion of the program.

Part 6—General provisions: Various parties will be required to publish, publicly or to specified parties, information about the quality and quantity of gas flowing at specified points. The bill allows for dispute resolution by an arbitrator or expert. The arbitrator or expert is to be given exclusive jurisdiction over certain matters. The bill contains a requirement for the operation and effectiveness of the act to be reviewed after 10 years of operation. I give notice to industry that this review is intended to consider whether compensation to part 4 pipelines and gas storage facilities should extend beyond 2029.

To conclude, this bill will introduce a new scheme for the gas industry. It will facilitate the development of new gas fields, providing greater security of supply and increased competition in the supply of gas. I refer members to the explanatory memorandum for greater detail on how the scheme will likely operate, and I commend the bill to the house.

Debate adjourned, on motion by **Mr D.A. Templeman**.