

Mr Eric Ripper; Mr John Bowler; Mr Colin Barnett; Chairman; Mr John Day; Mr Brendon Grylls; Mr Mick Murray

Division 9: Economic Regulation Authority, \$4 153 000 -

Mr D.A. Templeman, Chairman.

Mr E.S. Ripper, Minister for Energy.

Mr L. G. Rowe, Chairman.

Mr K.P. Kolf, Acting General Manager.

Mr G. W. Jayasinghe, Principal Accounting Officer.

Mr E.S. RIPPER: I heard someone say that he did not know of the existence of this authority. I point out that this is the first time this authority has appeared before the estimates committee, because it is a new authority dating from 1 January this year. It brings together the Office of the Gas Access Regulator and the Office of the WA Independent Rail Access Regulator; it also takes some responsibilities from the Office of Water Regulation and the Western Australian Office of Energy for licensing in the gas and water industries.

Mr J.J.M. BOWLER: I refer to the fourth dot point on page 190 of the *Budget Statements*. I was not too aware of the Economic Regulation Authority. However, I am very aware of the goldfields gas pipeline and the horrendous gas charges on that line that this Government inherited from the state agreement Act put in place by the previous Government.

Mr C.J. BARNETT: The member would have appreciated getting the gas pipeline.

The CHAIRMAN: Does the member for Eyre have a question?

Mr C.J. BARNETT: It was better than the 100 kilometres of desert the member for Eyre had before.

Mr J.J.M. BOWLER: Would the Leader of the Opposition appreciate paying about double the price that is paid for gas from the Bunbury gas pipeline?

The CHAIRMAN: Order, members! Does the member for Eyre have a question?

Mr J.J.M. BOWLER: Go and talk to the users.

The CHAIRMAN: The members are called to order. The member for Eyre has the call and I ask him to put a question.

Mr J.J.M. BOWLER: What progress is being made in trying to get some rationalisation on that line, so that the users at the other end, where my electorate is, are not totally screwed?

Mr E.S. RIPPER: The member for Eyre has just given a clear explanation, though not in academic terms, of the rationale for the independent regulation of monopoly assets. We cannot have a situation in which the owners of monopoly assets can charge whatever they like. There must be some balance between the rights of service providers and the interests of the community in having more investment in infrastructure, and the rights of consumers. In these cases the consumers about whom we are talking are essentially businesses, although some final consumers would pay more or less for the final product, depending on what the consuming business pays for the use of the infrastructure. The Chairman of the Economic Regulation Authority might be able to provide more up-to-date advice on the progress of the access arrangements for the goldfields gas pipeline. I can tell the member for Eyre that the goldfields gas pipeline has made an application for revocation of coverage. In other words, it has applied not to be covered by the national gas access code. That is a matter on which I am the decision maker, as the Minister for Energy. I am still seeking information from the National Competition Council, which is required to make a recommendation to me. It has made a recommendation and I am seeking further information. I have not made a decision on that matter.

Mr J.J.M. BOWLER: Has it offered any pricing cuts?

Mr E.S. RIPPER: It has simply made an application for revocation of coverage. I am yet to make a decision on the matter. I will not express a view one way or the other about whether the pipeline should be covered by the national gas access code or not. If it continues to be covered by the code, the decisions of the Economic Regulation Authority will be relevant. However, this pipeline was also established under a state agreement Act, a section of which contemplated independent regulation but stated that independent regulation could compromise the legitimate business interests of the owners of the infrastructure.

[4.50 pm]

Mr J.J.M. BOWLER: Is that a bit like the nod and the wink with the Epic Energy decision on the Bunbury-Dampier pipeline?

Mr Eric Ripper; Mr John Bowler; Mr Colin Barnett; Chairman; Mr John Day; Mr Brendon Grylls; Mr Mick Murray

Mr C.J. BARNETT: The member for Eyre would know that his Government put up the price on the goldfields gas pipeline.

Mr E.S. RIPPER: I am not in a position to comment on that assertion. There is a potential interaction between the state agreement Act and independent regulation, which has been the subject of a court action. At this stage, having exhausted my general knowledge, I will ask the Chairman of the Economic Regulation Authority to tell us where we are up to on goldfields gas access matters.

Mr ROWE: Despite the issue of the revocation of the pipeline, which, as the Treasurer has explained, is not an issue for the authority, the authority is proceeding to consider the access arrangement for the goldfields gas pipeline. We are close to finalising the revised draft decision on the pipeline. I hope that will be released publicly by the end of June, when there will be an opportunity for a period of public consultation prior to the authority making its final decision.

Mr C.J. BARNETT: For clarification, can the Treasurer confirm that the transport tariff was brought down and subsequently increased under his jurisdiction? This is for the benefit of the member for Eyre, because I think his research is a bit lacking. I would like to help him out.

Mr E.S. RIPPER: I do not have jurisdiction over the tariffs on the goldfields gas pipeline. The jurisdiction rested first with the Independent Gas Pipelines Access Regulator and secondly with the Economic Regulation Authority, as it is now constituted. There may have been changes to tariffs under the state agreement regime. Perhaps the chairman could comment.

Mr C.J. BARNETT: We forced it down and this Government put it back up; that is what happened. I wanted that information for the member for Eyre. I want him to know the facts.

The CHAIRMAN: Leader of the Opposition, Mr Rowe has the call.

Mr ROWE: Until such time as an access arrangement is in place, the authority does not have any say over the tariffs that apply to the goldfields gas pipeline. If it helps, I am happy to ask Peter to outline the background to the goldfields gas pipeline tariffs.

Mr C.J. BARNETT: The member for Eyre might benefit from that.

The CHAIRMAN: Does the Leader of the Opposition wish that to happen?

Mr C.J. BARNETT: I know what happened, but the member for Eyre could benefit from a briefing.

The CHAIRMAN: I think we will move on.

Mr J.J.M. BOWLER: I want to hear it.

Mr E.S. RIPPER: I think we are going into matters that are the responsibility of the Minister for State Development. The Minister for State Development and his agency are responsible for the implementation of the state agreement Act. The state agreement Act arrangements apply until there is an access regime under the gas access code, which is determined through the processes of the Economic Regulation Authority and the resolution of any subsequent appeals. All of that assumes that the coverage of the pipeline is not revoked. If the coverage of the pipeline were revoked, we would go back to whatever remaining provisions applied through the state agreement.

Mr J.H.D. DAY: Will the Treasurer please advise the current access arrangement for the Dampier to Bunbury natural gas pipeline? The current arrangement has been extended to the end of March 2005, but I understand that a large amount of litigation is still going on. Secondly, does the Treasurer share the concern that the current situation is leading to the pipeline not being expanded? What implications does that have for the generation of electricity in the south west part of the State? What is the current tariff?

Mr E.S. RIPPER: Two access arrangements relate to the Dampier to Bunbury natural gas pipeline. The access arrangement that expires at the end of this year was the subject of a final decision of the Independent Gas Pipelines Access Regulator and is now the subject of an appeal to the Western Australian Gas Review Board. The access arrangement to which the member referred, and which has been the subject of a small postponement, is the one that I believe applies from the beginning of next year. In a moment I might ask the chairman to comment on the situation with the Dampier to Bunbury natural gas pipeline. The consistent advice that has been given to me is that the tariff decision of the independent regulator was not responsible for the financial difficulties of the owner of the pipeline. I am advised that the tariff decision was consistent with the commercial operation and expansion of the pipeline. That is the advice that has come to me. Nevertheless, the access arrangement is the subject of an appeal to the Gas Review Board, which will make a decision in due course.

Mr J.H.D. DAY: I asked about the implications for gas supplies for electricity generation.

Mr Eric Ripper; Mr John Bowler; Mr Colin Barnett; Chairman; Mr John Day; Mr Brendon Grylls; Mr Mick Murray

Mr E.S. RIPPER: The member is really asking me to speak as Minister for Energy. It is important that the Dampier to Bunbury natural gas pipeline be expanded to meet the needs of the electricity supply industry and other gas consuming industries in the south west. That matter is important for the State's future. The Government's view - I am not speaking for the Economic Regulation Authority - is that the way to secure that expansion is for the pipeline to be sold. The new owner would expand the pipeline to meet the needs of the State. In essence, if the pipeline were owned by someone with robust financial capacity, it would be commercial to expand the pipeline under the tariff regime. We would expect the new owner to proceed with the expansion of the pipeline.

Mr J.H.D. DAY: What action is the Treasurer taking to try to get a resolution of that aspect?

Mr E.S. RIPPER: We have made the Government's position clear; we want the pipeline to be sold quickly to a new owner.

Mr J.H.D. DAY: What if that does not happen?

Mr E.S. RIPPER: The member is asking a hypothetical question.

Mr B.J. GRYLLS: However, it is an important hypothetical question.

Mr E.S. RIPPER: It is a very important issue. The Government is examining all the options available to it. The best solution is obviously for normal commercial processes to operate.

Mr C.J. BARNETT: However, they are not operating.

Mr E.S. RIPPER: It would be best for normal commercial processes to operate and for the pipeline to be sold to a financially robust operator who would then expand it. The people conducting the sale process and the leading bank involved in the loans to Epic Energy have both advised that the receivership for the pipeline should expedite the sale process. They have advised that their objective is the same as the Government's - to sell the pipeline quickly. I will ask the Chairman of the Economic Regulation Authority to further comment on the position of Epic Energy.

Mr ROWE: I will provide some clarification. The current access arrangement was due to expire at the end of this calendar year. There was a requirement on Epic Energy to submit a revised access arrangement on 1 April this year, and the commencement of the new access arrangement was to take place on 1 January 2005. Epic Energy applied to the authority for a three-month extension of both the submission and commencement dates. That application was agreed to. The revised submission date is now 1 July and the commencement date is now 1 April 2005.

Mr J.H.D. DAY: I asked what the tariff was.

The CHAIRMAN: Yes, there was a question on the tariff.

Mr J.H.D. DAY: I am asking for the current tariff for the transportation of gas.

[5.00 pm]

Mr E.S. RIPPER: I will ask Mr Kolf to answer on the tariff that now applies. It is the tariff flowing from the regulator's decision.

Mr C.J. BARNETT: No, it is the tariff actually being paid. What are people paying today? It is not the regulator's decision.

Mr KOLF: The tariffs that were approved by the regulator for the Dampier to Bunbury natural gas pipeline were 91c for zone 9 and 97c for zone 10. Downstream in zone 10 beyond compressor station 10 it was 98c. They are the approved tariffs as at 1 January 2000 and they are subject to 67 per cent consumer price index adjustment for inflation.

Mr E.S. RIPPER: I think the Leader of the Opposition, through an interjection, alluded to another aspect that needs to be taken into account; that is, that the shippers have contractual arrangements with Epic Energy that may override the tariffs under the access arrangement. Alcoa, Alinta and Western Power are the major shippers and each of them would have existing contracts with Epic Energy. Certainly, there has been public discussion of the fact that Alinta and Western Power are in negotiation with Epic Energy on new contracts with regard to the shipping of gas.

Mr M.P. MURRAY: On page 193 of the *Budget Statements*, the twelfth dot point states -

The fifth annual survey of customers' values and perceptions of the water industry was conducted.

Is there an overview of what came out of that survey?

Mr Eric Ripper; Mr John Bowler; Mr Colin Barnett; Chairman; Mr John Day; Mr Brendon Grylls; Mr Mick Murray

[Mr P.W. Andrews took the Chair.]

Mr E.S. RIPPER: I am a little hampered in my response because I believe that this may have been conducted by a predecessor agency to the Economic Regulation Authority that was not under my portfolio. However, the Economic Regulation Authority assumes responsibility for these matters and I think the chairman may be able to comment.

Mr ROWE: Recently, two public documents have come to the authority for approval. I would like to make sure about that. I think they have actually been released publicly but I will take that question on notice and come back to the member with the answer.

Mr E.S. RIPPER: We will provide as supplementary information the answer to the question asked by the member for Collie, which I understand to be: do we have further information about the fifth annual survey of customers' values and perceptions of the water industry, and is that document publicly available?

[*Supplementary Information No A26.*]

Mr B.J. GRYLLS: I refer to major initiatives for 2004-05 on page 193 of the *Budget Statements* and the review of the Dampier to Bunbury natural gas pipeline access arrangement. Will the minister outline what role the ERA will play in the negotiations for a new purchaser and if it is involved in that process? If a new purchaser wants to talk about tariffs, can the ERA be involved?

Mr E.S. RIPPER: My understanding is that the access arrangement applies to whoever owns the pipeline. The purchaser buys the pipeline in full knowledge of the state of the access arrangement. There is an access arrangement in place that is subject to appeal. Epic Energy has appealed the matter to the Gas Review Board and it will hear that appeal later this year. The Economic Regulation Authority would not have a role in negotiating on the sale of the pipeline.

Mr B.J. GRYLLS: Not at all?

Mr E.S. RIPPER: I do not believe so. I suppose it is possible that a purchaser might seek information on how the Economic Regulation Authority approaches matters. The chairman might like to comment on whether any approach has been made.

Mr ROWE: There has been no approach to date, but clearly the authority is happy to talk to anybody about those sorts of matters. The minister is right; the existing access arrangements are in place until 31 March next year. Currently, the requirement is that a revised access arrangement application be made on 1 July this year.

Mr C.J. BARNETT: My question probably has more to do with policy, so I will relate it to page 190 and the first dot point under significant issues and trends that refers to the establishment of the Economic Regulation Authority and the various regulatory functions it has taken over. Is it intended that any regulatory responsibility will be passed over to a commonwealth body such as the Australian Competition and Consumer Commission or the like?

Mr E.S. RIPPER: There has been discussion at the Ministerial Council on Energy on the question of independent regulation and a national scheme. The Ministerial Council on Energy, at the urging of the Commonwealth Government, has decided to support the establishment of an Australian energy markets commission that will be responsible for making decisions on the codes that will apply in the gas and electricity sectors. The ministerial council has also decided to support an Australian energy regulator that will be the independent regulator in gas and electricity at a national level. The markets in Western Australia are quite distinct from those in other States. We do not have any interconnection in gas or electricity. However, we are part of the national gas access code regime. In essence, new arrangements are in place for making changes to the national gas access code that are not inconsistent in principle with the arrangements that we have had in the past for making changes to the code. We will be part of those arrangements with regard to changes to the code. However, we will continue to have pipelines regulated under the code in Western Australia and subject to the decisions of a state-based Economic Regulation Authority rather than an Australian energy regulator. With regard to electricity, our market is at such a different stage from the market in the east that we will not be subject to either a national electricity code or national regulatory decisions. An access code is being developed in Western Australia and regulatory decisions under that access code will be made by the Economic Regulation Authority. It is important that, insofar as possible, our rules and arrangements are consistent with national rules. Nevertheless, there will be circumstances in which Western Australian rules and arrangements have to be different, but I do not want them to be unnecessarily different. With regard to the future, there is no determined government policy or cabinet decision on this matter. However, as the minister, I envisage that when we have gas interconnection with other States, we might then move to a position in which gas pipelines in Western Australia are subject to regulatory decisions at a national level.

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Mr C.J. BARNETT: I think the minister will find the transcontinental pipeline will come under national regulation, and that was agreed. I agree with what the minister said for that pipeline, but not for other pipelines.

[5.10 pm]

Mr E.S. RIPPER: If we reached a decision that a pipeline that crossed the Western Australian border was regulated by the AER but a pipeline that did not cross the Western Australian border was regulated by the Economic Regulation Authority, that would raise the question of consistency. I think at that stage the balance of the argument might shift to having all the pipelines in Western Australia regulated by the AER, but there is no definite government position on that. It is a hypothetical question; it is a long way into the future before we reach that sort of position.

The appropriation was recommended.