



5th September 2003

Gas Access Regime Inquiry
Productivity Commission
LB2 Collins Street East
MELBOURNE VIC 8003

Dear Sir/Madam,

Review of the Gas Access Regime

CSBP is pleased to make the following submission to the Productivity Commission (“PC”) in response to the invitation to participate in its inquiry into the Gas Access Regime. Unfortunately, we received advice regarding the inquiry only very recently and consequently, in order to meet the current deadline, our submission is brief.

CSBP is the chemicals and fertilisers division of the Wesfarmers group and has an ongoing interest in gas supply matters, as it is a direct consumer of approximately 30 TJ per day of natural gas transported via the Dampier to Bunbury Natural Gas Pipeline (“DBNGP”).and because its business is strongly leveraged to the Western Australian economy. CSBP consumes natural gas, primarily as feedstock and also for energy, in the manufacture of a range of chemicals and fertilisers, which are supplied into highly competitive domestic and international markets.

Gas Access Regime issues of particular relevance to CSBP are outlined below.

National or State Regulator

CSBP supports the retention of a Western Australian Gas Access Regulator, either as an independent body as at present or incorporated into the proposed Western Australian Economic Regulation Authority.

While a gas supply network exists in eastern Australia, there is currently no physical gas supply connection to Western Australia due to geographic separation. Also, WA’s gas supply market has unique issues which are best dealt with by a state regulator. It is submitted that efficiencies are likely to be achieved by the proposed formation of the WA Economic Regulation Authority, incorporating gas, electricity, water and rail regulation, whereas it is difficult to envisage significant benefits flowing from inclusion of WA gas access into a national regulatory authority.

Natural Gas as Feedstock

CSBP uses natural gas predominately as a chemical feedstock and also as a source of energy. This has implications for both the cost of delivered gas and gas quality requirements.



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It is recognised that, in Australia, energy uses for natural gas dominate and this naturally leads to a focus on the energy market when considering the Gas Access Regime. CSBP submits that issues related to feedstock uses for gas should also be recognised and given appropriate weight. Specific factors to be considered include:

- the need for consistent high quality gas supply;
- the added value to the Australian economy created by converting feedstock gas to chemical products; and
- the need for the cost of such downstream products to be competitive nationally and internationally, that is import and export competitive.

On the specific issue of gas quality, CSBP is strongly opposed to the broadening of gas specifications, as this would reduce the competitiveness of existing industries using gas as feedstock and would also inhibit the development of new value-adding chemical manufacturing operations. Introduction of the Australian Standard gas specification as the reference specification for WA would represent such a broadening.

It is contended that broadening of gas specifications also reduces the cost efficiency of pipeline systems due to the transport of additional quantities of inert gases that have no value either as energy sources or as chemical feedstock. Also, carbon dioxide in natural gas has the potential to react with other inputs to chemical processes, again reducing production efficiency and competitiveness.

In addition, in the interests of reducing greenhouse gases, excessive carbon dioxide in natural gas should be reinjected into gas reservoirs wherever feasible.

Lessons from WA

The delays in finalising access arrangements for the DBNGP have been reported extensively. It would be natural to conclude that the WA gas access regime had failed and should therefore be overhauled or replaced. It is contended that the delays in finalising an access arrangement for the DBNGP can be attributed in large part to the outcome of the privatisation process for the pipeline, which resulted in the current pipeline owner Epic Energy seeking to recover its high purchase cost in a market which had not grown sufficiently to support such a high cost base.

For this same reason, there remains a significant risk that tariffs for the DBNGP will be set at compromise levels which are higher than originally proposed by the WA Gas Access Regulator (with reference to objective tests). This will be to the detriment of the competitiveness of WA industry, with economic flow on effects through the community.

It is suggested that greater clarity (in terms of guidelines) is required for regulators in determining the capital bases for pipelines for calculation of reference tariffs, thus reducing the potential for disputes between pipeline owners and regulators and shortening the assessment process. Such guidelines should focus on economically competitive measures for determining the capital base.

Ongoing Interest

We confirm our interest in receiving information on the progress of the PC's inquiry and in opportunities for further participation.

We trust that our submission will assist the PC in reaching a balanced view of gas access issues, however, if the PC requires clarification of any of the points outlined above, we would be happy to provide further commentary or explanation.

Yours faithfully,
CSBP Limited

A handwritten signature in black ink, appearing to read "I. R. Hansen", with a horizontal line underneath.

Ian Hansen
General Manager - Chemicals