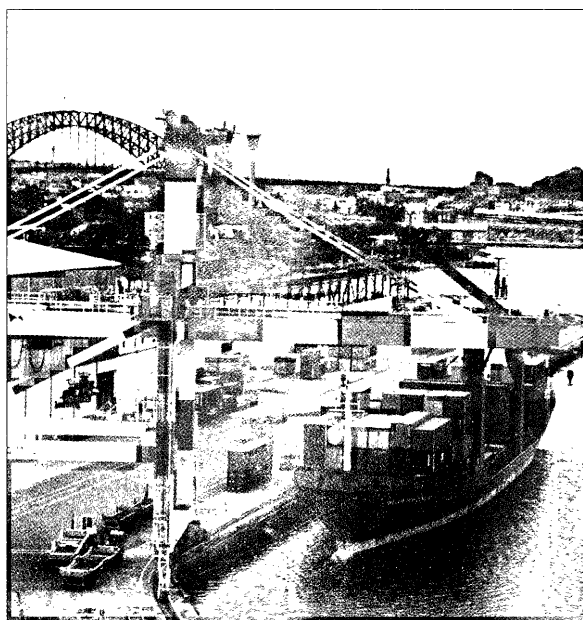

Regulatory issues

Stevedoring report shows fall in costs

The Commission recently released its second monitoring report on prices, costs and profits of container stevedoring operations in Australia as part of its monitoring program which started in February 1999. The aim of the program is to monitor the impact on costs, prices and margins of waterfront reform by the three major container stevedoring companies.

It complements the capital productivity and reliability monitoring of the stevedores undertaken by the Bureau of Transport Economics and reported in its *Waterline* publication. The monitoring report also provides information about the absorption of the stevedoring levy.

In March 1999 the Federal Government introduced the stevedoring levy of \$12 per container and \$6 per vehicle to finance redundancies that occurred as a result of new enterprise bargaining agreements between the stevedores and the Maritime Union of Australia.



In adopting the levy the Federal Government was concerned that it should not be passed on to users as higher stevedoring charges.

The second stevedoring monitoring report found that the cost of the levy appears to have been offset against other savings. On the evidence available to the Commission the stevedore levy has not been passed through as higher charges.

The first container monitoring report in October 1999 outlined the monitoring methods and presented initial findings for the base period November 1998–January 1999 and February–June 1999. The second report presents further trends for prices, costs and profits on an amalgamated basis and for individual companies and terminals for the two consecutive six-monthly periods, July–December 1999 and January–June 2000.

The second report shows that costs for container stevedoring in Australia decreased for both major stevedoring companies.

During the six months to December 1999, P&O Ports completed its labour force restructuring. It negotiated a 34 per cent reduction in its permanent workforce with the Maritime Union of Australia across all its operations including its container terminals in a series of 26 separate agreements. While P&O Ports' labour costs fell significantly, it did experience implementation difficulties and subsequently subcontracted work to its major competitor Patrick. P&O Ports has since resolved some of its earlier difficulties and the level of subcontracting between the major stevedoring companies fell significantly.

Container throughput for the six months July–December 1999 increased because of seasonal factors and trade growth. This, in conjunction with P&O Ports reduced labour costs, led to the major decline in average costs from \$161 per TEU (twenty-foot equivalent units) for February–June 1999 to \$145 per TEU for July–December 1999. At the same time average revenue per TEU decreased from \$184 to \$182. P&O Ports provided some evidence of stevedoring rate reductions during this period.

Although Patrick did not provide details of lower stevedoring charges, its average revenue per TEU fell for both consecutive six-monthly periods to June 2000.

During the six months to June 2000, throughput stabilised to roughly the levels recorded in the six months to December 2000. Industry-wide average revenue per TEU continued to fall while, in contrast, industry-wide average costs per TEU increased slightly as trends in costs kept pace with throughput trends.

During the six months to June 2000, capital productivity as measured by the five-port-average crane and elapsed rates, has increased.

The report is available from all Commission offices or from Robert Booth on (02) 6243 1143 for \$10 postage paid.

Commission holds forum for the Moomba to Adelaide pipeline

The Commission held a pre-decision consultation forum in Adelaide on 2 November 2000 to discuss issues arising from its draft decision on Epic's proposed access arrangement for the Moomba to Adelaide pipeline system.

Key issues discussed included initial capital base, rate of return, trigger mechanisms, possible need for a back-haul tariff, extensions and expansions policy, queuing policy and potential capacity transfer mechanisms.

A transcript of the pre-decision forum is available from the Commission's website at <<http://www.accc.gov.au>> under 'Gas'.

Proposed roll-in of the Victorian south-west pipeline

On 17 November 2000 the Commission released an issues paper calling for submissions on a proposal by GPU GasNet Pty Ltd under the National Gas Code to roll-in the cost of the southwest pipeline (\$75.5 million)

to the capital base of the Victorian Principal Transmission System (PTS). If approved, revenues and tariffs on the PTS would rise on average by 12.8 per cent in net present value terms over the life of the assets.

The south-west pipeline comprises:

- the south-west link (from Lara, near Geelong, to Iona); and
- the western system link (from Iona to North Paaratte) and associated facilities.

It links the PTS with the Western Underground Gas Storage Pty Ltd facility at Iona, Otway Basin gas fields and the western transmission system.

GPU GasNet submits that while the southwest pipeline would not pass the code's economic feasibility test, the investment would pass the system-wide benefits test. GPU GasNet states that substantial security and competition benefits arise from creating a link with the underground storage facility and with existing and prospective gas fields in the Otway Basin, thus reducing reliance on Esso/BHP's Bass Strait gas supplied from Longford.

GPU GasNet proposes to recover the costs of its investment in the southwest pipeline by increasing the existing injection tariff charged at Longford and by creating a new tariff at that level for gas injected at Iona and the Otway Basin. Most of the additional revenue would be generated from injections at Longford.

Threshold issues being considered by the Commission are whether the investment is prudent and whether it passes the system-wide benefits test. The reasonableness of the proposed tariff structure will also be considered.

Carpentaria pipeline and Roma to Brisbane pipeline access arrangements

On 24 November 2000 the Commission released an issues paper calling for submissions on proposed access arrangements for:

- the Wallumbilla to Brisbane pipeline (commonly known as the Roma to Brisbane pipeline); and

- the Ballera to Mount Isa pipeline (commonly known as the Carpentaria gas pipeline).

The Commission is significantly restricted in its assessment of these access arrangements by legislative exemptions in the Queensland Gas Pipelines Access Law. Principally, it is prohibited from reviewing the reference tariffs, reference tariff policies and review periods for these access arrangements.

Carpentaria gas pipeline

The Carpentaria gas pipeline (CGP) transports gas from the producing fields at Ballera to markets in Mount Isa and along the pipeline route. The CGP is owned by the Carpentaria Gas Pipeline Joint Venture (CGPJV) and operated by Roverton Pty Ltd. The CGPJV proposes to offer the following two transportation services under its access arrangement.

Reference service — This is a non-interruptible transportation service for gas delivered into the CGP by or on behalf of the user through any length of the pipeline in the direction from south-west Queensland to Mount Isa, including an overrun service. The reference service is offered for capacity up to the first 175TJ/day in the pipeline.

Negotiated services — These are agreements negotiated to meet the needs of a user that differ from those of the reference service.

Roma to Brisbane pipeline

The Roma to Brisbane pipeline (RBP) sources gas from four inlet stations at the gas hub at Wallumbilla near Roma. Gas is also supplied from south-west Queensland producers via a pipeline from Ballera. Gas is transported to southern-central Queensland markets along the pipeline route and into Brisbane and south-east Queensland.

Australian Pipeline Trust Petroleum Pipelines Ltd (which operates the RBP) and Interstate Pipelines Pty Ltd (APT/IPL) own the RBP. They are the joint service provider for the purposes of the proposed access arrangement.

APT/IPL proposes to offer the following two transportation services under its access arrangement.

Reference service — This is a non-interruptible transportation service for gas delivered into the RBP by or on behalf of the user through any segment of the RBP in the direction from Wallumbilla to Brisbane, including an overrun service. This reference service is offered for capacity up to the first 101TJ/day of contracted capacity.

Negotiated service — This is a service offered for capacity from 101TJ/day to 118.5TJ/day. Agreements can also be negotiated to meet the needs of a user that differ from those of the reference service. Any disputes should be resolved according to the dispute resolution procedures set out in the national gas code and associated law. The derogation restricting the Commission from assessing reference tariffs only applies to services utilising capacity up to 101TJ/day.

Submissions were requested by 29 January 2001. The issues paper relating to these proposed access arrangements can be obtained from the Commission's website at <<http://www.accc.gov.au>> under 'Gas'.

Draft decision on Moomba to Sydney pipeline

The Commission issued its draft decision proposing not to approve the Moomba to Sydney pipeline (MSP) access arrangement on 19 December 2000. The draft decision sets out the reasons for the decision and the amendments which must be made before approval is granted.

The pipeline is owned by East Australian Pipeline Limited (EAPL) which is part of the recently listed Australian Pipeline Trust. The access arrangement describes the terms and conditions under which EAPL will make access available to third parties on the natural gas transmission pipeline.

The decision proposes a fall in tariffs on the main pipeline (from Moomba to Wilton) of 34 per cent compared to the tariffs proposed by EAPL.

EAPL's proposed tariffs were set on the basis of a higher asset base, a higher rate of return and higher depreciation charges than those considered appropriate by the Commission.

In proposing this reduction, the Commission aims to establish tariffs that are efficient and provide the right incentives for both pipeline investment and pipeline utilisation.

However, the reduction in reference tariffs will not be across the board. Currently, common tariffs are charged on the mainline and lateral (which supply regional NSW centres) segments of the pipeline. EAPL proposed that separate tariffs would apply to mainline and lateral pipelines to better reflect the underlying costs associated with these services. Based on EAPL's proposals, gas users on the lateral pipelines would face increases in tariffs of up to 60 per cent by the fifth year of the access arrangement period. While the Commission has accepted EAPL's adjustment to the tariff structure, the amendments it proposed will result in increases of approximately 10 per cent on lateral tariffs.

After an extensive assessment process, the Commission has proposed that the appropriate benchmark return on equity for the MSP is 13 per cent rather than the range of 13.1 to 14.6 per cent proposed by EAPL. The return for the MSP reflects that it is an established pipeline with firm contracts in place.

However, EAPL could exceed this rate of return if it is able to outperform its forecasts of market demand or actual costs are less than projected. In this way, the framework provides incentives for EAPL to operate more efficiently by allowing it to retain potential benefits.

EAPL proposed an asset valuation of \$666 million for the pipeline system for the purpose of setting transmission tariffs. The Commission has determined that it should be set at \$502 million. This is above EAPL's current book value and is broadly consistent with the sale prices of \$534 million paid by EAPL for the pipeline assets in 1994.

The Commission's draft decision is subject to further public consultation before the release of the final decision. Submissions from interested parties were requested by 9 February 2001. Copies of the draft decision are available from the Commission's website at <<http://www.accc.gov.au>> under 'Gas'.