Purpose

The Bill has two purposes, first to increase the size of the Pipeline Authority (PA) by one member and to ensure that a member of the Authority is a nominee of the Australian Gaslight Company (AGL) and, secondly, to remove the need for legislation to authorise the construction of gas pipelines.

Background

Following the discovery of substantial natural gas reserves in South Australia near Moomba, various companies put forward plans to transport the gas to Sydney and, later, to other major New South Wales cities. AGL contracted to purchase Moomba gas and proposed the construction of a pipeline to Sydney. Before construction began, the Government announced plans for a national pipeline system which would eventually reach from Victoria to Western Australia and make use of the North-West Shelf natural gas deposits. The Moomba-Sydney pipeline was to form an integral part of this plan and, in 1973, the PA was created to perform the construction of the various pipelines. Following negotiations between the Government and AGL, both before and after the establishment of the PA, an agreement (the 'Haulage Agreement') was entered into between the parties, for the transport of natural gas.

Under the agreement, which was dated 26 March 1973, the PA guaranteed to construct the Moomba-Sydney pipeline and to supply AGL with the gas it had contracted to buy from the South Australian producers. For its part, AGL would purchase a nominated amount of gas each year, pay transport fees and distribute the gas. In recognition of the problems that would be faced in the early years of the pipeline's
operation with high capital costs and relatively low revenue due to the initially small volume of gas distributed, the agreement was concluded on the basis that the PA would incur losses in the initial year and that these losses, together with interest, would be recouped in later years.

However, since the agreement was signed AGL has been unable to sell the amount of gas it had nominated and, as a result, the amount transported has fallen short of the nominated amount. This has meant that, despite increases in the price for transportation, the PA has been unable to recover its initial losses and is still incurring losses. The PA made a loss of $16.1 million in 1983-84, and cumulative losses had reached $59 million by 30 June 1984. In his Second Reading Speech, the Minister estimated that total losses could reach $2,000 million by the time the agreement expired in 2006.[1] In order to avert this situation and to recover past losses, the Government has been attempting to negotiate a new agreement with AGL for approximately 7 years. The negotiations also included the New South Wales government and recently has led to a new agreement (the Heads of Agreement for Amendment of the 1974 Haulage Agreement). The Minister, Senator Gareth Evans, has been quoted as giving the following explanation for the success of the negotiations: 'AGL wanted compression on the pipeline which the Commonwealth was not obliged to introduce for some years. The NSW Government wanted the Bathurst-Orange-Lithgow section constructed and the Federal Government wanted the financing renegotiated'.[2] The major aspects of the new agreement are:

- the PA will construct a pipeline from Young to Bathurst, Orange and Lithgow at an approximate cost of $35 million. The pipeline is expected to be completed by 1988 and the gas will be distributed by AGL;

- AGL is to embark on a $20 million program to refurbish and expand its supply facilities;

- a new formula is to be introduced for calculating transport rates on the Moomba-Sydney pipeline. The Minister has stated that the new formula will not lead to an increase in real costs for NSW consumers.[3]
It is estimated that the new transport rates, combined with an increase in the volume of gas supplied when the Bathurst-Orange-Lithgow pipeline comes into operation, will allow the PA to cover its past losses and future costs so that the PA will be in a break-even position when the agreement expires in 20 years.

Due to the close relationship between the PA and AGL and their dependence on each other, the Government has agreed to an AGL request that it be represented on the Authority.

Main Provisions

Clause 3 will amend section 6 of the Pipeline Authority Act 1973 (the Principal Act) to increase the size of the Authority from 5 to 6 members. One of the members is to be a nominee of AGL.

Clause 4 will amend section 11 of the Principal Act to require that where an acting member is appointed to replace the AGL nominee, that person is also to be an AGL nominee.

Clause 6 will amend section 15 of the Principal Act to remove the need for legislation to authorise the construction of pipelines. This will return section 15 to its form before the passage of the Pipeline Authority Amendment Act of 1980.

For further information, if required, contact the Economics and Commerce Group.

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