

## OFFICE OF GAS ACCESS REGULATION

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## NOTICE

This is to notify that I have issued the Draft Decision in respect of the Access Arrangement lodged by CMS Gas Transmission Australia (CMS) for the Parmelia Pipeline [WA Pipeline License No's: 1-3, 5 and 23] on 7 May 1999.

I have not approved the Access Arrangement in its current form. My decision requires CMS to make amendments to the proposed tariffs for gas transportation and the terms for access to the Parmelia Pipeline.

I consider a reasonable Reference Tariff for the Parmelia Pipeline to be 55 cents per gigajoule, which will be marginally reduced by the introduction of an incentive mechanism.

This tariff is significantly lower than that proposed by CMS of 83 cents per gigajoule.

In arriving at this decision, I have concluded that the assumptions of CMS relating to the Rate of Return, Initial Capital Base, and gas throughput need to be revised.

With independent advice, I have concluded that the appropriate return on equity for the Parmelia Pipeline should be 12.3%. This rate of return equates to a Weighted Average Cost of Capital of 8.3%.

I consider that an Initial Capital Base of \$62.5 million is appropriate for the Parmelia Pipeline, recognising expectations of market growth rising to 60 terajoules per day by 2004.

If this market growth is not achieved, I will require the capital base of the pipeline to be reduced at the end of the Access Arrangement Period.

My decision has been made after considering the interests of all stakeholders and the risks faced by CMS. I will assess each regulated pipeline on a case by case basis and the decisions for the Parmelia Pipeline would not necessarily apply to other regulated pipelines.

In handing down this Draft Decision, I have set a period of 14 days for responses from CMS and other interested parties. Submissions should be received by the Office of Gas Regulation by close of business Friday 12 November 1999.

A copy of the Draft Decision can be obtained from the Office of Gas Access Regulation and is also available on the Internet at <http://www.offgar.wa.gov.au/>.

The Office of Gas Access Regulation proposes to hold a seminar on the issues raised in the Regulator's Draft Decision. The seminar will be held on Monday 29 November 1999. Details can be obtained from the Office of Gas Access Regulation (telephone +61 8 9213 1900).



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