



21 June 2001

NOTICE

DRAFT DECISION – DAMPIER TO BUNBURY NATURAL GAS PIPELINE

The Western Australian Independent Gas Pipelines Access Regulator, Dr Ken Michael, issued his Draft Decision today on the proposed Access Arrangement for the Dampier to Bunbury Natural Gas Pipeline (DBNGP), lodged on 15 December 1999 by Epic Energy (WA) Transmission Pty Ltd (Epic Energy).

The DBNGP transports gas from the North West Shelf to residential, business and industrial customers in the Pilbara, Carnarvon, Geraldton, Perth, Mandurah and Bunbury areas. The pipeline system comprises a main pipeline and laterals, with a total length of 1845 km and current delivery capacity in excess of 600 TJ/day to delivery points principally in the South West of Western Australia.

The Draft Decision of the Regulator is to not approve the proposed Access Arrangement in its current form. The Draft Decision requires Epic Energy to make amendments to the proposed tariffs for gas transportation and to the terms for access to the DBNGP.

The Regulator has based the Draft Decision on information made available by Epic Energy and other interested parties in the course of submissions. A complicating factor in this Draft Decision has been the circumstances surrounding the sale of the DBNGP. Epic Energy submitted that the manner in which the sale was conducted gave rise to the understanding of a regulatory compact between it and the Government on the price that may be charged for transmission of gas on the pipeline. While a number of references to transmission tariffs for the DBNGP were made at the time of the sale of the pipeline and subsequently, the Regulator has not been able to verify a regulatory compact.

The Draft Decision therefore seeks transmission tariffs for the DBNGP to be set so as to provide total revenue consistent with a fair and reasonable rate of return on an appropriate valuation of the pipeline (the Initial Capital Base).

Epic Energy proposed that the Initial Capital Base for the DBNGP should be based on the price it paid for the pipeline modified to include other adjustments since the time of the purchase. The amount proposed by Epic Energy as the Initial Capital Base was thereby calculated at \$2,570.34 million.

After carefully considering all of the information, including submissions from interested parties on information related to the sale process, the Regulator has concluded that a valuation based on the Depreciated Optimised Replacement Cost of



the pipeline, giving an Initial Capital Base of \$1233.66 million, is appropriate for the DBNGP.

The Regulator considers that this valuation of the Initial Capital Base is consistent with reasonable expectations that could have been formed from information provided to potential purchasers of the DBNGP, including Epic Energy, at the time the pipeline was sold.

In relation to projected capital expenditure, non-capital expenditure and forecast throughput, the Regulator has accepted, for the purposes of the Draft Decision, the proposals submitted by Epic Energy.

The Regulator has determined a real pre-tax rate of return (Weighted Average Cost of Capital) for the pipeline of 7.85 percent, which is not significantly different to the rate of return applied for by Epic Energy in December 1999, after allowing for changes that have arisen in interest and corporate tax rates since the proposed Access Arrangement was lodged. The rate of return determined by the Regulator equates to a nominal after tax return on equity of 13.16 percent.

The concept of the firm service as proposed by Epic Energy has also been accepted by the Regulator. The Regulator considers that this service, as amended, is similar to the T1 Service currently being offered on the pipeline.

In addition, the Regulator has accepted, in principle, Epic Energy's proposed zonal tariff structure.

For the purposes of the Draft Decision, the Regulator has estimated the indicative transmission tariff for the year 2000 taking into consideration the amended Initial Capital Base and rate of return. Charges, including the user specific delivery charge but excluding goods and services tax, are estimated in the range 75 cents per gigajoule for gas transmission to the Perth metropolitan area north of Kwinana Junction (Zone 9) to 89 cents per gigajoule for gas transmission to locations in Zone 10 further south. Overall, the average tariff for transmission of gas south of Zone 9 has been estimated at 84 cents per gigajoule, also including the user specific delivery charge. These estimates are on the basis of a 100 percent load factor.

As proposed by Epic Energy, the Reference Tariff has been assumed to be escalated on the basis of 67% of the Consumer Price Index.

The Regulator emphasises that the above Reference Tariff is indicative only and has been calculated for the purposes of the Draft Decision. The Regulator has intentionally left Epic Energy with some discretion in determining how to go about meeting the Regulator's required amendments and Epic Energy may propose a revised Reference Tariff that differs in some respects from that indicated above.

In handing down this Draft Decision, the Regulator has set a period of time for responses from Epic Energy and other interested parties. Submissions should be

received by the Office of Gas Access Regulation by close of business WST on Friday 10 August 2001.

A Public Forum to give interested parties an opportunity to raise issues relating to the Draft Decision and the proposed Access Arrangement has been scheduled for 2 August 2001. Details may be obtained from the Office of Gas Access Regulation (telephone +61 8 9213 1900) or from the OffGAR web site at <http://www.offgar.wa.gov.au/>.

A copy of the Draft Decision, proposed Access Arrangement, submissions to date and other information can be obtained from the Office of Gas Access Regulation and is also available from the web site.

For further information contact:

Mr Peter Kolf
Executive Director
Office of Gas Access Regulation
Phone +61 8 9213 1900
Fax +61 8 9213 1999

KEN MICHAEL
GAS ACCESS REGULATOR