Proposed Revised Access Arrangement Information 21 January 2005

DAMPIER TO BUNBURY NATURAL GAS PIPELINE

DBNGP (WA) Transmission Pty Ltd ACN 061 609 190 Level 7/ 239 Adelaide Terrace, Perth WA 6000 Contact: Anthony Cribb Telephone: (08) 9492 3803

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1. INTRODUCTION

This document sets out the Access Arrangement Information for the Dampier to Bunbury Natural Gas Pipeline ("DBNGP") pursuant to the requirements of the Gas Pipelines Access (Western Australia) Act 1998, which incorporates the National Third Party Access Code for Natural Gas Pipeline Systems ("Code").

2. ACCESS AND PRICING PRINCIPLES

2.1 Reference Service and Reference Tariff

Section 3.3 of the Code requires the Operator's Access Arrangement to offer a Reference Tariff for at least one service likely to be sought by a significant part of the market.

The Reference Tariff for the Tf Service offered by the Operator in its Access Arrangement is such a Reference Tariff.

2.2 Non-Reference Services

In addition to the Reference Service, Operator will, subject to operational availability (as determined by Operator as a reasonable and prudent pipeline operator), make available to a prospective shipper the following Service or Services:

- (a) Part Haul Service;
- (b) Back Haul Service;
- (c) Spot Capacity Service;
- (d) Park and Loan Service;
- (e) Seasonal Service;
- (f) Peaking Service;
- (g) metering information service;
- (h) pressure and temperature control service;
- (i) odorisation service; and
- (j) co-mingling service.

The Operator is prepared to negotiate to provide a prospective shipper with any other Service that is not a Tf Service.

Each of the services listed above in this section 2.2 is known as a Non-Reference Service. The Non-Reference Services offered by the Operator are intended to cater to the individual needs of prospective shippers. They are described in more detail below.

(a) Part Haul

Part Haul is a Gas transportation Service in the DBNGP where the Delivery and Receipt Points are upstream of Compressor Station 9 on the DBNGP, but does not include Back Haul.

(b) Back Haul

Back Haul is a Gas transportation Service in the DBNGP, where the Receipt Point is downstream of the Delivery Point.

(c) Spot Capacity Service

Spot Capacity Service means a Service for Spot Capacity by way of one or more Spot Transactions.

(d) Park and Loan Service

Shippers or prospective shippers serving end users with gas demands that are difficult to predict from day to day, or when faced with an outage from their gas supplier, may find the maintenance of their imbalances within the tolerance specified in the Access Arrangement difficult. To assist these shippers and prospective shippers, Operator will offer a Park and Loan Service, permitting limited gas storage in the DBNGP, and/or taking of additional Gas from the DBNGP when required. Operator's ability to offer a Park and Loan Service is restricted by the operating characteristics of the DBNGP.

(e) Seasonal Service

Capacity in the DBNGP varies inversely with ambient temperature. A higher pipeline capacity is available during winter months when ambient temperatures are low. A lower capacity is available during summer months, with the lowest capacity usually available in January. Seasonal Service will only be made available subject to operational availability (as determined by Operator as a reasonable and prudent pipeline operator) and Operator meeting its obligations under Gas transportation contracts entered into prior to the commencement of the Access Arrangement Period.

(f) Peaking Service

This service will enable an increase in the MHQ at a Delivery Point for a specified period.

(g) Metering information service

This service will entail the provision of metering and operational data directly to a shipper in addition to the data the Operator agrees to provide under an Access Contract for the Reference Service.

(h) Pressure and temperature control service

This service will entail the provision of a service by the Operator to vary the temperature and/or pressure at which the Operator shall deliver Gas at an Delivery Point.

(i) Odorisation service

This service will entail the provision of a service by the Operator to odorise the Gas being delivered at an Delivery Point.

(j) Co-mingling service

This service entails the agreement by the Operator with a Shipper to blend Out–of–Specification Gas with the main Gas stream such that the aggregate of the main Gas stream is within specification.

In addition to the above Non-Reference Services, the Operator will provide services to shippers with Gas transportation contracts entered into before the commencement of the Access Arrangement Period.

3. TARIFF DETERMINATION METHODOLOGY

3.1 Tariff Structure

The Tf Service offered by the Operator is a Full Haul Service. It is a Gas transportation service on the DBNGP to a Delivery Point which is downstream of Compressor Station 9, regardless of the location of the Receipt Point, but does not include Back Haul.

The Reference Tariff for the Tf Service is a two-part tariff as follows:

(a) Capacity Reservation Tariff

The Capacity Reservation Tariff is a number of dollars per GJ of Contracted Capacity for Tf Service.

Each Tf Service Shipper is to pay the Operator a Capacity Charge, which is to be calculated for each Gas Day by multiplying the aggregate of the Shipper's Delivery Point MDQs by the Capacity Reservation Tariff.

(b) Commodity Tariff

The Commodity Tariff is a number of dollars per GJ of Gas actually Delivered to any Delivery Point downstream of Compressor Station 9 on the DBNGP.

Each Tf Service Shipper is to pay the Operator a Commodity Charge, which is to be calculated for each Gas Day by multiplying the aggregate of the quantity of gas delivered to the Tf Service Shipper at a Delivery Point or Delivery Points by the Commodity Tariff.

3.2 Cost allocation

The portion of Total Revenue attributable to provision of the Tf Service is recovered through the Reference Tariff.

The Reference Tariff has been determined under an assumption that all Shippers using Full Haul services are users of the Reference Service.

The Capacity Reservation Tariff recovers from each Tf Service Shipper a proportion of the return and depreciation on, and a proportion of the non capital costs incurred in operating and maintaining, the DBNGP. The Capacity Reservation Tariff essentially recovers the fixed costs of the DBNGP. The levels of these costs are determined by the total requirement for capacity to provide the Tf Service, and they to be recovered on the basis of Tf Service Shippers' contracted capacity requirements. The Commodity Tariff recovers from each Tf Service Shipper a proportion of the cost of the fuel gas used on the DBNGP. Fuel gas costs are the only variable costs associated with operation of the DBNGP. They are recovered from Tf Service Shippers on the basis of the quantity of Gas delivered to those shippers.

3.3 Incentive Structures

(a) Price Path

The Reference Tariff Policy set out in the Access Arrangement provides for Reference Tariff adjustment in accordance with a predetermined price path. The Reference Tariff will be adjusted annually during the Access Arrangement Period by 100 per cent of the increase in the CPI.

Price path regulation provides Operator with an incentive to minimise the costs of delivering the Reference Service. With the Reference Tariff constrained to increasing at 100 per cent of the increase in CPI, reductions in the cost of delivering the Reference Service increase profits, and these increases in profits are retained at least until the end of the Access Arrangement Period.

If Operator is able to increase demand for the Reference Service above the forecast quantities used in tariff determination, its revenue from sales will exceed the forecast revenue. To the extent that the increase in demand can be accommodated without a proportionate increase in cost, the Operator will generate higher than expected profits. These higher profits are retained at least until the end of the Access Arrangement Period.

(b) Efficiency Carryover

Additional incentives for efficiency improvement are provided by the inclusion of an efficiency carryover mechanism in the Reference Tariff Policy of the Access Arrangement. That mechanism provides, in accordance with section 8.44 of the Code, for a sharing of any returns to the Operator from the sale of Full Haul services in an Access Arrangement Period that exceeded the level of returns that were expected during that Access Arrangement Period for the sale of such services. This sharing is effected through inclusion of any efficiency gains in the current Access Arrangement Period is to be determined. If efficiency gains are made in the current Access Arrangement Period, the Operator is rewarded with a higher Reference Tariff in the following Access Arrangement Period, the Operator is rewarded with a higher Reference Tariff in the following Access Arrangement Period, the Operator is rewarded with a higher Reference Tariff in the following Access Arrangement Period, the Operator is rewarded with a higher Reference Tariff in the following Access Arrangement Period, the Operator is rewarded with a higher Reference Tariff in the following Access Arrangement Period. If efficiency "losses" are realized, the efficiency carryover mechanism works, symmetrically, to penalize the Operator with a lower Reference Tariff in the following Access Arrangement Period.

4. INFORMATION REGARDING CAPITAL COSTS

4.1 Initial Asset Values

The initial Capital Base has been established at a value of \$1,550.00 million as at 31 December 1999 in accordance with the Final Decision of the Independent Gas Pipelines Access Regulator.

The allocation of the initial Capital Base to asset classes as at 31 December 1999 is in accordance with the allocation made for determination of the Reference Tariff applicable during the initial Access Arrangement Period. Asset values by class of assets as at 31 December 1999 are indicated in Table 1.

Asset	Percentage of total asset value	Asset value at 31 December 1999 (\$m)
Pipeline	81.49	1,263.15
Compression	13.65	211.60
Metering	1.12	17.35
Other		
Depreciable	3.07	47.66
Non depreciable (land and linepack)	0.66	10.24
Total	100.00	1,550.00

TABLE 1: ASSET VALUE BY ASSET CLASS

4.2 Roll-forward of the Capital Base

The Operator has rolled forward the Capital Base to 31 December 2004 as follows:

- (a) commencing with the initial Capital Base of \$1,550.00 million on 31 December 1999;
- (b) actual new facilities investment during the initial Access Arrangement Period has been added;
- (c) depreciation as forecast in determining the Reference Tariff applying during initial Access Arrangement Period has been subtracted; and
- (d) the Capital Base in each year of the initial Access Arrangement Period has been escalated at the actual rate of inflation.

The roll forward of the capital base to 31 December 2004 is shown in Table 2.

Year ending 31 December	2000	2001	2002	2003	2004
Capital base at beginning of year	1,550.00	1,626.19	1,638.75	1,646.77	1,642.60
New facilities investment	25.68	3.27	1.26	0.77	3.38
Depreciation	39.41	41.49	42.85	43.90	45.05
Inflation adjustment	89.93	50.78	49.62	38.96	41.93
Capital Base at end of year	1,626.19	1,638.75	1,646.77	1,642.60	1,642.86

TABLE 2: ROLL FORWARD OF THE CAPITAL BASE (\$M NOMINAL)

4.3 New Facilities Investment

New Facilities Investment forecast to occur during the Access Arrangement Period is reasonably expected to pass the requirements of section 8.16 of the Code when that New Facilities Investment is forecast to occur.

The value of New Facilities Investment for the Access Arrangement Period is as shown in Table 3.

Year ending 31 December	2005	2006	2007	2008	2009	2010
Pipeline	88.91	275.19	0.00	226.84	101.28	0.00
Compression	100.50	117.79	0.00	0.00	0.00	0.00
Metering	0.00	0.00	0.00	0.00	0.00	0.00
Other	13.16	13.97	7.30	9.01	10.06	9.29
Non-depreciable	0.00	0.00	0.00	0.00	0.00	0.00
Total	202.57	406.95	7.30	235.85	111.34	9.29

TABLE 3: FORECAST NEW FACILITIES INVESTMENT (\$M NOMINAL)

4.4 Rate of Return

The Rate of Return for the Access Arrangement Period has been established as a pre-tax real weighted average of the returns applicable to debt and equity.

The return on debt has been determined as the sum of a risk free rate of return, an estimate of the corporate debt margin, and an estimate of the costs of raising debt.

The return on equity has been determined using the capital asset pricing model.

The Rate of Return parameters and values are shown in Table 4.

The pre-tax real weighted average cost of capital of 7.24%, shown in the last row of Table 4, has been used in calculation of Total Revenue.

Parameter	Calculation	Value
Nominal risk free rate of return	R _{f, nominal}	5.39%
Real risk free rate of return	R _{f, real}	2.77%
Market risk premium	$R_m - R_f$	6.00%
Asset beta	β _a	0.60
Debt beta	β _d	0.20
Debt margin	δ	1.36
Ratio of debt to total assets	D/V	60.00%
Corporate tax rate	т	30.00%
Valuation of imputation credits	Y	50.00%
Calculated values		
Ratio of equity to total assets	E/V=1-D/V	40.00%
Equity beta	$\beta_e = \beta_a + (\beta_a - \beta_d) \times D/E$	1.20
Cost of equity	$K_{e} = R_{f_{f} \text{ nominal}} + \beta_{e} \times (R_{m} - R_{f})$	12.59%
Cost of debt	$K_d = R_{f_r \text{ nominal}} + \delta$	6.75%
Expected inflation	$ \Pi_e = (1 + R_{f, \text{ nominal}})/(1 + R_{f, \text{ real}}) - 1 $	2.55%
WACC		
Post-tax nominal		6.99%
Post-tax real		4.32%
Pre-tax nominal		9.98%
Pre-tax real		7.24%

Table 4:	Rate of	Return	parameters	and	values
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4.5 Depreciation

A separate depreciation schedule has been determined for each of the four groups of physical assets that form the DBNGP. These four groups are:

- (a) pipeline assets;
- (b) compressor station assets;
- (c) metering assets; and
- (d) other assets.

For the assets in each of the four groups, depreciation during the Access Arrangement Period has been determined by applying the straight line method.

Assumptions for asset lives for new assets, and average remaining asset lives as at 31 December 2004 for assets in the initial Capital Base as at 31 December 1999, are shown in Table 5.

Asset	Asset Life (years)	Average Remaining Asset Life at 31 December 2004 (years)
Pipeline assets	70	49.50
Compression assets	30	14.60
Metering assets	50	33.50
Other depreciable assets	30	11.85

TABLE 5: ASSUMED ASSET LIVES

Table 6 shows the depreciation schedule for each class of assets comprising the Capital Base.

Year ending 31 December 2005 2006 2007 2008 2009 2010 Pipeline assets 28.08 30.10 34.90 35.79 40.03 42.53 Compression assets 13.83 17.62 22.09 22.66 23.24 23.83 Metering assets 0.61 0.63 0.64 0.66 0.68 Other depreciable assets 3.76 4.30 4.89 5.27 5.71 Total 46.28 52.65 62.53 64.37 69.65 73.25

TABLE 6: DEPRECIATION SCHEDULE (\$M NOMINAL)

Table 7 shows the roll forward of the Capital Base over the Access Arrangement Period on the basis of the forecast New Facilities Investment shown in Table 3 and Depreciation shown in Table 6.

TABLE 7: **ROLL FORWARD OF THE CAPITAL BASE THROUGH THE ACCESS ARRANGEMENT PERIOD (\$M NOMINAL)**

Year ending 31 December	2005	2006	2007	2008	2009	2010
Capital Base at beginning of year	1,642.86	1,841.08	2,242.38	2,244.39	2,473.16	2,577.97
New facilities investment	202.57	406.95	7.30	235.85	111.34	9.29
Depreciation	46.28	52.65	62.53	64.37	69.65	73.25
Inflation adjustment	41.94	47.00	57.24	57.29	63.13	65.80
Capital Base at end of year	1,841.08	2,242.38	2,244.39	2,473.16	2,577.97	2,579.82

0.69

6.20

5. INFORMATION REGARDING NON CAPITAL COSTS

Forecast Non Capital Costs for the Access Arrangement Period are shown in Table 8.

Year ending 31 December	2005	2006	2007	2008	2009	2010
Wages and Salaries	8.61	7.93	12.37	12.20	12.00	11.58
Materials and Services	34.78	34.82	44.03	42.72	41.47	43.81
Corporate Overheads	0.00	0.00	0.00	0.00	0.00	0.00
Fuel gas	20.11	23.19	40.83	38.79	37.88	41.11
Total	63.50	65.95	97.23	93.70	91.34	96.50

TABLE 8: NON CAPITAL COSTS (\$M NOMINAL)

6. TOTAL REVENUE

The Total Revenue has been calculated by the Cost of Service methodology as described in section 8.4 of the Code, wherein the Total Revenue is equal to the cost of providing all Services (which may be the forecast of such costs), and with this cost to be calculated on the basis of:

- (a) a return on the value of the capital assets that form the Covered Pipeline or are otherwise used to provide Services (Capital Base);
- (b) depreciation of the Capital Base (Depreciation); and
- (c) the operating, maintenance and other non capital costs incurred in providing all Services (Non Capital Costs).

The methodology has been applied in accordance with section 8.5A(c) of the Code under which a real Rate of Return is applied to the nominal Capital Base, and Depreciation and the Non Capital Costs are expressed as nominal (or escalated) values.

The Total Revenue for the Access Arrangement Period is shown in Table 9.

	2005	2006	2007	2008	2009	2010
Return on Assets	122.01	136.73	166.53	166.68	183.67	191.45
Depreciation	46.28	52.65	62.53	64.37	69.65	73.25
Non Capital Costs	63.50	65.95	97.23	93.70	91.34	96.50
Total	231.79	255.32	326.29	324.75	344.66	361.20

TABLE 9: TOTAL REVENUE (\$M NOMINAL)

7. INFORMATION REGARDING CAPACITY AND THROUGHPUT

7.1 Forecast of Contracted Capacities and Throughput

Tables 10 and 11 show the forecasts of contracted Full Haul capacity during the Access Arrangement Period, and of the volumes of Gas – throughput – expected to be delivered using that contracted capacity.

TABLE 10: FORECAST CONTRACTED CAPACITY (TJ/DAY)

Year ending 31 December	2005	2006	2007	2008	2009	2010
Full Haul	575.85	615.59	714.98	771.10	788.52	826.35

TABLE 11: FORECAST THROUGHPUT (TJ/DAY)

Year ending 31 December	2005	2006	2007	2008	2009	2010
Full Haul	554.83	591.85	681.93	736.94	753.68	788.39

7.2 Delivery Points and Numbers of Customers

Table 12 shows the Full Haul Delivery Points on the DBNGP, and the number of Shippers taking delivery of Gas at each of those Delivery Points.

Delivery Point	Number of Shippers
Muchea	1
Pinjar	3
Della Road	3
Ellenbrook	1
Harrow Street	3
Caversham	3
Welshpool	3
Forrestdale	3
Russell Road	3
Wesfarmers LPG	1
Australian Gold Reagents	1
Alcoa Kwinana	3
Kwinana Power Station	3
Cockburn Power Station	3
Barter Road/HiSmelt	2
Mission Energy Cogeneration	3
Kwinana Beach Road	1
Rockingham	1
WMC	0
Pinjarra	1
Alcoa Pinjarra	1
Pinjarra Cogeneration	2
Oakley Road	1
Harvey	1
Worsley	1
South West Cogeneration	3
Kemerton	1
Clifton Road	2

Table 12:Full Haul Delivery Points on the DBNGP and numbers of
Shippers taking delivery of Gas at each Delivery Point

8. KEY PERFORMANCE INDICATORS

8.1 Code Requirements

Attachment A to the Code requires Operator to provide information regarding key performance indicators ("KPIs"). More specifically, the Code seeks information on:

- (a) industry KPIs used by the Operator to justify "reasonably incurred costs"; and
- (b) the Operator's KPIs for each pricing zone, service or category of asset.

Provision of industry KPIs is difficult. There are few, if any, useful comparators of transmission pipelines in Australia. The principal national industry body representing gas transmission pipeline owners and operators, the Australian Pipeline Industry Association, does not publish key performance measures for operation of the pipelines owned by its members.

8.2 KPIs for the DBNGP

In the absence of accepted industry performance measures, the Operator has adopted the following KPIs for the DBNGP:

(a) Compressor Reliability

This KPI measures, as a percentage figure, the reliability of Compressors on the DBNGP by the following formula:

Compressor Reliability % = 100 x (Total Hrs - Forced Outage Hrs)/Total Hrs

where:

"Forced Outage Hrs" means the number of hours in a period when the compressor is not available for service, and the cause of unavailability has not been planned (for example, a shutdown due to failure of a critical pressure transmitter); and

"Total Hrs" means the number of hours that elapse between the start and finish times for the period.

(b) Compressor Availability

This KPI measures, as a percentage figure, the availability of each Compressor on the DBNGP by the following formula:

Compressor Availability % = $100 \times (Total Hrs - Forced Outage Hrs - Planned Outage Hrs)/Total Hrs$

where:

"Forced Outage Hrs" means the number of hours in a period when the compressor is not available for service and the cause of unavailability is not due to preplanned reasons (for example, a shutdown due to failure of a critical pressure transmitter);

"Total Hrs" means the number of hours that elapse between the start and finish times for the period; and

"Planned Outage Hrs" means the number of hours in a period when the compressor is not available for service and the cause of unavailability is preplanned (for example, a planned oil change, or a planned modification to the compressor fuel gas skid which prevents operation).

(c) Asset Utilisation

This KPI measures, as a percentage figure, the utilisation of the DBNGP. It is calculated using the following formula:

Asset Utilisation % = 100 x Actual Full Haul Throughput/Monthly Design Maximum Throughput

where:

"Actual Full Haul Throughput" means the summation of Gas deliveries from the DBNGP downstream of CS9 over a period; and

"Monthly Design Maximum Throughput" means the DBNGP maximum full haul throughput predicted by DBNGP operator modelling for the month(s) in which the period is contained.

(d) Fuel Efficiency

This KPI, measures, as a percentage figure, the efficiency with which fuel gas is used on the DBNGP. It is calculated using the following formula:

Fuel Efficiency % = 100 x Actual Fuel Consumption/Actual Full Haul Throughput

where:

"Actual Fuel Consumption" means the total of all compressor fuel gas consumed over a period; and

"Actual Full Haul Throughput" means summation of Gas deliveries from the DBNGP downstream of CS9 over the period.

Appendix 1 DBNGP SYSTEM DESCRIPTION AS AT JANUARY 2005