



GOLDFIELDS GAS PIPELINE

Public Forum

Dr Ken Michael AM
Independent Gas Pipelines Access Regulator

SGIO Theatre
Tuesday 15 May 2001

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Welcome / Introduction

- Purpose to consider Draft Decision.
- Provide clarification.
- Comments to assist Final Decision.
- Transcript of meeting to be available.

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OBJECTIVES

- **Promote Competition**
- **Encourage Economic Development**
- **Provide Value to Users**
- **Reasonable Return to Owners**

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Program

2:00 pm	Welcome – Ken Michael
2:05 pm	Overview – Ken Michael
2:20 pm	Key Issues – Peter Kolf
2:50 pm	Afternoon Tea
3:10 pm	Statement by GGT
3.20 pm	Open Forum
5:00 pm	Close

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Overview

- Access Arrangement raised particular issues:
 - Valuation of ICB
 - Rate of Return
 - Reference Tariff
 - Throughput forecast
- Other matters also attracted attention
- Peter Kolf to provide a more detailed presentation.



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Reference Service and Reference Tariffs

Mr K Peter Kolf
Executive Director
Office of Gas Access Regulation

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Services Policy

- Firm Service
- Negotiate non-reference services in good faith
- Interruptible service required

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Reference Tariff

Recover the efficient costs of delivering the Reference Service:

- ♦ capital costs;
- ♦ non-capital (operating) costs;
- ♦ depreciation costs; and
- ♦ a return on capital.

Procedure for Tariff Determination

- ◆ Initial capital base
- ◆ Capital expenditure
- ◆ Non-capital costs
- ◆ Rate of return on capital
- ◆ Depreciation schedule
- ◆ Total revenue
- ◆ Revenue allocation across services
- ◆ Reference tariff structure
- ◆ Incentive mechanisms

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Initial Capital Base (cont.)

GGT:

- ◆ Proposed a DORC value of \$450.0 million
- ◆ Estimated on a Depreciated Adjusted Historical Cost basis
- ◆ Assumed a units of production methodology
- ◆ Over a regulatory pipeline life of 42 years
- ◆ ICB of \$452.6 million

Initial Capital Base (cont.)

Regulator:

- ◆ Determined a DAC value of \$435.4 million and an ICB of \$438.0 million
- ◆ Values based on a straight line depreciation methodology
- ◆ Over an assumed weighted average asset life of 65 years

Initial Capital Base (cont.)

Regulator decided on DAC because:

- ◆ Design constraints imposed by the State Agreement;
- ◆ Inflation has been low
- ◆ Construction costs have not increased.

Capital Expenditure

GGP Proposed:

- ◆ Capital Exp of \$5.9 million over AA period

Accepted by Regulator

Non-Capital Costs

GGT proposed:

- ♦ \$54 million over AA period

Regulator adopted:

- ♦ \$48.9 million over AA period
- ♦ A reduction of 9.1%



Depreciation

GGT proposed:

- ◆ Units of production depreciation
- ◆ Asset life based on the regulatory life of 42 years
- ◆ Accelerated depreciation

Regulator adopted:

- ◆ straight line depreciation
- ◆ Weighted average asset life of 65 years

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Throughput Forecast

- Throughput forecast Conservative
- Additional advice on the throughput forecast requested

Rate of Return

Code requirements:

- ◆ Return commensurate with prevailing conditions in the market for funds and the risk involved in delivering the reference service.
- ◆ WACC calculated by reference to a financing structure that reflects standard industry structures for a going concern and best practice.

Rate of Return (cont.)

GGT proposed:

- ◆ CAPM WACC of 12.2% (real pre-tax)

Regulator adopted

- ◆ Return on Equity 13.30% (nominal post-tax)
- ◆ WACC 7.95% (real pre-tax)

Rate of Return (cont.)

Difference arises from:

- ◆ Lower risk free rate
- ◆ Lower inflation rate
- ◆ Higher gearing ratio
- ◆ Lower cost of debt risk margin
- ◆ Lower Australian market risk premium
- ◆ Lower asset beta
- ◆ Higher franking credit adjustment
- ◆ Lower corporate tax rate

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Total Revenue

- ◆ Regulator's Total Revenue estimated at \$259.9 million over the AA period
- ◆ No direct comparison in AA
- ◆ Total revenue to be verified

Reference Tariff

- ◆ Tariff structure at discretion of Service Provider
- ◆ Subject to broad criteria of efficiency and equity
- ◆ Regulator accepted the tariff structure proposed by GGT
- ◆ Would welcome further comments on structure
- ◆ Reference Tariff to be reduced by approximately 30%.

Indicative Tariff Reductions

◆ GGT Proposed Tariff		100 %
◆ Asset Life 65 years	-2.0%	98.0%
◆ Straight Line Depreciation	-3.3%	94.7%
◆ Regulator's ICB	-6.2%	88.5%
◆ Rate of Return	-17.4%	71.1%
◆ Operating Cost.	-1.0%	70.1%

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