3 March 2000

Mr Mike Jansen
Office of Gas Access Regulation
Level 6
197 St Georges Terrace
PERTH WA 6000

Dear Mr Jansen

PROPOSED ACCESS ARRANGEMENT FOR THE GOLDFIELDS GAS PIPELINE - GGT

Western Power offers the following comments on the above proposed Access Arrangement.

Historical Tariffs

Further Initial Benchmark Tariff information for year 1 – 16 would be of use for comparative purposes.

Initial Capital Base

In determining the initial capital base consideration should be given to Section 8.10 of the Code. In particular Sections 8.10 (a), (b) and (c) of the code outline the valuation methodologies that should be considered. It is considered that the valuation should normally fall between the values using Depreciated Actual Cost (DAC) and Depreciated Optimised Replacement Cost (DORC) methodologies.

Both the DAC and DORC methods have been used in obtaining a value for the Goldfields Gas Pipeline, which is in line with the requirements of the code. However Western Power believes that further investigation into the application of these valuation methods used in this Gas Access Arrangement is warranted. This is due to firstly the "Actual Cost" used in the DAC valuation and secondly the DORC appears to be the original cost adjusted for forex and inflation which may be more in line with an Inflation Adjusted Historical Cost approach to valuing assets.

Depreciation

The Units of Production depreciation method has been used for the GGT Access Arrangement. It is felt that this method does not adequately reflect the code's intention of considering the economic life of the asset. The units of production is reflecting the existing contracts that the GGT has in place. This is also thought not to reflect the "units of production" accounting concept in that the pipeline is not actually producing anything, it is a carrier of gas. Further investigation is required to assess the method employed.

Regulatory Rate of Return

The WACC of 12.2% is much higher than any other decision given on Access Arrangements by ORG, IPART or OffGAR in the past. We hear the arguments concerning this higher figure and the risks faced by this particular pipeline, however it is felt that careful investigation into this calculation is required by the Regulator. Following are some of the areas we believe need clarification:

Risk Free Rate: the Access Arrangement states that the GGT has "used 6.7 percent nominal as the applicable value for the risk free rate. This value reflects the 10 year bond rate prevailing immediately after the Reserve bank of Australia decision on 3 November 1999 on interests rates." It appears that no average was taken over a short period as done in other arrangements.

Beta Value: the value of 1.4 for this variable is higher than past decisions, IPART range is 0.9 – 1.1, ORG 1.2 and OffGAR's draft decision on the Parmelia Pipeline is 1.0. The use of Macquarie and the Australian Graduate School of Management is useful in understanding the high value. However it is felt that further investigation is also required.

Debt Margin: 2.25% is again higher than past decisions made by IPART (0.9 – 1.1%), ORG (1.2%) and OffGAR's draft decision on the Parmelia Pipeline (2%).

Dividend Imputation (Gamma) Factor: at 30 percent again is different to many other decisions made in the past.

Western Power trusts these comments will be of use in OffGAR's deliberation process.

Yours sincerely

N NINKOV
GENERAL MANAGER
CORPORATE STRATEGY

The organisation contacts should you require clarification or additional information concerning this submission are as follows:

Ms Lisa Gagiero
Business Analyst
Western Power
GPO Box L921
PERTH WA 6842
Telephone: 9326 4714