SUBMISSION BY WMC RESOURCES LTD ON GOLDFIELDS GAS TRANSMISSION PTY LTD PURPORTED REVISED ACCESS ARRANGEMENT AND SUPPORTING DOCUMENTATION

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REF: CW/KLK/17/3/1

6 January 2005

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Table of Contents

1. Background

On 29 July 2004 the Economic Regulation Authority (previously the Office of Gas Regulation) ("**Authority**") published its amended draft decision in relation to the Proposed Access Arrangement for the Goldfields Gas Pipeline ("**Pipeline**") submitted ("**1999 Proposed Access Arrangement**") by Goldfields Gas Transmission Pty Ltd ("**GGT**"), on behalf of the owners of the Pipeline, on 15 December 1999 ("**Amended Draft Decision**").

WMC provided comment on the Amended Draft Decision on 24 September 2004.

GGT provided a response to the Amended Draft Decision on 8 October 2004. This response indicated that GGT intended to lodge a revised Proposed Access Arrangement in accordance with section 2.15A of the *National Third Party Access Arrangement for Natural Gas Pipeline Systems* (the "**Code**").

On 17 November 2004, GGT submitted a revised Access Arrangement for the Pipeline ("**Purported Revised Access Arrangement**") purportedly in accordance with section 2.15A of the Code.

Pursuant to section 2.15A of the Code, after the publication of a draft decision, a Service Provider is entitled to resubmit a proposed Access Arrangement, revised so as to incorporate or substantially incorporate the amendments specified by the relevant Authority in its draft decision or otherwise address the matters the relevant Authority identified in the draft decision as being the reasons for requiring the amendments.

GGT also submitted the following documents to the Authority:

(a) an additional submission regarding the Amended Draft Decision, prepared in support of the Purported Revised Access Arrangement ("**Supplementary Submission**");

(b) an attachment to the Supplementary Submission purporting to set out GGT's "legitimate business interests" and reasonable expectations under the *Goldfields Gas Pipeline Agreement Act* 1994 (WA) ("**State Agreement**") ("**Legitimate Business Interests Attachment**");

(c) an attachment to the Supplementary Submission purporting to set out the replacement costs of the Pipeline ("**Venton Report**");

(d) an attachment to the Supplementary Submission purporting to define the upper limit of the of values for the rate of return for the Pipeline ("**KPMG Report**");

(e) an attachment to the Supplementary Submission entitled "Summary of Key Information 25 November 2004";

(f) a revised set of Reference Service General Terms and Conditions;

(g) a revised set of General Terms and Conditions ("**Revised General Terms and Conditions**"); and

(h) a revised set of Access Arrangement definitions and interpretations.

(collectively, the "**Supporting Documentation**"). GGT did not submit a revised Access Arrangement Information document in support of the Purported Revised Access Arrangement.

By its issues paper dated 1 December 2004 ("**Issues Paper**"), the Authority invited all interested parties to make written submissions having regard to the Purported Revised Access Arrangement and Supporting Documentation.

Pursuant to sections 2.16(b) and 2.16A of the Code, the Authority may approve the Purported Revised Access Arrangement only if it is satisfied that it:

(a) incorporates or substantially incorporates the amendments specified by the Authority in the Amended Draft Decision; or

(b) otherwise addresses to the Authority's satisfaction the matters the Authority identified in its Amended Draft Decision as being the reasons for requiring the amendments specified.

WMC submits that the Purported Revised Access Arrangement incorporates changes that do not appear to incorporate or substantially incorporate amendments in the Amended Draft Decision and that do not "otherwise address" the Authority's reasons for requiring the amendments specified.

The purpose of this submission is to identify those parts of the Purported Revised Access Arrangement which do not incorporate or substantially incorporate amendments required by the Authority in the Amended Draft Decision and to respond to specific matters raised in the Purported Revised Access Arrangement and Supporting Documentation so as to ensure that WMC's position regarding these matters is unambiguously stated.

In particular, WMC will comment on:

(a) the Access Arrangement Period;

(b) the Approved Reference Tariff Valuation Method;

(c) ownership of Outlet Points

(d) Initial Capital Base;

(e) Rate of Return;

(f) forecast demand; and

(g) tariff structure,

and will identify where GGT has gone beyond the rights granted to it pursuant to section 2.15A of the Code and has, instead, revised aspects of the 1999 Proposed Access Arrangement which, as a result of the Amended Draft Decision, were not required or permitted to be revised by GGT.

In addition, there are numerous misrepresentations and misconceptions in the Purported Revised Access Arrangement and Supporting Documentation, some of which are discussed in section 3.4.3 below.

WMC has not attempted to respond to every part of the Purported Revised Access Arrangement or Supporting Documentation, and a failure to do so should not be taken to mean that WMC agrees with the facts or arguments contained therein.

WMC refers the Authority to its previous submissions dated 17 December 2002 (**"2002 Submission"**), 28 August 2003 (**"2003 Submission"**) and 24 September 2004 (**"2004 Submission"**). The 2002 Submission specifically addresses the risk associated with providing reference services and the need to reset key tariff setting parameters on a consistent basis. In the 2003 Submission, WMC outlines its position in relation to the reasonable expectations of the past and current owners of the Pipeline. In the 2004 Submission, WMC has commented directly on the Amended Draft Decision.

2. Procedural Questions

2.1 Considering New Material

The Supporting Documentation, including the KPMG Report and the Venton Report, contains material which has not previously been submitted by GGT to the Authority.

At page 5 of the Issues Paper the Authority states that it has:

> *"exercised its discretion under section 2.15 of the Code to accept GGT's supporting submissions and additional material as late submissions".*

The discretion afforded to the Authority under section 2.15 of the Code relates to the receipt of late submissions lodged under section 2.14 of the Code. That is to say, submissions lodged in response to a request made by the Authority for comment on the Amended Draft Decision. There is no suggestion in section 2.15 of the Code that the discretion referred to therein extends to the submission of purported revised Access Arrangements under section 2.15A of the Code. Moreover, in so far as the Supporting Documentation relates to and addresses the Purported Revised Access Arrangement, it should not be considered as that document purports impermissibly to amend the original Access Arrangement. This is discussed in more detail in section 2.2 below.

2.2 The Purported Revised Proposed Access Arrangement

Pursuant to section 97(3) of the *Gas Pipelines Access (Western Australia) Act* 1998 (WA) ("**Gas Pipelines Access Act**"), the Pipeline owners were obliged to submit a Proposed Access Arrangement within 9 months of the commencement of s. 9 of the Act (i.e. by 9 February 1999). This Proposed Access Arrangement was to be approved and operational by 1 January 2000. As noted above, GGT submitted the 1999 Proposed Access Arrangement on 15 December 1999.

The 1999 Proposed Access Arrangement remained in place without attempted revision until 17 November 2004 when GGT lodged a document entitled "Revised Access Arrangement 17 November 2004", purportedly pursuant to section 2.15A of Code. GGT then lodged several submissions in support of its Purported Revised Access Arrangement which the Authority purports to have accepted pursuant to section 2.15 of the Code.

Under s.2.15A of the Code, a Service Provider may only submit a revised Access Arrangement which incorporates, or substantially incorporates, the amendments required by the Authority in its draft decision, or which otherwise addresses the reasons given by the Authority for requiring the amendments in the draft decision. That provision forms part of a statutory scheme by which the Service Provider is required to prepare a proposed Access Arrangement for approval by the Authority and for that purpose, to prepare, in effect, an explanatory memorandum, described as Access Arrangement Information, to enable interested parties, such as Users, to understand, and comment upon, the derivation of the elements of the Access Arrangement proposed by the Service Provider for approval. WMC refers the Authority to sections 2.2 to 2.12 of the Code in this regard. Pursuant to section 2.14 of the Code, after such a process of consultation, the Authority is required to publish a draft decision.

Section 2.15 of the Code provides that the draft decision itself is then the subject of further public comment and submissions. The purpose for which submissions are sought, at this point in the process, is to invite comments on the draft decision and, in particular, on the Authority's foreshadowed amendments to the Service Provider's proposed Access Arrangement.

The Service Provider, utilising the opportunity to make submissions under s. 2.14(b), may seek to persuade the Authority that the Authority's foreshadowed amendments to the Service Provider's proposed Access Arrangement are unnecessary or inappropriate, and should not be made. In that event, there is no occasion for the Service Provider to suggest revisions to the Access Arrangement as originally proposed, as the position taken by the Service Provider is that the Access Arrangement, as originally proposed, does not require any amendment.

To the extent that a Service Provider succeeds, through its submissions under s. 2.14(b), in persuading the Authority not to proceed with the proposed amendments, the Access Arrangement as originally proposed by the Service Provider, would proceed to Final Decision stage, unaffected by the amendments which had been foreshadowed by the Authority in its draft decision. In that event, the Authority would either approve the originally proposed Access Arrangement pursuant to section 2.16(a)(i) of the Code or, pursuant to section 2.16(a)(ii), require other amendments to be made to it, if persuaded of that need following the receipt of submissions on its draft decision under s. 2.14(b).

However, it is clear that the Service Provider has no general power to amend its proposed Access Arrangement after the publication of the draft decision or, for that matter, at any other time. Whilst the Service Provider has limited opportunity, under s. 2.15A, to propose revisions to its original Access Arrangement, such revisions are confined to incorporating or substantially incorporating the Authority's foreshadowed amendments specified in the draft decision, or otherwise addressing the reasons identified by the Authority for requiring such amendments to the Access Arrangement proposed by the Service Provider.

Under s. 2.15A, a proposed revision by the Service Provider does not "otherwise address" the reasoning behind a Authority's required amendments unless the burden of the reasoning is accepted and the proposed revision is, objectively, designed to give effect to the burden or spirit of the reasoning in some alternative way, whilst otherwise the revised Access Arrangement must either accept the required amendments or remain consistent with the Access Arrangement originally proposed by the Service Provider. As the subject matter of any proposed revision under s. 2.15A must derive from a proposed amendment required in the draft decision, that provision of the Code provides no occasion for the Service Provider to embark upon a course of making its own substantive changes to the Access Arrangement as originally proposed.

It is (only) the Authority who has the power to require amendments to the originally proposed Access Arrangement, and even that power does not arise until the Authority has formed the opinion that the originally proposed Access Arrangement does not comply with the Code. WMC refers the Authority to *Re Gasnet Australia (Operations) Pty Ltd* [2003] AComp T 6 at [30] in this regard.

The Purported Revised Access Arrangement does not, in material respects, incorporate or substantially incorporate, or otherwise address, the amendments proposed by the Authority in the Amended Draft Decision.

For example, in relation to Reference Tariffs, the 1999 Proposed Access Arrangement (which was the subject of consultation prior to the issue of the Amended Draft Decision), proposed Reference Tariffs reflecting an ICB of $452.6 million. At paragraph 713, the Amended Draft Decision required tariffs reflecting an ICB of $480 million. In its Purported Revised Access Arrangement and Supporting Documentation, GGT has purported to amend the 1999 Proposed Access Arrangement to increase tariffs so that they reflect an amended proposed ICB of a minimum of $672 million. This is inconsistent with the 1999 Proposed Access Arrangement and does not address the Authority's required amendment concerning tariffs based upon an ICB of $480 million.

Other material respects in which the Purported Revised Access Arrangement does not incorporate or otherwise address the Authority's proposed amendments or purports to introduce amendments to the 1999 Proposed Access Arrangement that are not required in the Amended Draft Decision are summarised in Table 2-1.

Accordingly, the Purported Revised Access Arrangement is not, in WMC's submission, a revised Access Arrangement within the meaning of section 2.15A of the Code.

If, contrary to the above submission, GGT's Purported Revised Access Arrangement lodged 17 November 2004 is a revised Access Arrangement under s. 2.15A, then having regard to the matters in Table 2-1 and for the reasons later articulated, the Authority could not be satisfied of the matters of which it is required to be satisfied under s. 2.16A , when considering GGT's Purported Revised Access Arrangement.

2.3 1999 Proposed Access Arrangement Compared to Purported Revised Access Arrangement

GGT lodged its 1999 Proposed Access Arrangement on 15 December 1999 and, after the Authority's Draft Decision, made a number of submissions culminating in its submission of 17 December 2002. The Amended Draft Decision specifically addressed the terms of the 1999 Proposed Access Arrangement and appears to have taken into account GGT's subsequent submissions. Table 2-1 provides a summary comparison of the 1999 Proposed Access Arrangement, the Amended Draft Decision and the Purported Revised Access Arrangement and Supporting Documentation. The shading of entries in column 3 highlights the amendments made to the 1999 Proposed Access Arrangement which:

(a) do not appear to incorporate, substantially incorporate or otherwise address amendments required by the Amended Draft Decision: or

(b) have been introduced as new or additional changes that are not required or permitted in light of the Amended Draft Decision.

In the majority of the examples in Table 2-1 (being those shaded) there is no basis for the Authority adopting or taking into account the changes suggested by GGT in the Purported Revised Access Arrangement.

Table 2-1 Comparion of 1999 Proposed Access Arrangement, the Amended Draft Decision and Purported Revised Access Arrangement

1999 Proposed Access Arrangement	ERA Amended Draft Decision	Purported Revised Access Arrangement
Spare Capacity means Capacity less Firm Service Reserve Capacity being used	Amend definition of Spare Capacity to limit inclusion of Initial Committed Capacity	Definition changed substantially beyond requirement and qualification required applied to additional categories of capacity
Allow only for a single Inlet Point	Amend Service definition to allow for multiple Inlet Points	Definition changed so that Inlet Point and Inlet facilities are defined by reference to each other and now have no contractual relevance at all.
Propose Tariff, index = A	Adopt ERA proposed tariff index = approx. 85% of A	Propose Tariff = approx. 121% of A
ICB of $452.6 million	Adopt ICB of $480 million	Not Disclosed, $672 million quoted as "minimum" 1999 value Quoted also as depreciated to $650 million in 2004
12.2% pa real, pre-tax RoR	Adopt nominal pre-tax RoR of 10.81% pa Equivalent to 8.0% pa real pre-tax.	13.5% pa nominal, pre-tax RoR Equivalent to 10.2% pa real pre-tax.
Asset Life 42 Years	Asset Life 42 Years	Asset Life 70 Years
Demand Average 71 TJ pd	Demand Average 100.5 or 108 TJ pd (unclear which is used)	Not Disclosed 2000 to 2004 implied average 2005 to 2009 106.5 TJ pd used
Load factor 72%	Load factor not disclosed	Not disclosed, recent average of 85% is quoted
Average $11.63 million pa. Including marketing and OH	Adopt ERA Non-capital forecast, average $11.96 million pa	Not quoted

1999 Proposed Access Arrangement	ERA Amended Draft Decision	Purported Revised Access Arrangement
Depreciation Units of production over ICB and five years of AA starting 2000, average 4% pa equivalent to 25 years straight line	Depreciation Straight Line over ICB and remaining asset life as at 2000, 36.5 years from 1/1/2000 and an average of 2.74% pa	Depreciation Straight Line over ICB and remaining asset life as at 2000, 64.5 years from 1/1/2005 and an average of 1.6% pa
Equivalent PV est. of Total Revenue $342.67 million (including 2005) @ GGT tariff and RoR	Adopt ERA PV of Total Revenue $320.67 million (including 2005)	Not estimated
Base date for escalation 1997, no recognition of GST impact on CPI.	Adjust GT&C tariff escalation formula to correct for GST impact on CPI	CPI Escalation base date moved to Sept 2004, GST correction implications lost in cost/tariff adjustments
GGT has discretion to include terms not included in AA	Amend clause 3.2(d) of GT&C to remove GGT discretion.	Clause changed but does not effect required change
GGT has discretions if GGT development is not realised	Amend clause 6.6 of GT&C C to remove GGT discretion.	GGT relative contractual power increase
User to supply spare parts	Amend Second Schedule of GT&C regarding supply of Spare Parts	Change adopted, but GGT given absolute monopoly to provide Outlet Facilities
Quantity Variation Charges apply generally	Amend AA and GT&C so that Quantity Variation Charges apply only where damage in incurred or there is a risk to the pipeline	Not apparently adopted
GGT appropriates 100% of Quantity Variation Charges	Amend AA so that 95% of Quantity Variation revenue is rebated to Users	Not apparently adopted
GGT can vary tolerance limits	Amend GT&C and Schedules so that GGT can't amend Quantity Variation tolerance limits	Not apparently adopted
Quantity Variation Charges apply generally	Amend GT&C and Schedules so that Quantity Variation Charge does not apply to tolerance limits	Not apparently adopted
Quantity Variation Charges apply generally at Inlet and Outlet Points	Amend clause 7 and Schedules so that Overrun Charges apply only to Outlet Points	Not apparently adopted
Quantity Variation Charges apply generally	Amend clause 7.5 so that Variance Charges applies only when tolerance limit is exceeded	Not apparently adopted
Quantity Variation Charges apply generally	Amend clause 7 and Schedules so that Variance Charge applies only in excess of tolerance limit	Not apparently adopted

1999 Proposed Access Arrangement	ERA Amended Draft Decision	Purported Revised Access Arrangement
No or little information provided to users by GGT	Amend AA to provide for information flow to allow Users to manage Variation Charges	Limited changes made but no limit on User liability if information is not provided
GGT has little or no obligation to notify of maintenance interruptions	Amend clause 8.2 to allow for consultation with Users regarding planed maintenance	Adopted
Little or no supporting detail is provided to Users by GGT	Amend AA And GT&C to require GGT to provide information to users regarding Used Gas	Provided in Invoice
Changing Imposts (excluding income tax) passes through automatically to Users	Amend clause 9.9 and 9.11 to remove automatic pass through of Impost increases and align AA and GT&C with Code	Request adopted but definition of Imposts extended to include income tax, asymmetry introduced and recapture extended to changes in the cost of regulation.
GGT provides very limited rebate for interruption to supply	Amend clause 9 (17 and 18) to increase provision for reduction in GGT charges when Service in interrupted	Not apparently adopted
No rebate provided	Amend clause 9 to waive Quantity Variation Charges when imbalance is due to a Service interruption	Partial adoption but spirit of reduction when notice period not given is not achieved.
No basis for setting Bond obligations provided	Amend clause 9.13 to specify reasonable basis for setting and adjusting Bonds	Changes made, little transparency and no objective criteria introduced Asymmetric Bond adjustment
Not addressed	Amend clause 12.1 (m) to prevent Users contracting downstream for "continuous" supply.	Warranty removed but effect partially offset by change to clause 18.2
Disputed portions of Invoices must be paid on due date	Amend clause 13.5 to allow for withholding of disputed portion of Invoices	Limited option introduced
GGT favoured in event of contract termination	Amend GT&C so that implications of contract termination are equal for all parties and allow for "cure period".	Changes made, cause remains biased in favour of GGT
GGT benefits from significant indemnities	Amend clause 18 so that GT&C indemnity provisions are equal for all parties	Changes made, cause of indemnity remain biased in favour of GGT
GGT benefits from significant indemnities	Remove certain User indemnities from clause 18.3	Clause not amended
Users must apply for refund or credit	Amend clause 18.5 so that Users do not need to apply for a refund or credit	Requirement for application removed

1999 Proposed Access Arrangement	ERA Amended Draft Decision	Purported Revised Access Arrangement
Trading rights apply to Firm Service only	Amend clause 9 of AA so that capacity trading rights apply to all services	Not adopted
Information requirements do not comply with Code	Amend clause 20.6(b) so that information requirements comply with Code	User given option to withhold information
All contract extensions subject to queuing policy	Amend AA to provide for contract extension options outside Queuing Policy	Options introduced
GGT has option for inclusion or exclusion	Amend clause 10.3 of AA so GGT notifies ERA whether expansion/extension is subject to AA	Notice (only) included
Users are required to commit to fund unknown costs	Amend clause 10.2(a) of AA to limit contribution to cost by Users before costs are established	Prospective User must agree to pay an "amount specified by GGT"
Surcharge is at GGT sole discretion	Amend clause 10.4 of AA to provide that the application of a Surcharge is subject to ERA being notified	Provision for notice to Authority introduced
Revision Submission Date and Revision Commencement Date tied to Effective date, no specific date set out in AA.	Amend clause 3.2 of AA to provide a RSD of 1 April 05 and RCD of 1 January 2006	Dates still tied To Effective Date but RCD cannot fall before 1 January 2010
All information is confidential	Amend clause 6.12 of AA to limit GGT's rights to require that information is maintained as confidential	Right to disclose is still very limited, object of requirement apparently not satisfied
Base date for striking reference tariff moved to 1 January 2001	Base date for striking reference tariff moved to 1 January 2001	Base date for striking Reference Tariff moved to 2004, exact date in 2004 unclear
Not mentioned outside of Operating Cost	Not mentioned outside of Operating Cost	Owners Cost 1999 to 2004 added to earlier costs
Not mentioned outside of Capital Cost	Not mentioned outside of Capital Cost	Provision for Linepack added to ICB
Included in previous cost provision	Included in previous cost provision	GGT Overheads 2005 to 2009 added
Not provided for explicitly	Not provided for explicitly	Allowance for asymmetric costs foreshadowed, $2 million appears to have been allowed for in Reference Tariffs
Four Reference Services offered	Four Reference Services offered	Withdrawal of 1 to 5, 6 to 10 and 11 to 15 year Reference Services

1999 Proposed Access Arrangement	ERA Amended Draft Decision	Purported Revised Access Arrangement
Capacity expansion is an obligation subject to objective tests Authority approves treatment of access to expanded capacity	Proposal by GGT largely accepted by ERA	Expansion Capacity treated as Negotiated Services beyond request for coverage and not capacity expansion is not an obligation
		Charging structure for Supplementary Quantity Option changed
		Reduced flexibility to change nominations for gas delivery
		GGT withdraws Inlet Facility service at Yarraloola even though the cost of this facility in ICB and operating cost
		Provision for a single new Inlet Point, connection to DBNGP
		GGT requires an exclusive right to supply, own, operate, etc Outlet Facilities
		Force Majeure relief, when claimed by GGT, extended to User
		GST provisions rewritten
		Preclusion of right
		User's obligation to provide public liability insurance increased by 100%
		Various "Other Charges" increased by 20%

3. Purported Revised Access Arrangement Issues

3.1 Access Arrangement Period

In the Purported Revised Access Arrangement, GGT proposes that the Access Arrangement Period should begin on the date its Purported Revised Access Arrangement (or its 1999 Proposed Access Arrangement, as the case may be) becomes effective (the "**Effective Date**") and end on the later of 31 December 2009 and five years from the Effective Date. This suggests that the earliest Revision Submission Date would be on or about 30 June 2009 and the earliest Revision Commencement Date would be 1 January 2010. This has been proposed by GGT notwithstanding that the Authority, at paragraph 745 of the Amended Draft Decision, required that the Proposed Access Arrangement be amended to include a Revision Submission Date of 1 April 2005 and a Revision Commencement Date of 1 January 2006. The Authority has requested comment on setting the Revision Submission Date and the Revision Commencement Date in its Amended Draft Decision.

In its 2004 Submission, WMC submitted that the Revision Submission Date and the Revision Commencement should not fall after June 2006 and January 2007 respectively. The rationale for this submission was that any flaw in the assumptions used to set the terms of the approved Access Arrangement would be amplified by extending the term of the Access Arrangement Period. WMC perceives the risk of extending the Access Arrangement Period to 2010 and beyond cannot be justified because:

(a) GGT has a significant information advantage when it comes to approving its Access Arrangement;

(b) GGT has a well established record of tabling erroneous data to the Authority (for example, GGT admits at page 16 of the Supplementary Submission that the revenue used by GGT in its 17 December 2002 submission was incorrect);

(c) the critical impact of demand assumptions on the terms of the Purported Revised Access Arrangement;

(d) the failure of GGT to provide any substantive analysis of the market for Pipeline services beyond current load levels; and

(e) the dynamic nature of the market for gas and the discontinuous nature of market changes in the context of the Pipeline.

For example, it is proposed that WMC's operations at Mount Keith and the planned Yakabindie project (which is located nearby) will form one integrated mining operation and processing facility. As a result of this, it is proposed that the Mount Keith operations will be expanded to add approximately 25,000 tonnes per year of nickel production from 2008/2009. A new circuit will be purpose-built, to initially treat over 20 million tonnes of talc and low grade ore from existing stockpiles and subsequently treat similar ore produced from ongoing mining operations. It is possible that, as a result of the proposed expansion, WMC may require additional natural gas. If such prospective demand is not reflected in GGT's risk weighted demand forecasts for Pipeline services, any proposal to extend the Access Arrangement Period to 2010 and beyond will seriously distort the terms of third party access to the Pipeline.

In accordance with its 2004 Submission, WMC submits that, in the circumstances, there is no basis for extending the Revision Submission Date and the Revision Commencement to 2010 and beyond.

A Revision Submission Date and the Revision Commencement Date not later than 30 June 2006 and 1 January 2007 respectively would produce a far more equitable and efficient outcome.

3.2 Approved Reference Tariff Variation Model

In clause 5.3 of the Purported Revised Access Arrangement, GGT proposes a new "Reference Tariff Variation Method". The model set out in clause 5.3 of the Purported Revised Access Arrangement is reflected in amendments to GGT's revised draft General Terms and Conditions by modifications to clause 9.9 thereof. The proposed amendment allows for GGT to adjust the Reference Tariff in response to a "Specified Event" being a "Tax Change Event" or "Regulatory Change Event" by issuing a notice to the Authority and without the need to secure the consent of the Authority.

A fundamental change to the previously proposed adjustment method is that "Taxes" is now defined to comprise all government taxes, charges and imposts, including taxes levied under the *Income Tax Assessment Act* 1997 (Cth) (**"Income Tax Assessment Act"**). Previously, taxes levied under the Income Tax Assessment Act were expressly excluded by the language of clause 9.9 of the GGT's General Terms and Conditions (clause 9.5 of GGT's previous draft General Terms and Conditions).

The proposed Regulatory Change Event includes new or revised procedural requirements, changes to the State Agreement, the Code, the Gas Pipelines Access Act, the Authority or "the introduction of new or revised requirements under the Code which are more complex than those applying at 30 September 2004."

This amendment was not required by the Amended Draft Decision. Further, GGT appears to have given no reasoning to support this significant change and has not taken into account the reduced risk and consequential reduction in its required rate of return or Reference Tariffs.

WMC submits that GGT's proposal, in so far as it relates to changing the Reference Tariff applicable to contracts for Reference Services as a consequence of a Specified Event, should be rejected by the Authority as commercially untenable and that the Authority should retain the right to approve any proposed adjustment to GGT's Reference Tariff.

3.3 Ownership of Outlet Points

GGT proposes in its Purported Revised Access Arrangement that its Reference Service be amended to provide that GGT will install, own, operate and maintain all Outlet Stations on the Pipeline and that:

(a) Users will pay GGT for the cost of providing these facilities; and

(b) the provision of these facilities by Users will be prohibited.

However, GGT has not acknowledged that the provision of this "authorised monopoly service" will be sought by a significant portion of the market nor has it proposed a Reference Service or a Reference Tariff (or tariff methodology) for this service.

Clearly, this proposed amendment is intended to lever GGT's monopoly position, as the Service Provider on the Pipeline, to preclude competition and create a monopoly over services which are ancillary to Pipeline Reference Services. Without a compelling reason to the contrary, the Authority should reject this proposal as contrary to the objectives of the Code and to the purpose and objectives of competition reform in general.

If, contrary to this submission, the Authority considers GGT's proposal in this regard, then WMC submits that the Authority should only do so where:

(a) the service is defined as a Reference Service;

(b) the service is provided subject to a Reference Tariff or a Reference Tariff methodology and/or, provided subject to tariff benchmarking against independently provided services/cost estimates; and

(c) if the Reference Tariff methodology affords GGT significant latitude in setting prices:

  (i) the Authority retains a right to audit and review GGT's design, contracting and pricing behaviour; and

  (ii) Users and Prospective Users are able to appeal to the Authority regarding the terms of supply (including price) of this service.

3.4 Initial Capital Base

WMC refers the Authority to its 2004 Submission where WMC submitted that the ICB of $480 million contained in the Amended Draft Decision was above the appropriate range which could be justified by applying the principles required by the Code. WMC again submits that the investigations and inquiries referred to in its 2004 Submission should be undertaken by the Authority.

There is no ICB quoted in GGT's Purported Revised Access Arrangement. However, based upon the Supporting Documentation, it would appear that GGT's proposed Reference Tariff is based upon a **minimum** value for the initial capital base of $672 million as at 31 December

1999. Using the data contained in the Supporting Documentation it appears that this figure of $672 million:

(a) is based upon the 1999 replacement cost calculation prepared by Venton & Associates;

(b) has not been derived for a pipeline design optimised by Venton &Associates since GGT directed Venton & Associates that it considers the Pipeline to be an optimised design and to proceed with its analysis on this basis:;

(c) is depreciated using GGT's estimated free cash flows to the date of valuation or using a model identified by GGT as its "economic depreciation model";

(d) is calculated using Pipeline estimated free cash flow data, analogous to that provided by GGT to the Authority, after heavily discounting this data to reflect certain arguments which appear to have been put to the Authority *in camera*; and

(e) is assessed in light of certain rights which GGT purports were locked in and agreed with the Minister under the State Agreement.

Contrary to the direction given to Venton & Associates by GGT, WMC considers that there is evidence that the Pipeline design is not optimised. This is discussed in more detail in section 3.6 below. Further, WMC understands that the Authority has undertaken an optimisation study that confirms that the pipeline design is not optimised

GGT submits, in the Supporting Documentation, a range of alternative ICB estimates but provides no background to these estimates and, since they are discarded in favour of GGT's $672 million minimum ICB estimate, they do not appear to form part of GGT's Purported Revised Access Arrangement. These alternative estimates include GGT variations on the Authority's previous DAC and DORC ICB estimates which will be discussed further below.

3.4.1 The Replacement Cost of the Pipeline

The Venton Report does not reflect the regulatory framework in which it is to be considered. For example, at page 1 of the Venton Report, Venton & Associates state that "*[C]ommercial regulation of gas transmission pipelines requires that the capital base of the pipeline be periodically re-established....*"

Further, the Venton Report, amongst other things:

(a) is based the Pipeline owners' view that the Pipeline represents a technically optimal design for the actual and forecast loads in the Pipeline (see comments regarding optimisation, or the lack of it, in section 3.6 below);

(b) is based upon a number of methods for allocating construction cost increases since 1995, the relevance of which to a Code-based valuation exercise is not explained nor justified;

(c) includes the cost of Delivery Stations (which do not generally form part of the regulated assets of the Pipeline);

(d) makes reference to the lateral pipelines owned by Southern Cross Pipelines Australia Pty Ltd (one of the Pipeline owners);

(e) uses a rough and ready method of "guesstimating" interest during construction ("**IDC**");

(f) uses a best guess approach to estimating the escalation in pipeline development costs between 1995 (a point at which costs are known) and 1999 when there are few, if any, cost reference points;

(g) refers to "financing costs" which do not form part of IDC but are compensated for by the return on capital incorporated in the Reference Tariff; and

(h) appears to double count the establishment and initial costs of the Pipeline operator in the Pipeline capital cost (if the operator had no equity in the development of the Pipeline its costs must be reflected elsewhere in the project costs elements).

In terms of the Code, the Venton & Associates Pipeline cost estimate:

(a) does not purport to be an ORC estimate;

(b) is not an actual or an historical cost estimate; and

(c) is not, in accounting terms, a current cost estimate (which Venton & Associates estimates to be $509 million in 1999 (which, after adjusting for the impact of GST on the CPI, is in the order of $496 million) compared to the quoted 1999 replacement cost estimate of $586 million).

Further, the 1999 valuation prepared by Venton & Associates is a "plus 10% - minus 5%" estimate. That is to say, the estimate of $586 million is as good as any estimate in the range of $527 million and $615 million.

WMC has noted previously that the report containing the DAC, DORC and replacement costs estimates used by the Authority, has not been made public and available for review. However, GGT is critical of the DAC, DORC and other capital estimates quoted in the Draft Decision and the Amended Draft Decision.

It would seem that the ICB estimates prepared for GGT are not properly constructed for the purposes of applying the Code. If this is the case, there can be no alternative but to properly specify and conduct this analysis. Should it be determined to be appropriate to include IDC in these estimates then that should be done using actual payment schedules for the Pipeline and not some poorly defined IDC allowance.

WMC also refers the Authority to the 2004 Submission where it expressed concern in relation to:

(a) the Authority's re-definition of the DAC methodology;

(b) the manner in which the Authority considered the price paid for the Pipeline as a basis for estimating a value for the ICB;

(c) the fact that the Authority seems to have imputed legitimacy to the tariffs that have actually been charged under the State Agreement tariff regime, and considered the expectations generated by those tariffs, when there was no proper basis or evidence for imputing such legitimacy, particularly having regard to the Authority's conclusion that the tariffs did not comply with the applicable principles under that regime, and that there was evidence that tariffs had been set in excess of a commercial rate of return;

(d) the provision by the Authority of, in effect, an additional approximately $50 million, purportedly to reflect GGT's reasonable expectations from the past administration of the State Agreement; and

(e) the absence of a proper basis for considering a value which lies outside the range between DAC and DORC values, in light of section 8.11 of the Code.

3.4.2 Economic Depreciation

GGT appears to propose that the ICB for the Pipeline should be determined by:

(a) starting with a 1999 estimate of the replacement cost of the Pipeline of $586 million;

(b) asserting the authority of certain parameters and rules which GGT purports were fixed under the State Agreement;

(c) ascribing a rate of return, in each year (or period), to that replacement cost which is based upon an assumed inflation rate of 4% and a forecast capital cost of around $400 million;

(d) taking an operating cost profile, in each year, which has not been made public;

(e) estimating any "free cash flow" from Pipeline operations in each year by offsetting, against (c) and (d) above, a deemed revenue stream which:

   (i) has not been satisfactorily made public;

   (ii) is based, at least initially, on actual data, which presumably escalates with actual, and not assumed, CPI movements; and

   (iii) disregards a key feature of the Tariff Setting Principles approved under the State Agreement; and

(f) deducting, for each year, any resulting free cash flow from the opening value of the Pipeline for that year,

thus producing a "depreciated" value for the Pipeline as at 31 December 1999.

This change in the valuation method does not incorporate, substantially incorporate or otherwise address any amendment required in the Amended Draft Decision and, even if it should be determined to be a permissible valuation method under the Code, it has been applied so poorly in this instance as to be entirely inappropriate for the purposes of the Code. By combining historical data and current estimates and data based upon forecasts with data based upon actual outcomes, the approach adopted by GGT is internally consistent and is not appropriately designed for estimating the ICB for Pipeline for the purposes of the Code.

3.4.3 State Agreement

WMC has previously contested GGT's unfounded claims regarding many of the parameters that GGT purports to have been approved under the State Agreement and regarding the reasonable expectations of parties at the time of the Pipeline investment decision and the sale of the Pipeline assets.

In this regard, WMC refers the Authority to the 2002 Submission, the 2003 Submission and the 2004 Submission.

The State Agreement provides for the approval of GGT's gas specification, its Tariff Setting Principles and its arrangements for approaching the third party market for Pipeline services. The Tariff Setting Principles and various documents and statements made by GGT and the Government of Western Australia (the "**State**") make it clear that any Pipeline tariff, set pursuant to the State Agreement, is subject to continual testing and review against the terms of the approved Tariff Setting Principles.

It is incorrect for GGT to submit that the original Pipeline tariffs, or a specific rate of return or return on equity, were approved by the Minister or State under the State Agreement.

Pipeline tariffs have never been required to be, nor have they been, approved under the State Agreement. In the Supporting Documentation, GGT repeatedly refers to a State Agreement process whereby tariffs are formally revised and approved. However, the State Agreement does not limit GGT's ability to amend its tariff provided that the amendment complies with the approved Tariff Setting Principles and with the requirements of the State Agreement.

Although the original Pipeline tariffs were submitted as part of the clause 9 proposals, WMC submits that it is incorrect to therefore conclude that the original Pipeline tariffs, or the variables upon which they were based, were approved by the State.

Clause 9(1) of the State Agreement did not by its terms require the original Pipeline owners to submit tariffs to the Minister for his approval.

Further, although the original Pipeline owners were also obliged to submit proposals pursuant to clauses 8 and 16 of the State Agreement, none of these submissions provided for the approval of a tariff by the Minister.

Instead, section 22 of the State Agreement provided, at sub-section 22(3), that the Pipeline owners would:

> *"establish and maintain an "indicative tariff schedule" based on the tariff setting principles approved from time to time by the Minister under this Agreement. The "indicative tariff schedule" shall provide sufficient detail to allow potential users to calculate gas transmission charges likely to apply in any reasonable circumstance".*

Section 22 does not require that the Minister approve the indicative tariff schedule. Instead, the Minister's rights under the State Agreement in regard to the indicative tariff schedule are limited to considering whether the tariffs set out in the indicative tariff schedule comply with the State Agreement. If the indicative tariff schedule does not comply with the obligation of the Pipeline owners under the State Agreement, the Minister may pursue rectification by negotiation with the Pipeline owners or exercise the rights of the State under section 32 of the State Agreement.

The Minister was never:

(a) required to approve, and never has approved, the original tariffs;

(b) required to approve, and never has approved, recovery of a specific return on equity by the Pipeline owners; and

(c) obliged to approve, and never has approved, any assumptions used by GGT to prepare its 1995 indicative tariff schedule.

Further, Tariff Setting Principle 2, which was approved by the Minister in accordance with the State Agreement, makes it clear that Pipeline tariffs are to be set to earn a "commercial" rate of return. Tariff Setting Principle 2 does not provide, nor did the Minister approve, a specific rate of return which the Pipeline owners are entitled to earn. WMC's 2002 Submission places the fact that the original Pipeline tariff incorporated a real, after tax return on equity of 17.45% in an historic context. The variables quoted by the original Pipeline owners in 1994 must be viewed in the context of the circumstances existing at the time. In particular, these parameters needed to reflect the risk of providing the equivalent of a Reference Services in 1995 and the provisions for tariff review incorporated in the State Agreement. Importantly, these parameters must be read against the level of contracting risk, completion risk and construction cost overrun risk borne by the Pipeline owners at that time.

Clearly, the rate of return quoted in 1994 would only remain constant if the level of demand risk, completion risk and construction cost overrun risk in the data used to generate tariffs remained unchanged. In particular, the rate of return would only remain constant if applied to the original capital cost estimate.

It is not, however, the case that the assumptions used by GGT to set tariffs have remained constant over the life of the Pipeline.

In regard to its assertions regarding the State Agreement and the expectations of the original investors in the Pipeline, WMC specifically contests the following statements made by GGT:

(a) In Section 7 of the Legitimate Business Interests Attachment, GGT states that the Pipeline owners' expectations at the outset included "the A1 tariffs determined as part of the final project approval process were fair and reasonable" and that the Authority therefore must take into account these reasonable expectations. It is quite clear from GGT's 1999 Proposed Access Arrangement that its reasonable expectation was not the A1 tariff but a tariff not more than its then applicable A4 tariff. The tariff proposed by GGT in the 1999 Proposed Access Arrangement is approximately 25% less than the A1 tariff.

(b) In Section 8 of the Legitimate Business Interests Attachment, GGT states "... the rate of return for the Pipeline was agreed with the State – **<u>following a competitive process</u>** – and defines the level of risks which were involved ..." (emphasis added). GGT's argument continues that the project was based on the determination of "efficient costs". However, GGT later claims that the original developers of the Pipeline were the only parties which could have developed the Pipeline at the time. GGT then attempts to refute the Authority's view in paragraph 164 of the Amended Draft Decision that GGT has over estimated the true cost of capital for the Pipeline business. Paradoxically, GGT bases this 'logic' on the observation that the competitive process initiated by the State ensured the Pipeline was constructed with economic efficiency. In the same paragraph GGT states that 'none of the other parties which expressed an interest at the EOI stage proved to be a serious contenders'.

GGT's arguments in this regard are clearly in conflict. On one hand GGT contends that the State's procurement process was based on a competitive process, yet on the other, it submits that there was only one serious contender. GGT has missed the point of the Authority's observation by ignoring the fact that the rate of return that was appropriate prior to the construction of the Pipeline is no longer applicable. Once the data used to calculate the tariff is updated, and the risk inherent in that data is fundamentally reduced, that rate of return is no longer applicable. The risks inherent in the data used by the original owners to set tariffs were considerably greater than those that apply to the data used by GGT in its Access Arrangement. An analysis of these risks is set out in the 2002 Submission.

(c) At page 11 of the Supplementary Submission, GGT asserts that the tariff determination in 1995 represented an approval of that tariff, an approval of the tariff setting method or an approval of the variables used to derive that tariff or the assertion that the tariff charged by GGT was thereafter fixed for the life of the Pipeline. WMC has previously outlined this history and corrected GGT's submissions and, in this regard, refers the Authority to the 2002 Submission and 2003 Submission.

(d) In section 2 of the Legitimate Business Interests Attachment, GGT suggests that failure to secure approval of proposals, or modifications to proposals, ultimately leads to termination of the State Agreement. GGT's comments raise the need to clarify the extent of GGT's approved proposals and whether any of the various changes to GGT's Tariff Package and access arrangements since 1995 have required, and received, Ministerial approval.

(e) In sections 5 and 8 of the Legitimate Business Interests Attachment, GGT suggests that the State Agreement contains and sets out a formal tariff redetermination method. This suggestion is incorrect and is discussed in more detail in this section 3.4.3 above.

(f) In section 5 of the Legitimate Business Interests Attachment, GGT suggests that Pipeline tariff reductions implemented previously were voluntary. This assertion is incorrect and has been addressed by WMC in the 2002 Submission and 2003 Submission.

(g) In section 7 of the Legitimate Business Interests Attachment, GGT suggests that the Authority made an error in not acknowledging that the tariff setting methodology, rate of return and specific tariffs were included in detailed proposals approved by the Minister under the State Agreement. It is difficult to find any substantive reference to the proposals lodged by GGT under the State Agreement in GGT's 1999 Proposed Access Arrangement and its associated Access Arrangement Information. To the extent that GGT failed to raise these matters it is not surprising that they received little acknowledgement by the Authority. It is incorrect to describe the Authority as being in error for failing to consider material which, to the extent of its omission by GGT, was not pertinent to the Authority's deliberations. Indeed, a number of the features of GGT's 1999 Proposed Access Arrangement reflected its pre-existing arrangements under the State Agreement and were adopted as part of the Authority's Draft Decision and Amended Draft Decision.

3.4.4 Adjusting the Rate of Return

At page 29 of the Supplementary Submission, GGT states that:

> *"[e]conomic theory also supports the continuation of the rate of return embodied in the approved proposals under the State Agreement."*

GGT refers to the Macquarie Bank report to the ACCC on *Issues for Debt and Equity Providers in Assessing Greenfields Gas Pipelines*, May 2002 and the report of Davis and Handley to the ACCC on *Cost of Capital for Greenfields Investments and Pipelines, 2002* to support this proposition.

At page 31 of the Supplementary Submission, GGT argues that:

> *"Providing the initial rate of return has been set to reflect risks over the life of the project, the rate of return should only be redetermined when costs and revenues have diverged in a manner that could not be anticipated at the time of project initiation and where outcomes are necessarily uncertain. For example, re-determination is warranted where costs and revenues diverge in a manner that cannot be insured against by the firm or fully diversified against by investors."*

WMC submits that costs and revenues used to generate tariffs for the Pipeline have diverged in such a manner as to necessitate redetermination of the rate of return attributed to the Pipeline.

At section 3.4 of the Supplementary Submission, GGT argues, amongst other things that:

(a) investors "must expect to recover" the resources committed to an investment at the time the investment decision is made;

(b) this level of compensation should not be altered by the mere fact of a subsequent sale of the relevant assets;

(c) the valuation of the asset must reflect the investment at the time of the initial assessment; and

(d) both economic theory and financial analysis provides unambiguous guidance that costs must be evaluated at the moment of decision.

GGT concludes that, providing the initial rate of return has been set to reflect risks over the life of the project, the rate of return should only be redetermined when costs and revenues have diverged in a manner that could not be anticipated at the time of project initiation.

This highlights the fact that GGT propose to use an historical rate of return to derive the ICB of the Pipeline but proposes to combine that rate of return with new cost and revenue forecasts to which the rate of return bears no relevance.

It is inconceivable, given the nature of the approved Tariff Setting Principles, GGT's disclosed Tariff Setting Method and the public record on the matter, that GGT's tariffs were approved without disclosing its cost and revenue assumptions to the State.

The Venton & Associates estimate of the 1999 replacement cost of the Pipeline was not available in 1994/5. It would appear therefore that the cost of the Pipeline used to generate GGT's Reference Tariff has been increased by as much as 30% relative to the data on which GGT's proposed rate of return was based. This increased capital cost is a post-construction cost estimate and is properly characterised essentially risk free. Press releases and statements made at the times that GGT introduced its tariff reductions also suggest that third party demand for the Pipeline services was robust and may have exceeded the levels forecast at the time of project initiation.

For example in 1999:

(a) GGT stated that:

"[W]e are currently in discussions with a number of prospective customers and hope to be able to announce future new projects for the pipeline within the coming months"; and

(b) the Minister provided a list of *"six significant third party customers contracted to the pipeline......"* which were stated to be *"in addition to the original foundation customers..."*.

The relevant press releases are reproduced at Attachment 1.

Further, in this regard we refer the Authority to WMC's 2002 Submission where, at section four, WMC analyses current, historic and most likely demand scenarios.

The proposition put by GGT in section 3.4 of the Supplementary Submission has been refuted by WMC in its 2002 Submission and in other submissions to the National Competition Council and the Authority. However, contrary to GGT's contention, the proposition demands that the rate of return used to estimate the ICB of the Pipeline be amended to reflect the fundamentally different risk profile attaching to the use of a 1999 replacement cost estimate for the Pipeline and the use of demand forecasts and other cost estimates that diverge from the forecasts prepared at the time of project initiation.

WMC submits that a properly constructed estimate of the ICB of the Pipeline would confirm the validity of the DORC and DAC methodologies described in the Code. To properly construct these estimates requires that historical rate of return data only be used in conjunction with historical forecasts and that the rate of return is revised when used in conjunction with revised cost and revenue forecasts.

On the basis of the rate of return used by GGT alone, WMC submits that the case has not been made for accepting GGT's proposed ICB.

3.4.5 CPI Adjustments

GGT argues that the rate of return used to calculate its ICB should reflect the assumed level of inflation in the model presented to the State in 1994. In presenting this argument, GGT:

(a) ignores the position set out in section 3.4 of its Supplementary Submission;

(b) appears to base its revenue forecasts on historical Pipeline revenues which, by the operation of its General Terms and Conditions, escalate with actual movements in CPI; and

(c) ignores the fact that:

(i) the Purported Revised Access Arrangement and GGT's General Terms and Conditions; and

(ii) GGT has always transferred,

CPI risk to Users.

At page 11 of the Supplementary Submission, GGT appears to suggest that CPI will move around 4% p.a. However, GGT does not appear to acknowledge the possibility that economic structural change might give rise to a long term CPI forecast which diverges from 4% p.a. Given that the Purported Revised Access Arrangement and the Revised General Terms and Conditions expressly provide that Users must bear inflation risk and given that actual inflation, and contemporary inflation forecasts, diverge significantly from the forecasts prepared at the time of project initiation, there is no option but to revise the CPI data and forecasts used to generate GGT's proposed rate of return if GGT proposes to revise other key tariff setting inputs.

On the basis alone of GGT's proposed treatment of CPI, in calculating its rate of return, WMC submits that GGT's proposed ICB should be rejected.

3.4.6 Adjustment of Deemed Revenue

WMC is not privy to the revenue forecasts previously provided by GGT to the Authority or to the data provided to the Authority with the Supplementary Submission which appears, on the basis of information contained in the Supplementary Submission, to be significantly discounted. Nor is WMC privy to the nature of the amendments to the original data other than the discounting of "deemed" revenues attributed to the owners of the Pipeline which is discussed by GGT in its Supplementary Submission.

It is unusual that GGT would propose to discount the "deemed" revenues attributed to the owners of the Pipeline since the provision that gives rise to this deemed allocation forms part of one of GGT's few "approved" proposals, the Tariff Setting Principles. The deeming of revenue to the owners of the Pipeline under the Tariff Setting Principles is designed to allocate Pipeline cost equitably across all users of the Pipeline. This cost allocation method is consistent with the terms of the State Agreement (under which the Pipeline owners are not required to pay a tariff) and was approved by the State under clause 9 of the State Agreement.

If GGT is able to treat these revenues other than in accordance with the Tariff Setting Principles, it is engaging in an ex-post reallocation of Pipeline costs from Pipeline owners to other Users. This is inconsistent with the expectations of all parties with an interest in the setting of Pipeline access terms and has no foundation in economic or regulatory theory or practice.

Clearly, given GGT's record concerning the disclosure of demand for Pipeline services, and disclosing forecasts of demand for Pipeline services, the revenue data submitted by GGT to the Authority for the purposes of applying the economic depreciation model must be rigorously scrutinised. Based upon the arguments put forward by GGT, if the rate of return proposed by GGT is used to estimate the ICB of the Pipeline, the only revenue estimate that could be considered to be relevant is the revenue stream that would have accrued to GGT had all use of Pipeline services been "sold" at the A1 tariff.

3.4.7 Linepack Cost

In conducting an assessment of the ICB of the Pipeline it is appropriate that the proper costs be included in the calculation. In this regard, it is appropriate that the cost of Pipeline linepack be included, provided:

(a) it can be demonstrated that it has not otherwise been capitalised as "initial fill" or as part of "commissioning costs";

(b) that the line pack has been capitalised by the Pipeline owners and not partially or totally funded by Users;

(c) is not in effect included in working capital; and

(d) that the valuation of linepack is properly constructed.

WMC is not privy to information that would allow it to comment on these matters but relies on the Authority to ensure that any increase in the estimated value of Pipeline related thereto is justified.

3.4.8 Conclusion

WMC refers the Authority to its 2004 Submission where WMC submitted that the ICB of $480 million contained in the Amended Draft Decision is above the appropriate range which could be justified by applying the principles required by the Code.

GGT purports that the ICB of the Pipeline should be set, as a minimum, at $672 million. In order to support this proposition, GGT has changed the capital cost of the Pipeline and the cost and revenue inputs used in the ICB calculation.

Indeed, this is even inconsistent with GGT's own submissions and methodology, according to which the minimum ICB estimate for the Pipeline would be $604 million, being the lower boundary of the estimates level of accuracy. Further, given serious reservations concerning use of the Venton Report cost estimates in the context of the Purported Revised Access Arrangement and GGT's own arguments in support of revising the 1994/5 rate of return, WMC submits that the Authority has no alternative but to reject GGT's proposed ICB and Reference Tariffs.

3.4.9 The Alternative View

In order to properly construct the ICB of the Pipeline based upon cost and revenue data which diverge from the forecasts prepared at the time of project initiation, it is necessary to also reconfigure the rate of return to reflect the risks inherent in the revised data set. To do otherwise is to produce an ICB estimate which has no relevance at all.

WMC has put the case for adopting this methodology to the Authority in its earlier submissions concerning GGT's 1999 Proposed Access Arrangement and the Amended Draft Decision.

3.5 Rate of Return

In section 2.6(c) and section 3 of the Supplementary Submission GGT puts forward two propositions concerning the rate of return which should be employed in its Purported Revised Access Arrangement. GGT proposed that the rate of return used to:

(a) estimate the ICB for the Pipeline should be 18.81% nominal pre tax p.a.; and

(b) calculate its Reference Tariff should fall in the upper range of commercially arguable WACC estimates, i.e. 13.5% nominal pre tax p.a.

The first of these matters is addressed in section 3.4 above. The rate of return that GGT proposes to use to generate its Reference Tariffs is derived from a single point estimate supported by KPMG in the KPMG Report. GGT argues that the rate of return used to calculate its Reference Tariff should be established relative to a rate of return range and discards the Authority's point estimate rate of return. GGT favours an alternative point estimate rate of return supported by KPMG. However, the KPMG rate of return estimate has been prepared in response to a request from GGT to estimate "*the upper limit of the range of values for the rate of return for GGP for the purpose of determining a reference tariff under the Code*".

Section 8.30 of the Code provides that:

> *"the Rate of Return used in determining a Reference Tariff should provide a return which is commensurate with prevailing conditions in the market for funds and the risk involved in delivering Reference Services".*

Both GGT and the KPMG Report consider conditions that might prevail "in the markets for funds" but at no time do they appear to consider "the risk involved in delivering Reference Services". WMC has addressed these matters in its 2002 Submission to the Authority and in various other instances.

GGT acknowledges that financial markets will generate a range for the cost of funds but it fails to recognise that the cost of funds applicable to any investment will depend on the risk attaching to the use to which the funds are to be applied. To properly address this issue it is necessary to first determine the range for the cost of funds applicable in the market and then to define the risk attaching to the proposed investment. Only then can the rate of return applicable in a particular service be placed in the cost of funds range applicable to the market.

In this context, by attempting to define the upper boundary of the range for the cost of funds, GGT and the KPMG Report add little to the consideration of GGT's Purported Revised Access Arrangement. There is nothing in GGT's Purported Revised Access Arrangement that attempts to define the range for the cost of funds or the cost of funds, in that range, which should be used to set Reference Tariffs for GGT's proposed Reference Service. Further, contrary to previous submissions by GGT, this is not an exercise in characterising the commercial environment in which GGT operates. Rather it is an exercise in understanding the risk inherent in providing Pipeline Reference Services. As noted above, WMC has addressed this matter in previous submissions.

In an historical context, the initial risk faced by investors in the Pipeline was that the A1 tariff was based upon forecasts of capital cost, other costs and demand. However, it is abundantly clear that the risk profile inherent in GGT's tariff has changed over time as GGT has amended its tariffs to reflect actual outcomes. As outlined in the 2002 Submission, the key project risks faced by the Pipeline owners at the time of constructing the Pipeline and preparing the initial tariff package submitted to the Minister pursuant to clause 9 of the State Agreement was that they would sign contracts to supply Pipeline services before the:

(a) demand risk;

(b) technology risk

(c) design risk

(d) completion risk; and

(e) construction cost overrun risk,

attaching to the Pipeline investment had been resolved and incorporated in new tariffs.

These risks ceased to be borne by the owners of the Pipeline when they replaced the 1994 forecast data with actual costs and demand data to date and with updated forecasts to produce new tariffs. Further, the exposure of the Pipeline owners to these risks was mitigated by setting a tariff which transferred a share of these risks to prospective Pipeline users but was subsequently subject to revision. At page 25 of the 2002 Submission, WMC noted that:

> *"Provided that the A1 Tariff was set at a level that reflected the prevailing project risks in 1994, the ongoing risks (post construction) faced by GGT relate primarily to:*
>
> *(a) its failure to foresee adverse movements in costs and demand;*
>
> *(b) contract inflexibility which delays and/or limits the recovery of unforeseen adverse cost and revenue movements under existing contracts (this inflexibility may result in a loss of revenue to GGT, not simply a deferral); and*
>
> *(c) the risk that a cheaper source of energy is found for the West Pilbara and Northern and Eastern Goldfields relative to the delivered price of gas required for GGT to earn a commercial rate of return.*
>
> *However, these risks are reduced by the temporal structure of the State Agreement access and tariff model. In particular, the State Agreement does not provide a time period between tariff resets but simply places the onus on the Pipeline Owners to earn no more than a commercial rate of return at any time. If things are going well, this mechanism requires GGT to regularly review its returns and tariffs.*

However, in the event of an unforeseen adverse movement in costs or revenues, GGT can reset its tariffs immediately and ensure that uneconomic terms are not built into any new contracts. It can also, within limits and to the maximum extent possible, increase tariffs charged under existing contracts. This flexibility is a key risk mitigation tool available to GGT under the State Agreement and the Tariff Setting Principles.

Under the State Agreement, it is acknowledged and expected that GGT's risk exposure will change over time. As the Pipeline approaches the end of its 42 year project life (assuming the Pipeline is taken out of service at that time although there is no reason to believe this will be the case), GGT's capacity to recover unforeseen adverse movements in revenues and costs will be constrained because there will be fewer "future sales" (i.e. sales under new contracts) from which to recover these losses. Thus, early in the life of the Pipeline (including the present), GGT's risk exposure is reduced simply because of its capacity to recover losses under a larger portfolio of future contracts".

WMC has previously considered the range in the cost of funds that might apply in the market for funds and has sought to place the risk of delivering Pipeline Reference Services in that range. In the 2002 Submission, WMC concluded that the Authority's Draft Decision on GGT's 1999 Proposed Access Arrangement correctly places GGT's rate of return and Reference Tariff in that range.

Clearly, the risk of delivering Pipeline Reference Services does not place it at the upper limit of the range of cost of funds. For this reason WMC has not set out the concerns that it has with the KPMG report at this time.

WMC submits that the Authority has no option but to recognise that the risk associated with delivering Pipeline Reference Services is very limited and, based upon GGT's proposed demand and cost assumptions and the terms of GGT's Reference Service contract, that the rate of return used to set GGT's Reference Tariffs should be located on the lower boundary of the cost of funds range established by reference to the market for funds.

3.6 Forecast Demand

As noted in section 3.1 above, GGT has demonstrated a capacity to substantially understate demand for Pipeline services in all submissions made to the Authority since 1999. Indeed, at times, GGT appears to have had difficulty estimating the quantity of Pipeline services being provided to the market at the time estimates were actually provided.

Given that WMC is not privy to GGT's contract arrangements and market studies WMC is not in a position to ratify or otherwise confirm the Pipeline demand data provided by GGT in the Supporting Documentation. At page 6 of the Issues Paper, the Authority notes that *"GGT has revised its calculation of the Reference Tariff to reflect a revised forecast of demand representing an increase from demand forecasts previously submitted to the Authority"*. Since GGT only published demand forecasts for the period 2005 to 2009 in the Supplementary Submission, it is not clear what the Authority's reference to "increases" in the demand forecasts means insofar as the period to 2004 is concerned.

For the period from 2000 to 2004, Users are relying on the Authority to rigorously test, and confirm the validity of, GGT's latest forecasts, market studies and estimates of demand for Pipeline services. WMC has previously expressed the view that these levels should, at least, be those set out at paragraph 402 of the Amended Draft Decision.

GGT's Supplementary Submission includes a demand forecast for the period from 2005 to 2009 which is marginally above the data set out in paragraph 402 of the Amended Draft Decision and is essentially constant. WMC rejects, however, the proposition that demand for Pipeline services will remain essentially unchanged from 2000 to 2009. This proposition:

(a) is inconsistent with demand forecasts prepared by the Australian Pipeline Trust ("**APA**") at the time of its initial public offering and certified as valid at that time by specialist energy market analysts ACIL Tasman;

(b) is inconsistent with GGT's installation of new compressor facilities after 2000 (when demand is quoted by the Authority to have reached 109.7 TJ per day);

(c) does not reflect WMC's plans for gas consumption in the period; and

(d) does not appear to be supported by any market assessment.

This demand forecast also appears to ignore recent public statements by Jim McDonald of APT in July 2004 and on 26 August 2004, which detail the growth potential for the Pipeline including Thunderbox Gold, Paraburdoo Iron Ore, Murrin Murrin Expansion and Spot Market Development. Copies of these presentations are published on the Australian Stock Exchange website. Also published on the website are a presentation dated 20 October 2004 and a speech dated 20 October 2004. Copies of the July and August 2004 documents are included in Attachment 2, as are the relevant extracts from the October 2004 documents.

Further, notwithstanding that the Pipeline was capable of supplying 109.7 TJ per day in 2000, GGT has installed additional compression in both 2001 and 2004. According to the latest demand forecasts for the period 2000 to 2009, forecast MDQ for Pipeline services exceeded, or was/is forecast to exceed, 109.7 TJ per day only in 2001 (when demand reached 111.3 TJ per day), 2007 (when demand reached 110.1 TJ per day) and in 2008 (when demand reached 109.9 TJ per day). It does not make any commercial sense for GGT to spend $27 million to install compression capital so that it is capable of transporting the few thousand GJ of gas (over a 10 year period) implied in its demand forecasts.

GGT is asking the Authority to accept the proposition that, for a maximum revenue of a mere few thousand dollars over 10 years, GGT was justified to make a capital outlay of $27 million and to accept an increase in its operating cost base. On the basis of the information presented to the Authority by GGT, there appears to be a prima facie case that the installation of compression in 2001 and in 2004 was either ill conceived and, or, unjustified. Alternatively, it suggests that GGT has alternative, more positive forecasts of demand for Pipelines services than those which it has submitted to the Authority. In the very least, the apparently negligible utilisation of compression capacity installed in 2001 and 2004 (when the Pipeline was already capable of transporting 109.7 TJ per day in 2000) suggests that the configuration of the Pipeline is not optimised for current/forecast demand forecasts. This must bring into question any assertions to the contrary.

In the absence of verifiable demand data and demand forecasts, WMC and other Users must rely on the Authority to test the validity of the demand forecasts presented by GGT and used to assess the Purported Revised Access Arrangement.

3.7 Tariff Structure

The changes to the structure of the GGT Reference Tariff are said by the Authority, at page 7 of the Issues Paper, to relate to the removal of tariff variations for contracts of different durations. In fact, the underlying structural changes to GGT's proposed tariff include as a minimum:

(a) the removal of tariff variations for contracts of different durations;

(b) the resetting of the reference date for CPI escalation; and

(c) the re-weighting of the tariff components by increasing the relative significance of the throughput tariff.

None of the above changes to the 1999 Proposed Access Arrangement are required by, or related to, amendments required by the Authority in its Amended Draft Decision.

3.7.1 Removal of Tariff Differential for Different Contract Terms

The removal of tariff differentiations for alternative contract durations represents a fundamental shift in GGT's tariff making and, if nothing else, gives rise to concern regarding regulatory gaming. The background to GGT's tariff and regulatory arrangements is important in understanding GGT's behaviour in this regard.

Under the State Agreement, the focus for tariff setting is the "Benchmark Tariff". The Benchmark Tariff is the tariff applicable to GGT's "Firm Transportation Service Contract for the longest contract term not exceeding 20 years". GGT appears to have modified this definition in some, but not all, instances where the term is used in the Purported Revised Access Arrangement and the Supporting Documentation, although the purpose and result of the modifications are not readily apparent. Under the State Agreement, the Benchmark Tariff is generally seen to be represented by the tariff for GGT's 16 to 20 year Firm Services contract.

Under the Code, to date, the emphasis has similarly focused upon setting the Reference Tariff for the 16 to 20 year contract term and then benchmarking shorter term contracts options against the long term Reference Tariff. Whilst GGT's purpose in proposing this change is unclear, GGT has argued previously that its long term contract tariff should be adjusted because of the risk associated with the market for short duration Pipeline services. In so doing, GGT has conveniently ignored the premiums of up to 20% built into its short duration Reference Service contracts. These premiums serve no other purpose than to provide a return for the risk of servicing a market with short term horizons. To date these premiums have always been quarantined and ignored when considering GGT's longer term (or Benchmark) contract Reference Tariff.

The proposed Reference Tariff set out in the Purported Revised Access Arrangement is almost identical to the proposed reference tariff submitted by GGT in its 1999 Proposed Access Arrangement for contracts of 1 to 5 years duration. In effect, GGT is proposing to delete three previously defined and available Reference Services (delineated by alternative contract durations) and to replace this suite of Reference Services with a single Reference Service. In so doing, GGT is seeking to capture the premium applicable to serving a market with a short term contracting horizon and to impose that premium on all Users including parties who are prepared to enter into long term contracts. GGT also ignores the fact that Reference Services of different durations are likely to be sought by a significant part on the market. Consideration of this matter is required by clause 3.2(a) of the Code.

The consequence of GGT's proposal to amend its 1999 Proposed Access Arrangement, by removing the differentiation of Reference Services and Reference Tariffs by contract duration, is that GGT's Reference Tariff will apply to all short and long term contracts. By removing this basis for differentiating Reference Services GGT is able to attribute the same underlying risk to both its long term and its short term contracts. This is patently not appropriate. In essence, this proposal does little more than replace an existing practice, whereby the Authority is asked to factor an illusionary market risk into GGT's long term Reference Tariffs (while it ignores the premium earned by GGT for servicing a short term market), by concealing the connection between market risk and contract term altogether. These issues are discussed in greater detail in section 3.5.

GGT's Purported Revised Access Arrangement proposal may appear to be superficially consistent with the submissions made by WMC to the Productivity Commission annexed to this submission. In those submissions, WMC suggested that it may be appropriate for Service Providers to define a set of third party access terms (as distinct from Foundation Shipper contract terms) and to establish a Reference Tariff applicable to those services. WMC has acknowledged that there may be a basis for adopting this methodology for defining Reference Services and setting Reference Tariffs. (This proposition does not apply to revised Access Arrangements lodged pursuant to section 2.15A of the Code when the original proposed Access Arrangement was not thus structured.)

In any event, GGT has not attempted to implement the model outlines by WMC because, to do so, GGT would:

(a) not decouple contract term and the Reference Tariff but would redefine the Reference Tariff benchmark to be a 1 to 5 year contract; and

(b) need to revise its service terms more generally to reflect the more casual market for third party services.

GGT has not incorporated these related changes in its Purported Revised Access Arrangement.

WMC submits that GGT's proposal to delete three Reference Services (defined by reference to contract term), and to adopt a single Reference Service and Reference Tariff, means that it will no longer be possible to define the risk profile of the Reference Service and Reference Tariff and should be rejected by the Authority.

3.7.2 Moving the Reference Date for CPI Adjustment

WMC is not concerned with GGT's proposal to move the reference date for CPI escalation of the Reference Tariff from 1997 to 2004. However, WMC is extremely concerned that GGT may be given a licence under the Code to define the terms of its 2000 Access Arrangement by reference to 2004 data. WMC's has particular concerns regarding GGT's calculation of ICB but the Economic Depreciation methodology outlined in the Supplementary Submission is imprecise in this regard.

3.7.3 Increased importance of Throughput Tariff

The structure of the Reference Tariff in GGT's Purported Revised Access Arrangement has been modified to give marginally increased weight to the throughput component of the tariff. Whilst there may be grounds of economic efficiency on which this change might be challenged WMC is not aware of the rationale for the change and will not comment further at this time.

4. Conclusion

GGT has no general power under the Code to amend its proposed Access Arrangement after the publication of the Authority's draft decision.

Whilst GGT has a limited opportunity under s.2.15A of the Code to propose revisions to its 1999 Proposed Access Arrangement, such revisions are confined to incorporating the Authority's required amendments specified in the Amended Draft Decision, or otherwise addressing the reasons identified by the Authority for requiring such amendments to the 1999 Proposed Access Arrangement.

Under s.2.15A, the revisions proposed by GGT do not "otherwise address" the reasoning behind the Authority's required amendments unless the burden of the reasoning is accepted and the proposed revision is, objectively, designed to give effect to the burden or spirit of the reasoning in some alternative way, whilst otherwise GGT's Purported Revised Access Arrangement must either accept the required amendments or remain consistent with the 1999 Proposed Access Arrangement. As the subject matter of any proposed revision of s.2.15A must derive from a proposed amendment required in the draft decision, that provision of the Code provides no occasion for GGT to embark upon a course of making its own substantive changes to the 1999 Proposed Access Arrangement.

It is (only) the Authority who has the power to require amendments to the 1999 Proposed Access Arrangement and even that power does not arise until the Authority has formed the opinion that the 1999 Proposed Access Arrangement does not comply with the Code.

WMC has set out numerous examples in this submission where the Purported Revised Access Arrangement does not, in material respects, incorporate or substantially incorporate, or otherwise address, the amendments required by the Authority in the Amended Draft Decision and examples where the Purported Revised Access Arrangement incorporates revisions that do not derive from a amendments required by the Authority in the Amended Draft Decision.

Accordingly, the Purported Revised Access Arrangement is not, in WMC's submission, a revised Access Arrangement within the meaning of section 2.15A of the Code. It should therefore not be considered by the Authority.

If contrary to the above, the Authority considers that the Purported Revised Access Arrangement is a revised Access Arrangement under s.2.15A, then having regard to the matters in Table 2-1 and for the reasons articulated in section 3 above, the Authority could not be satisfied of the matters of which it is required to be satisfied under s.2.16A, when considering GGT's Purported Revised Access Arrangement.

ATTACHMENT 1

OF WMC SUBMISSION ON GOLDFIELDS GAS TRANSMISSION PTY LTD

PURPORTED REVISED ACCESS ARRANGEMENT

Government of Western Australia

Prior Government Media Statement

Ministerial Media Statement

MINISTER FOR RESOURCES DEVELOPMENT AND ENERGY

16/2/99

Resources Development and Energy Minister Colin Barnett today welcomed a 25 per cent reduction in gas transmission tariffs to customers of the Goldfields Gas Pipeline.

This follows a review of tariffs and discussions between the State Government and owners of the 1380km pipeline, the Goldfields Gas Transmission Joint Venture (Southern Cross Pipelines Australia and Duke Energy WA Pty Ltd).

The reduction in gas transportation tariffs will apply to both new and existing customers and sets in place the discount of 15 per cent announced in February last year.

The Minister said that under the terms of the Goldfields Gas Pipeline Agreement (1994), tariffs on the pipeline were required to be fair and reasonable and consistent with the approved tariff setting principles outlined in the agreement. The State Government had initiated an independent review of the tariff schedule, which showed that the benchmark tariff required reduction.

"The State Government held discussions with the joint venturers about the tariffs and it has been agreed that tariffs will be reduced by 25 per cent," Mr Barnett said.

"The decrease will be in two stages with the first reduction of 20 per cent taking place on July 1 of this year. The joint venturers have agreed to make a further reduction of five per cent on January 1, 2000."

The Minister said that when fully implemented, the reduction would result in tariffs falling to around $2.75 per gigajoule (GJ) for a large-scale customer in Kalgoorlie, a reduction of $0.904/GJ off the benchmark tariff.

The reduction would be welcome news to the pipeline's existing and potential third party customers, in the Pilbara and the Goldfields.

There are now six significant third party customers contracted to the pipeline. These are Plutonic Resources NL, Great Central Mines at Jundee, Wiluna Mines, Murrin Murrin Operations, Centaur for the Cawse Nickel Project and AlintaGas. These are in addition to the original foundation customers, WMC Limited, Normandy and BHP Limited.

"Reduced energy costs as a result of the gas pipeline have encouraged developers to establish projects with value-added downstream processing capacity, including the nickel laterite projects at Murrin Murrin and Cawse now being commissioned," Mr Barnett said.

The Minister said the pipeline made the reticulation of natural gas to homes in Kalgoorlie possible and allowed electricity from Kalgoorlie to be transported economically over the Western Power grid to Perth Airport.

"It is these types of substantial benefits the Government had in mind when it first encouraged the development of the pipeline," he said.

"Initially constructed by mining companies, the pipeline has reached a more mature stage of its development where it is now owned and operated by dedicated energy corporations.

"The new owners are to be congratulated on the co-operative and far-sighted approach they are taking to the running and marketing of the pipeline."

Media contact: Jody Robb 9222 9211

Prior Government Media Statement

Government of Western Australia
Government Media Office (08) 9222 9595
Ministry of Premier and Cabinet. Tuesday, 16 February 1999

GGT
GOLDFIELDS GAS TRANSMISSION

GOLDFIELDS GAS TRANSMISSION PTY LTD
ACN 004 273 241

35 Ventnor Avenue
WEST PERTH WA 6005
PO BOX 206
WEST PERTH 6872

Telephone +61 8 9422 4100
Facsimile +61 8 9422 4101

PRESS RELEASE

Lower GGT Tariffs

The Goldfields Gas Transmission Joint Venture today announced tariff reductions and proposed additional service offerings for the Goldfields Gas Pipeline.

The new owners of the Goldfields Gas Pipeline, following negotiations with the State Government, have agreed to reduce tariffs by 25% from the benchmark level established by the original owners.

The new tariffs will be implemented in two stages, the first stage providing reductions of 20% to be offered on 1 July 1999, with the second stage providing a reduction totalling 25% on 1 January 2000. The new tariffs replace the previous discounted tariffs.

The Joint Venture will be proposing general terms and conditions to include a greater variety of service offerings and a new flexible economic development tariff which is designed to attract energy intensive projects to the Goldfields regions.

General Manager of GGT, Mr Roland Sleeman, in announcing the new tariff offerings said "these new tariffs will provide benefits to existing customers and attract new mining and power projects to the Goldfields region. We are confident that this will result in substantial growth to the region and higher throughput through the pipeline. We are currently in discussions with a number of prospective customers and hope to be able to announce future new projects for the pipeline within the coming months."

The new tariff reductions were developed after discussion with the Western Australian Government. The proposed economic development services will be developed in collaboration with the Department of Resource Development and customers.

The new owners of the pipeline, The Australian Gas Light Company, CMS Energy, TransAlta Energy and Duke Energy are all major energy companies with a proven track record in developing energy assets.

16 February, 1999

For further information:

Contact: Mr Roland Sleeman
Bus Tel: (08) 9422 4107
Mobile: 040 747 8419

Project Consultancy Services Pty Limited
PCS

MIKE LAUER
DIRECTOR

Tel: (61)(02) 9988 4670
Fax: (61)(02) 9988 4671
PO Box 700
Pymble NSW 2073

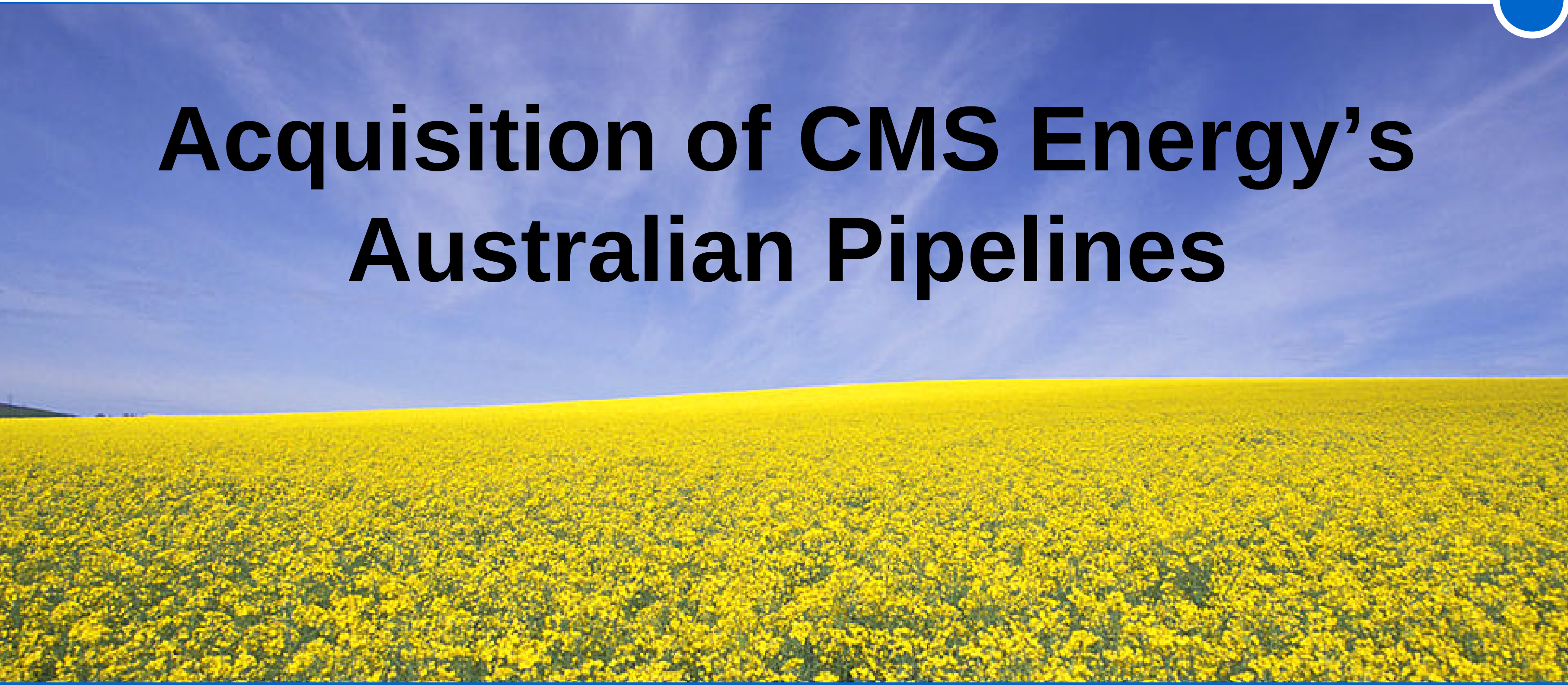
ATTACHMENT 2

OF WMC SUBMISSION ON GOLDFIELDS GAS TRANSMISSION PTY LTD

PURPORTED REVISED ACCESS ARRANGEMENT

Australian Pipeline Trust

Acquisition of CMS Energy’s Australian Pipelines



Jim McDonald

Sydney, July 2004

Important Notice

This presentation sets out information in relation to the proposed acquisition of the Goldfields Gas Transmission Pipeline and the Parmelia Pipeline and associated assets ("Proposed Acquisition") by Australian Pipelines Limited as responsible entity of the Australian Pipeline Trust ("APA") from the CMS group of companies ("CMS") and related matters.

This presentation does not comprise a prospectus or an offer of or an invitation to subscribe for any securities of APA in any jurisdiction.

Information in this presentation is based on an Sale and Purchase Agreement dated 29 July 2004 ("Acquisition Agreement"). The information in this presentation is prepared on the assumption that all conditions contained in the Acquisition Agreement will be satisfied and the Acquisition Agreement is completed in accordance with its terms.

Information in this presentation in relation to CMS has been prepared by APA using information provided by CMS. While due diligence has been conducted in relation to this information, the warranties that have been provided by CMS in relation to such information in the Acquisition Agreement are limited. Accordingly, APA can not provide a complete assurance as to the accuracy or completeness of the information contained in the presentation in relation to CMS.

The information on the Proposed Acquisition contained in this presentation should not be considered to be comprehensive or to comprise all material information in relation to APA or the Proposed Acquisition.

The pro forma information contained in this presentation is intended for informational purposes only, and does not purport to be indicative of the results that actually would have been obtained or the financial position that actually would have existed during and for the periods presented, and is not necessarily indicative of APA's operating results or financial position (or that of the CMS assets or businesses acquired) to be expected in future periods.

This presentation may contain statements in the nature of forward looking statements including in relation to the financial performance of APA, the size, nature and characteristics of the markets which APA services, and the financial impacts of the Proposed Acquisition. Those statements are only predictions and are subject to inherent risks and uncertainties. Actual results and outcomes may differ materially from those predicted or implied by any forward looking statements for a range of reasons outside the control of APA. Accordingly, no representation or warranty is given by APA (subject to provisions of the Corporations Act and other law to the contrary) in relation to the accuracy or likelihood of fulfilment of those forward looking statements. Persons who may acquire APA units are cautioned not to place undue reliance on such statements.

This presentation does not take into account the financial situations and particular needs of any person to whom it is addressed. It does not amount to advice or any recommendation in relation to APA, or in relation to the Proposed Acquisition generally. Investors should consult their legal, tax, financial or other advisers in connection with any acquisition of APA units.

This presentation contains information in relation to a number of contracts with third parties. No such third party assumes any liability or responsibility in relation to the information provided in this presentation with respect to those contracts.

Outline

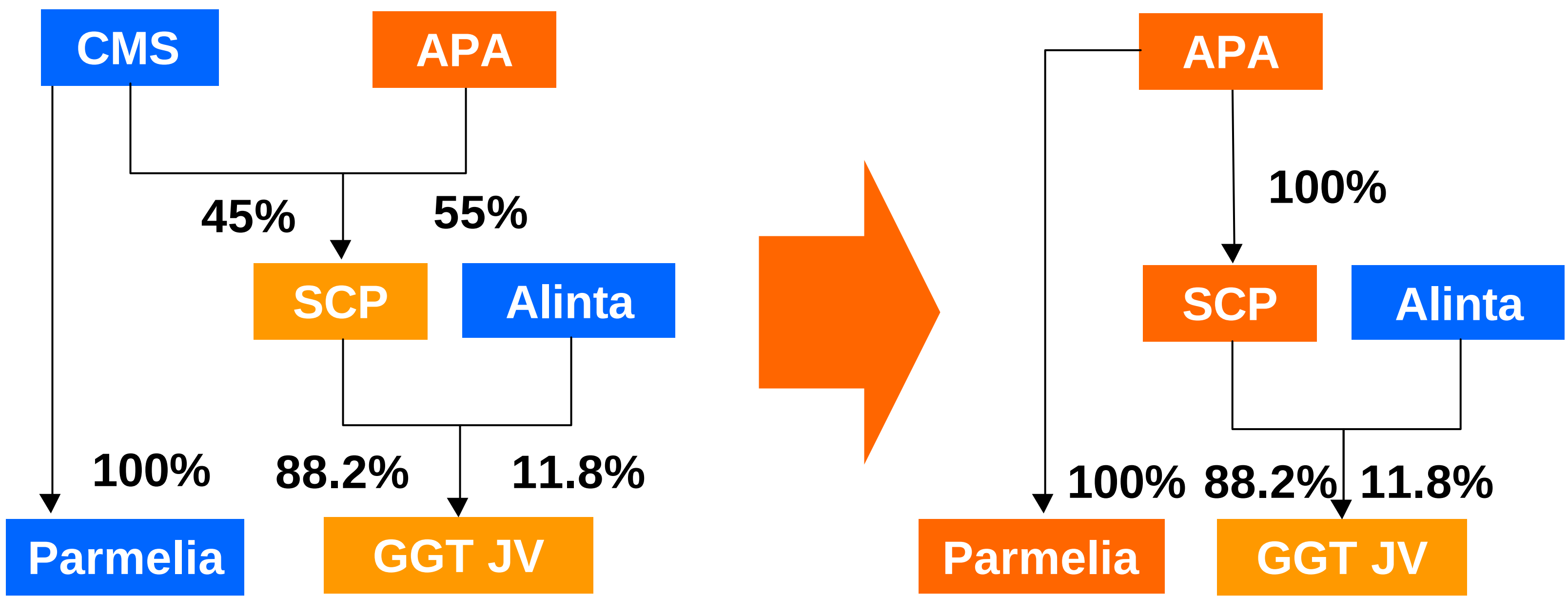
- Transaction Overview
- Portfolio Impact
- Goldfields Gas Transmission
- Parmelia Business
- Financing
- Impact 2004/2005
- DBNGP Update

Australian Pipeline Trust

Acquisition Structure

Pre Acquisition

Post Acquisition



Transaction Overview

Australian Pipeline Trust

Transaction Overview

- Acquisition by APA of CMS Energy Corp's Australian pipeline assets:
  - remaining 45% interest in SCP, 88.2% owner of Goldfields Gas Transmission Pipeline (GGT)
  - 100% Parmelia gas business, comprising pipeline, processing, storage assets and retail
- Acquisition cost $206m
  - inclusive of all transaction costs and purchased cash of $37m
- Earnings per unit and cash flow per unit accretive
- Funded by cash, debt & equity raising

Strategic Rationale

- APA's strategy for growth is to:
  - Diversify asset risk;
  - Increase utilisation of our existing pipelines;
  - Continue to acquire minorities; and
  - Participate in industry rationalisation
- At our Full Year Results for 2003 we said

  "Maintaining historical growth rates requires a step change in the business"
- APA is disciplined in industry rationalisation
- **This is a significant acquisition**

Transaction Benefits

- In line with APA's strategy and financial criteria
- Positive financial impact on APA
- Progressive diversification of APA's portfolio
- Goldfields pipeline fully contracted – additional compression planned
- Parmelia - under-utilised asset
- Enhanced footprint in WA
- Sound long term prospects
- Commercial control by APA

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Financial Impact

Pro forma APA interest 100% SCP and Parmelia			
	Year ended 30 June		
$M	**2002**	**2003**	**2004**
Revenue[1]	$95.6m	$103.6m	$103.1m
EBITDA	$69.2m	$73.6m	$72.2m
Capex	($3.1m)	($3.2m)	($10.6m)[2]

Source: CMS and APA

1) Revenue includes interest

2) 2004 capex figures on an accrual basis

Note: APA currently equity accounts for SCP

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Financial Impact

- 2004 EBITDA multiple 8.3x on assets acquired
  - better than trading multiples for APA, comparable stocks and recent acquisitions
- Strongly earnings accretive
  - consensus 2004 standalone NPAT: $41-43m (includes equity accounting for 55% SCP)
  - incremental 2004 pro forma NPAT: +$8m (annualised)
- Similarly cash accretive
- Completion likely in Q3 2004
- Present distribution levels (21.5 cents) to be at least, maintained

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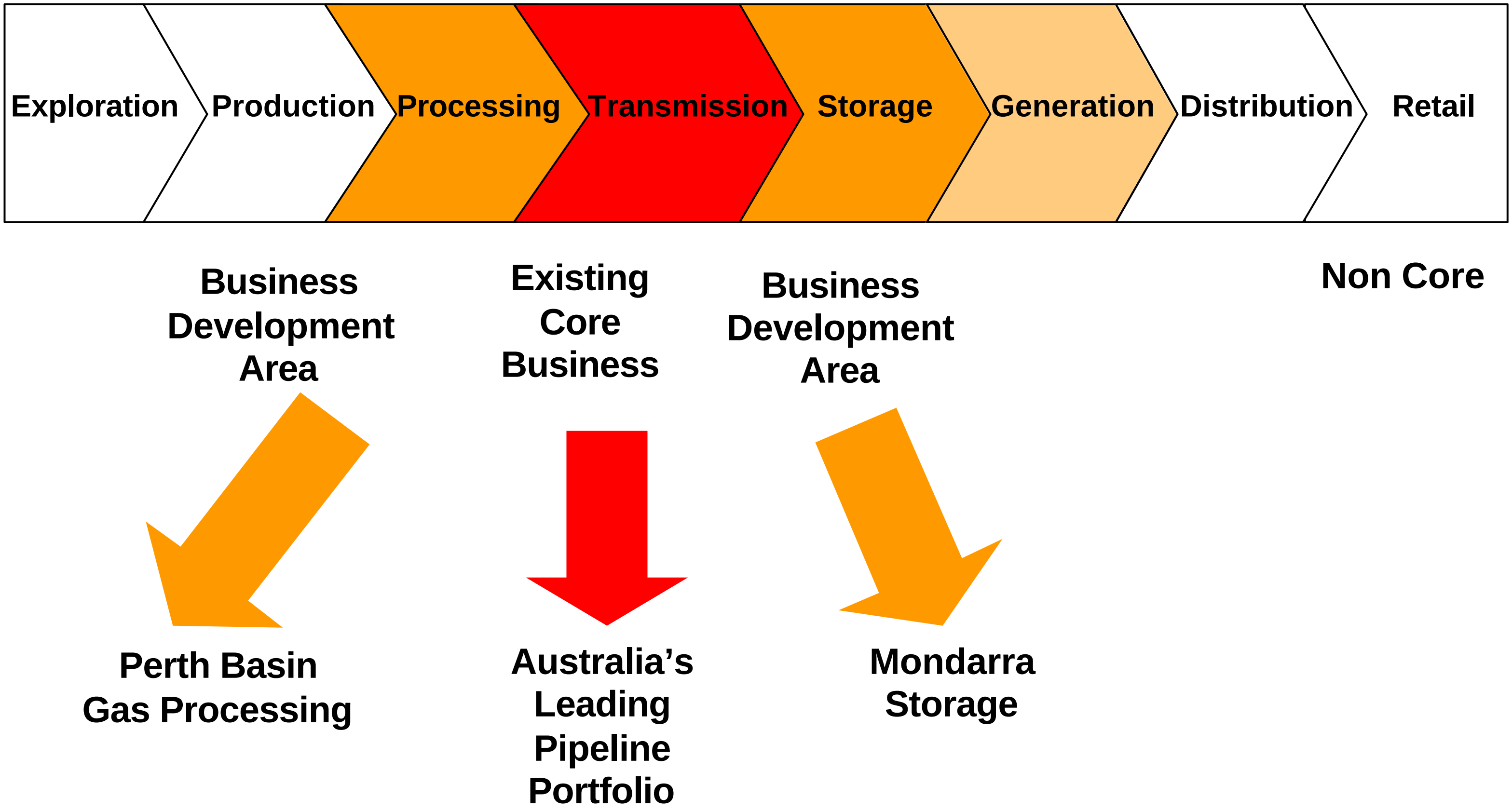
Portfolio Impact

Gas Chain



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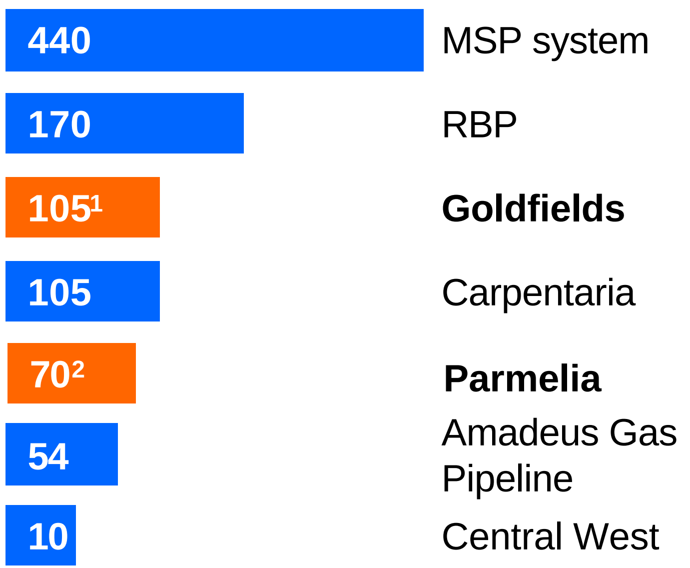
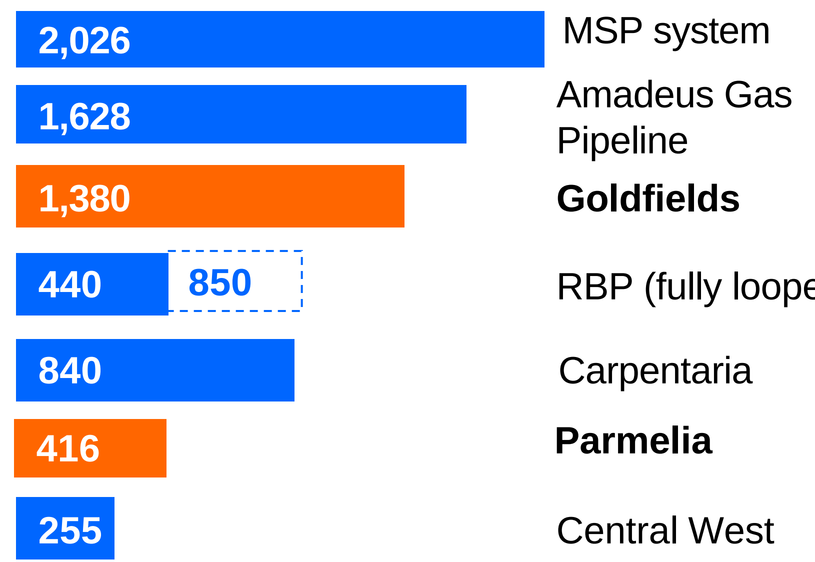
Portfolio of Major APA Pipelines

Approx. Capacity (TJ/d)



Length (Km)



1. Goldfields expandable to 164 TJ/d under full compression.
2. Parmelia expandable but not anticipated

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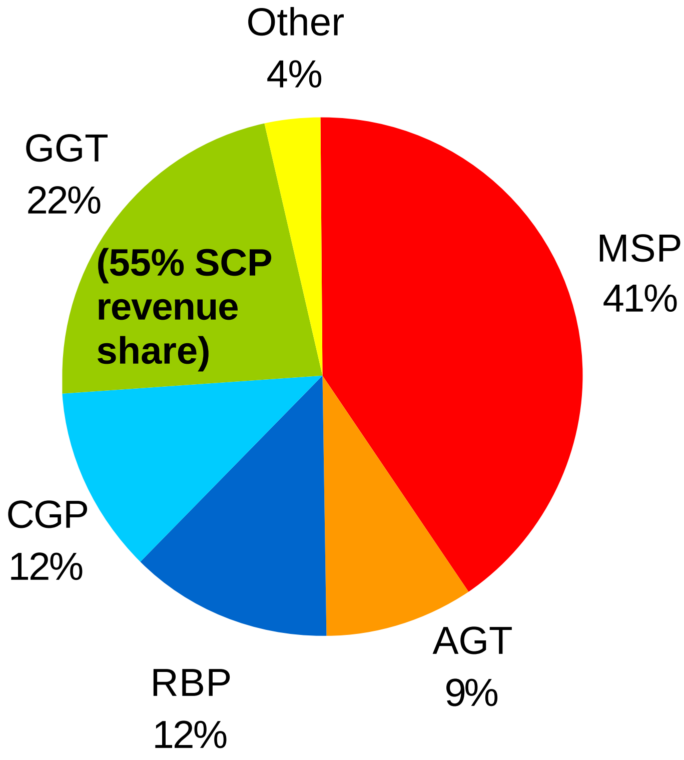
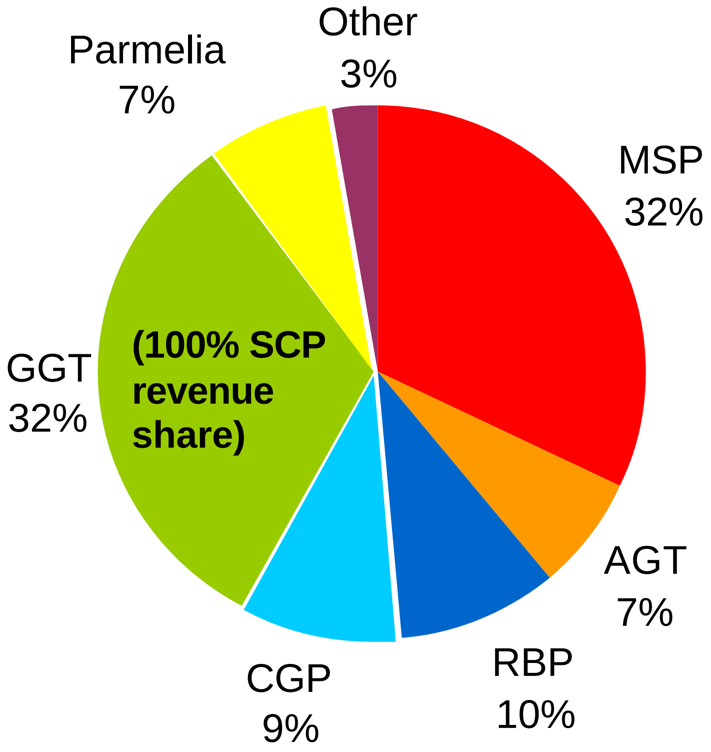
Portfolio Diversification

APA 2004 Revenues
Pro forma pre-acquisition



APA 2004 Revenues
Pro forma post acquisition



Note: GGT revenues shown on an equity share consolidated basis pre & post acquisition for accurate comparison

Revenues exclude pass-through revenue

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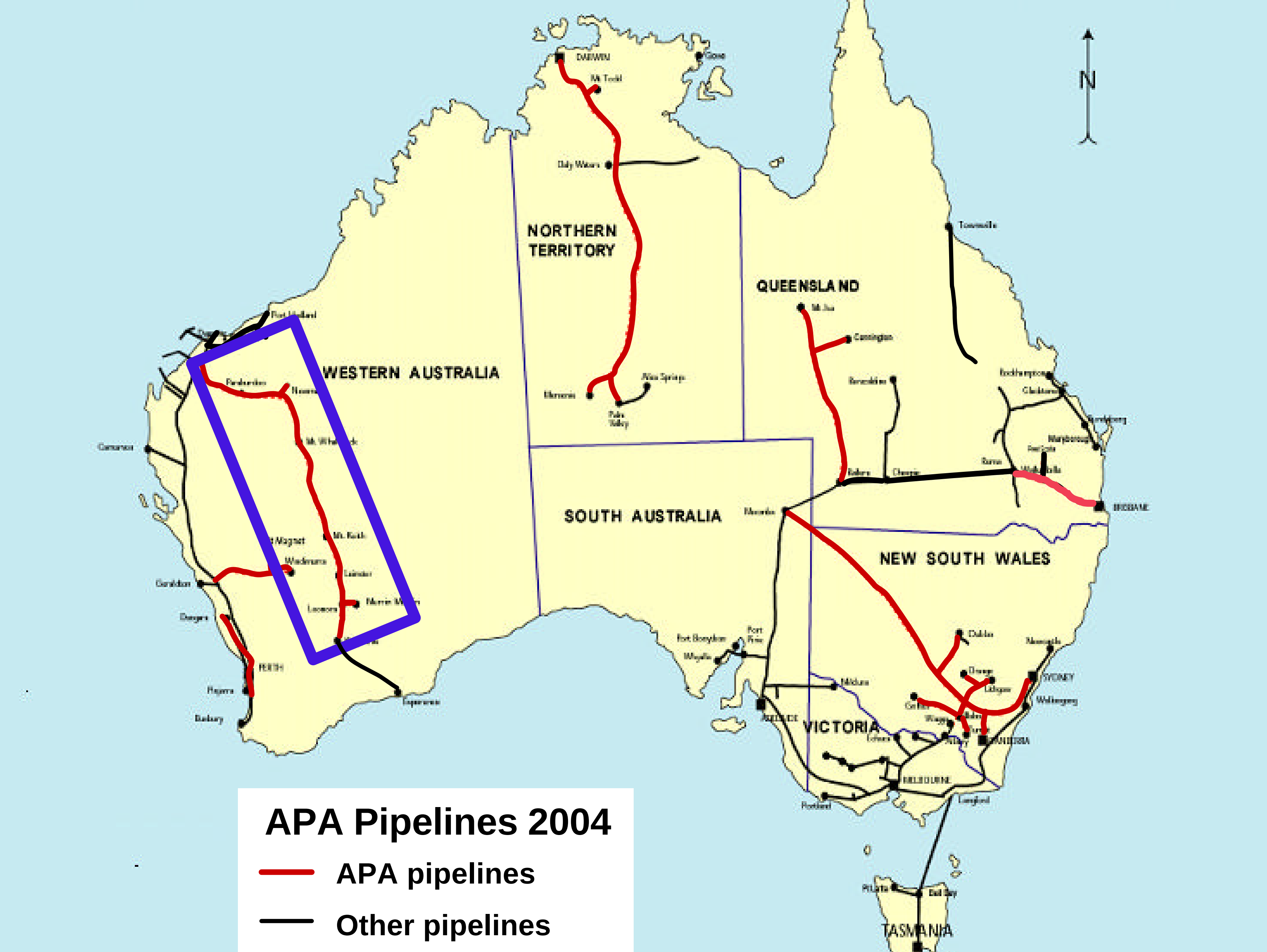
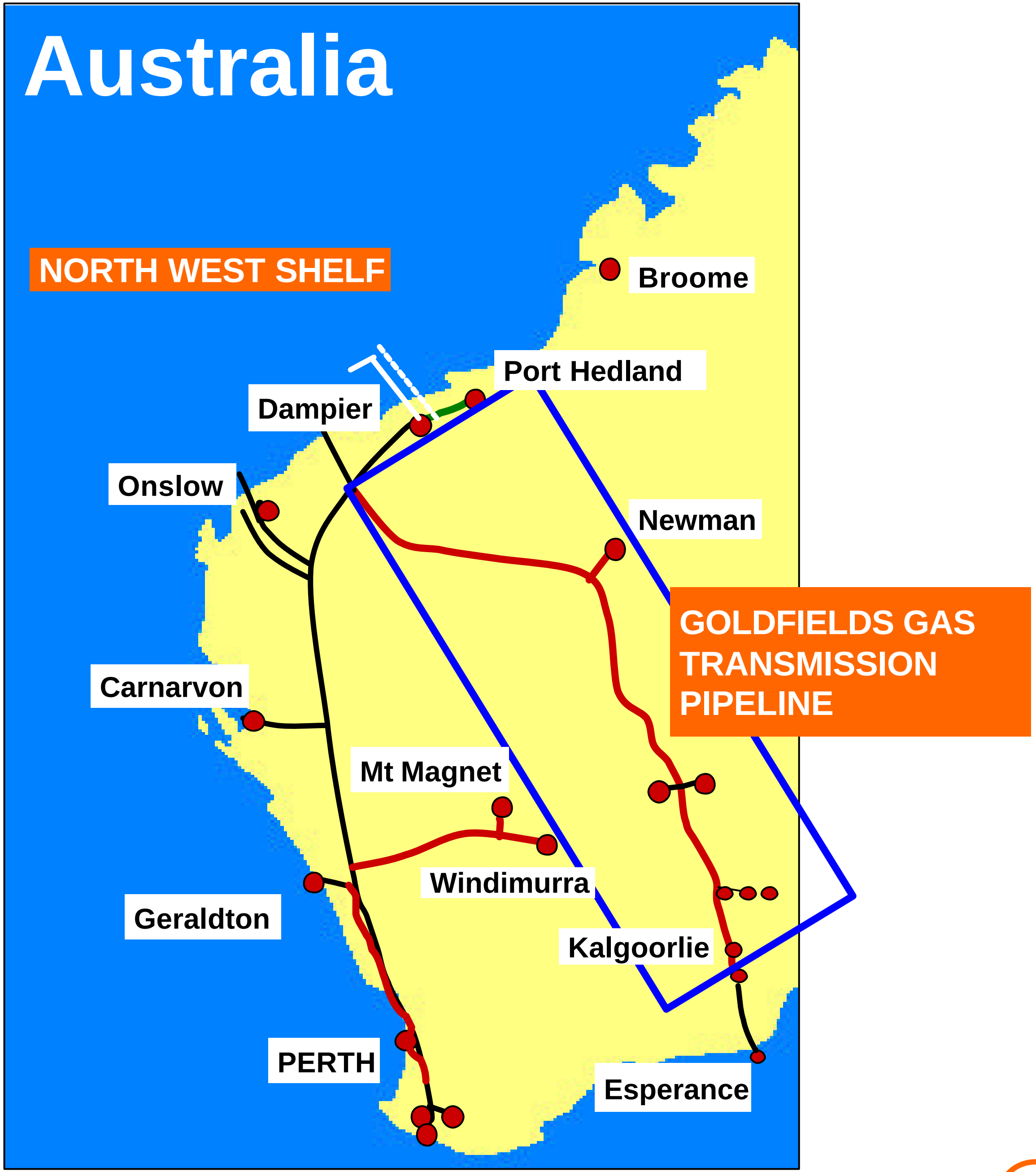
Goldfields Gas Transmission Pipeline


N
NORTHERN TERRITORY
QUEENSLAND
WESTERN AUSTRALIA
SOUTH AUSTRALIA
NEW SOUTH WALES
VICTORIA
TASMANIA
DARWIN
Daly Waters
Alice Springs
Townsville
Port Hedland
PERTH
SYDNEY
BRISBANE
MELBOURNE
Newcastle
Wollongong
APA Pipelines 2004
APA pipelines
Other pipelines

Western Australia



Goldfields Gas Transmission Pipeline ("GGT")

– Fully contracted

– Strong counterparties to long term contracts

– Serves a world leading and diversified mining region

– Competitive gas supplies from North West Shelf

– Capacity enhancement potential

– APA gains control and management of GGT

– Business well known to APA

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GGT

- ASSET OVERVIEW
  - Pipeline built in 1996
    - Total length: 1,380km
    - Diameter: 356mm spanning 860km
      406mm spanning 520km
  - Transports competing gas streams from Harriet and East Spar, NW Shelf to North Eastern and Eastern Goldfields region of WA
  - Capacity 105 TJ/d increasing to 164 TJ/d under full compression

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GGT

- MAJOR CUSTOMERS

– WMC:

  – Largest customer: MDQ 45.8 TJ/d
  – 4 major WA nickel facilities each with a dedicated 38MW gas fired power plant
  – Major nickel supply agreement with China to drive capacity expansion and gas demand
  – Contract to 2037, volume variation in 2013

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GGT

- MAJOR CUSTOMERS

– Newmont:

  – 2nd largest customer: MDQ 20.4 TJ/d

  – 7.8m oz gold reserves along GGT (45% of Newmont's Australian reserves)

  – 50% stake Kalgoorlie Super Pit

    – largest goldmine in Australia

    – 114MW gas power station

    – Reserves / production ratio 14 years

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GGT

- OTHER MAJOR CUSTOMERS
- – Alinta – Mt Newman, Kalgoorlie
- – Numerous third party shippers including
  - – Minara Resources
  - – OMG Cawse
  - – Agincourt
  - – AGL
  - – Barrick

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GGT

- GROWTH POTENTIAL
  - Several projects under active discussion
  - Esperance lateral opportunities (eg BHP Ravensthorpe)
  - Paraburdoo iron ore expansion
  - Murrin Murrin nickel Stage 2
  - WA economy gas driven
  - Supplies world class mineral province

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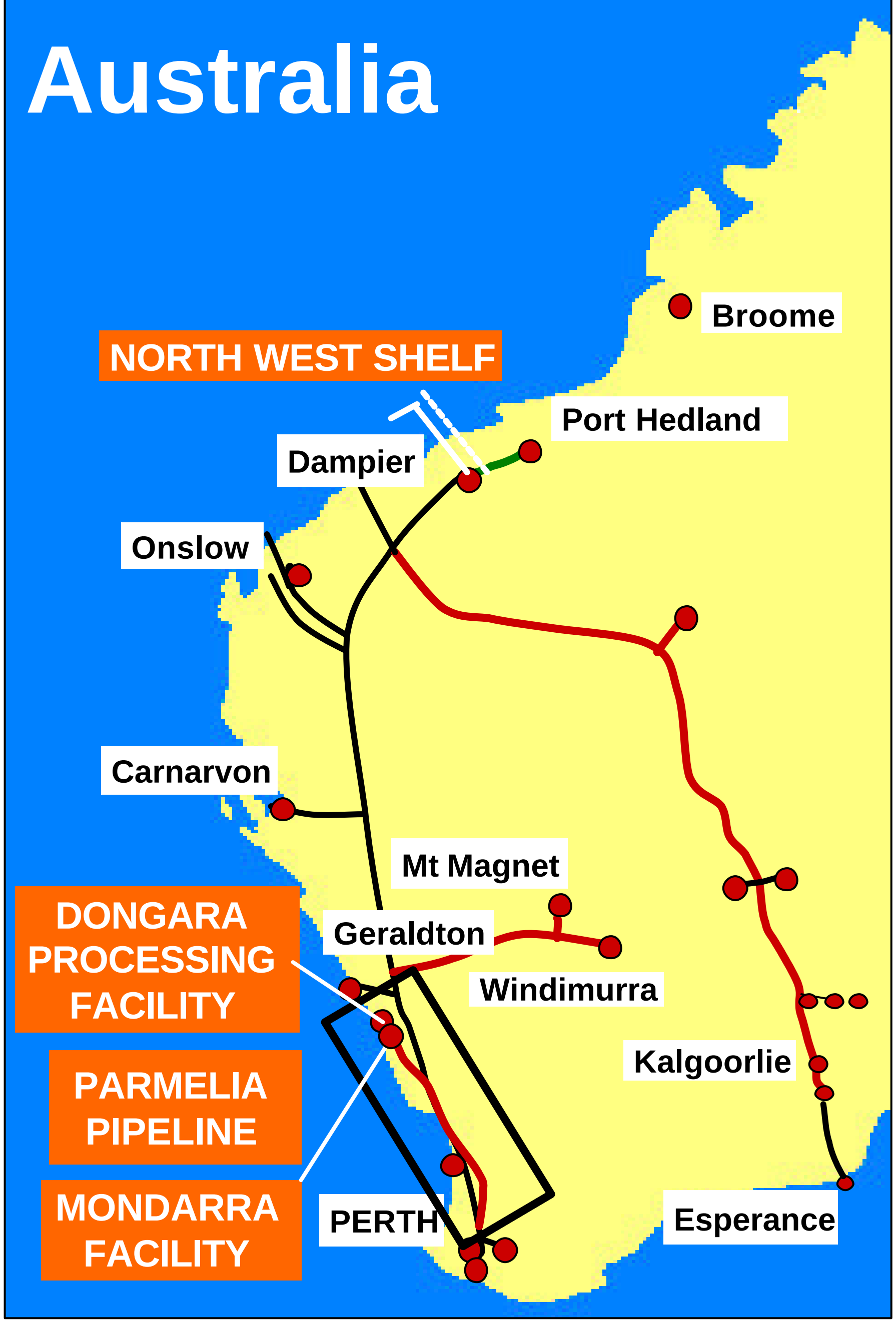
GGT

- Regulatory process
  - Draft access arrangement announced yesterday – under internal review
  - APA’s assumptions and valuation lies at the lower end of the range of reasonable outcomes
  - Draft decision is consistent with APA’s view of where regulator would land at this stage in the process

Parmelia Business

Western Australia



Parmelia

- ACQUISITION RATIONALE
  - Expands WA footprint
  - Diversification into processing & storage
  - Aggressive drilling activity and seismic work in Perth Basin with recent success
  - Increasing demand for gas storage – positive market conditions
  - Spot market development
  - Low cost capacity enhancement potential
  - Diverse gas supply

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Parmelia

- ASSET OVERVIEW
  - Parmelia pipeline, Dongara processing, Mondarra storage facilities, retail
  - Unregulated
  - Pipeline built in 1971
    - Total length: 416km
    - Diameter: 356mm
  - Alternate pipeline connection between Perth Basin to Perth & southern industrial centres
  - Connection to Alinta network planned
  - Mondarra storage capacity: 6-9 PJ
  - Current pipeline capacity: 70 TJ/d

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Financing

Financing

- Total cost (inclusive of all transaction costs) of $206m
- Funded by $60m equity raising with the balance from cash and existing facilities
- Pro forma gearing (debt / debt plus book equity) post acquisition, capital raising and the impact of tax consolidation is 65%
  - includes consolidation of $250m SCP project debt

Equity Raising

- Placement of approximately $60 million
- Institutional bookbuild
  - Lead Manager: ABN AMRO Rothschild
  - Co Manager: CommSec
- New units rank equally with existing units
- AGL and Petronas to take up their pro rata interests

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Equity Raising

- Indicative placement timetable

Institutional briefing	10.30 am Friday, 30 July
Books close	5.00pm Friday, 30 July
Placement price announced	9.00am Monday, 2 August
Settlement	Thursday, 5 August
New units commence trading	Friday, 6 August

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Impact 2004/2005

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Impact 2004/2005

- FY2004 consensus normalised NPAT is $41m to $43m
- 2004 results expected to be in line with consensus
- 2005 affected by contracted reduction in MSP revenues as previously advised
  - Full retail contestability now having a positive impact
  - Acquisition will more than offset reduction
- Tax consolidation uplift $92.9m
- Distribution policy is regularly reviewed by the Board
- DPU on expanded capital base to be at least 21.5c in 2005

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DBNGP - Update

- Sales process subject to Confidentiality Agreement
- Presently in a 50/50 consortium
- Due diligence is largely complete
- Bids due 27 August
- No certainty of resolution and far from certain that any transaction will in fact occur

Australian Pipeline Trust

Summary

- Good assets at the right price
- Consistent with APA's strategy
- Strengthens APA core business
- Adds gas processing and storage
- Reduces reliance on MSP
- EPU and cash flow per unit accretive

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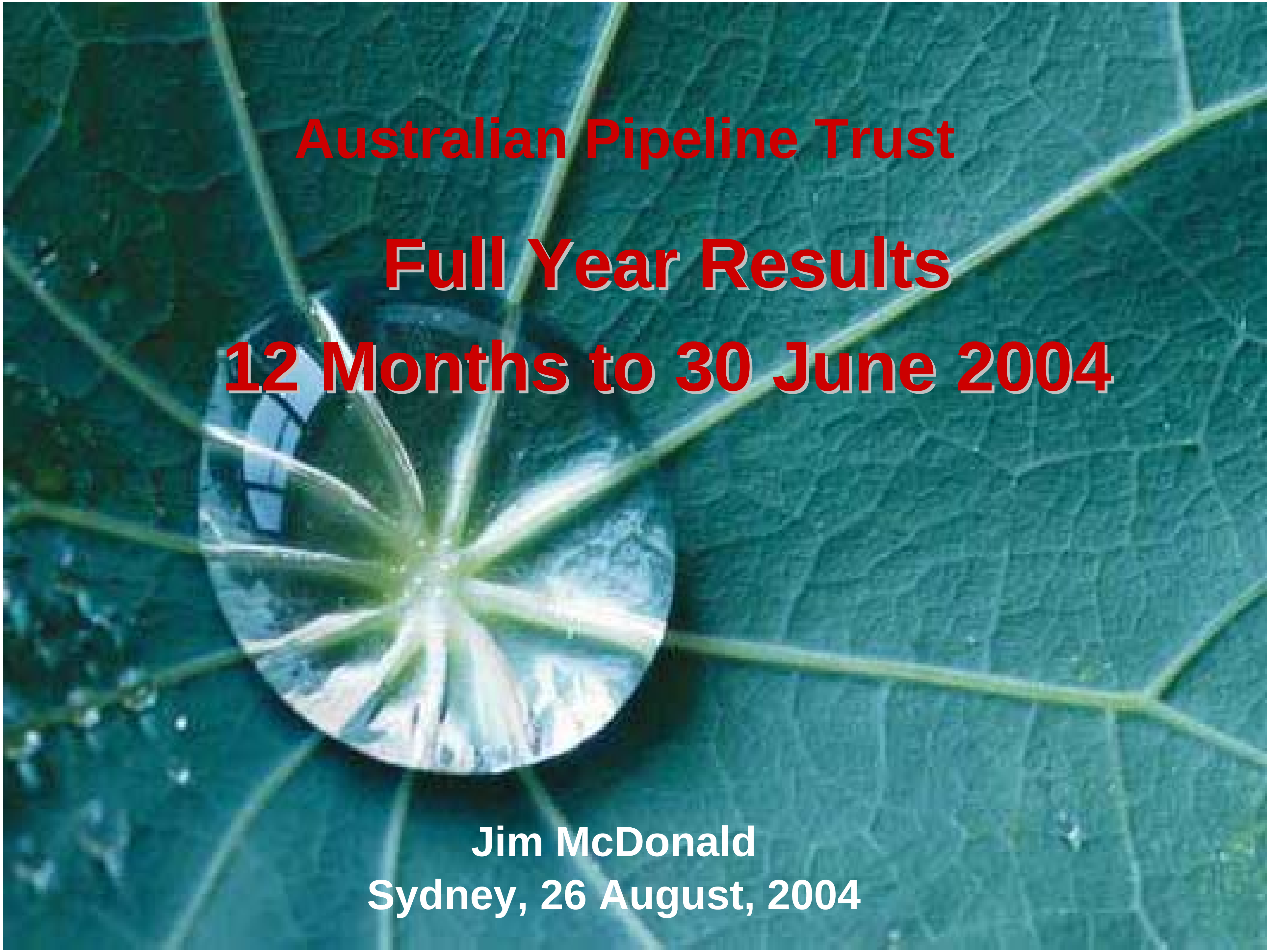
www.pipelinetrust.com.au



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Full Year Results

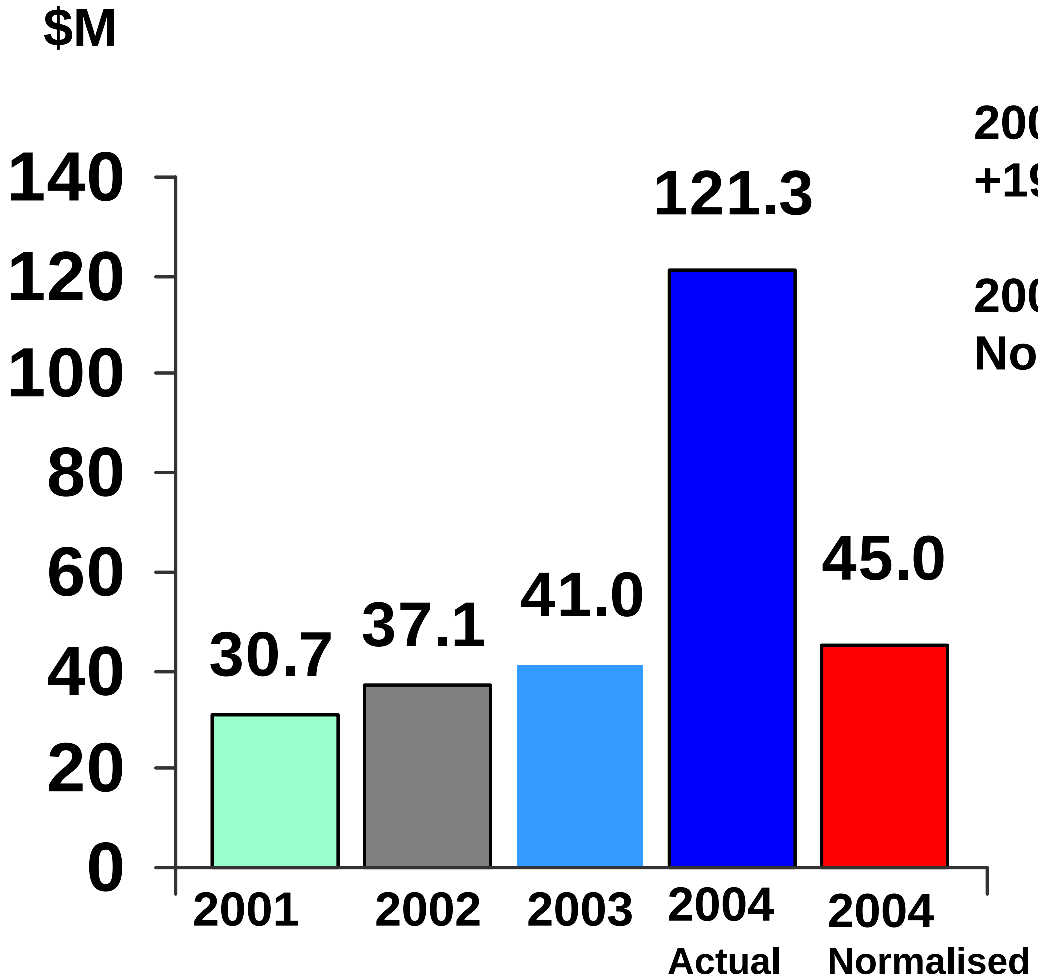
12 Months to 30 June 2004

Jim McDonald

Sydney, 26 August, 2004

Full Year Results in Summary

Net Profit after Tax and minorities (NPATM)



2004 NAPTM:
+195.50% from pcp.

2004 NAPTM:
Normalised +9.6% from pcp.

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Full Year results - summary

NAPTM impacted by non-recurring items

Year ended 30 June	2004 $M	2003 $M
Net Profit after income tax and minorities	121.3	41.0
Non-recurring items after tax	76.3	-
Operating profit after tax and minorities	45.0	41.0

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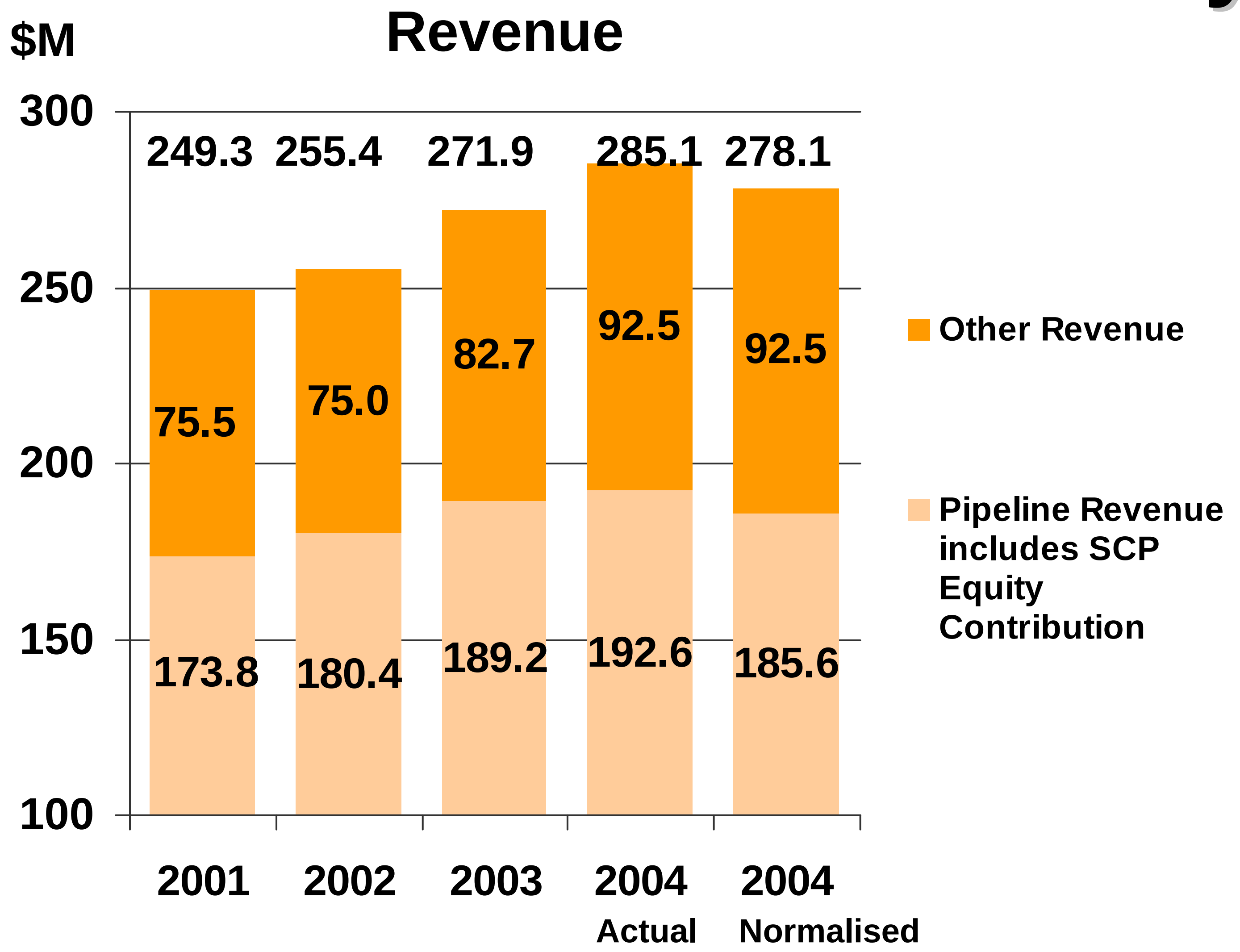
Full Year Results in Summary



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Highlights

- Continued strong performance
- Acquired CMS' interest in Goldfields Gas Pipeline and 100% of Parmelia gas business
- Active management of capital resources
- Positive regulatory outcomes
- Involved in industry rationalistion;

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Agenda

- Progress Update
- Operational Review
- Financials
- Acquisition Overview
- Strategy and Outlook

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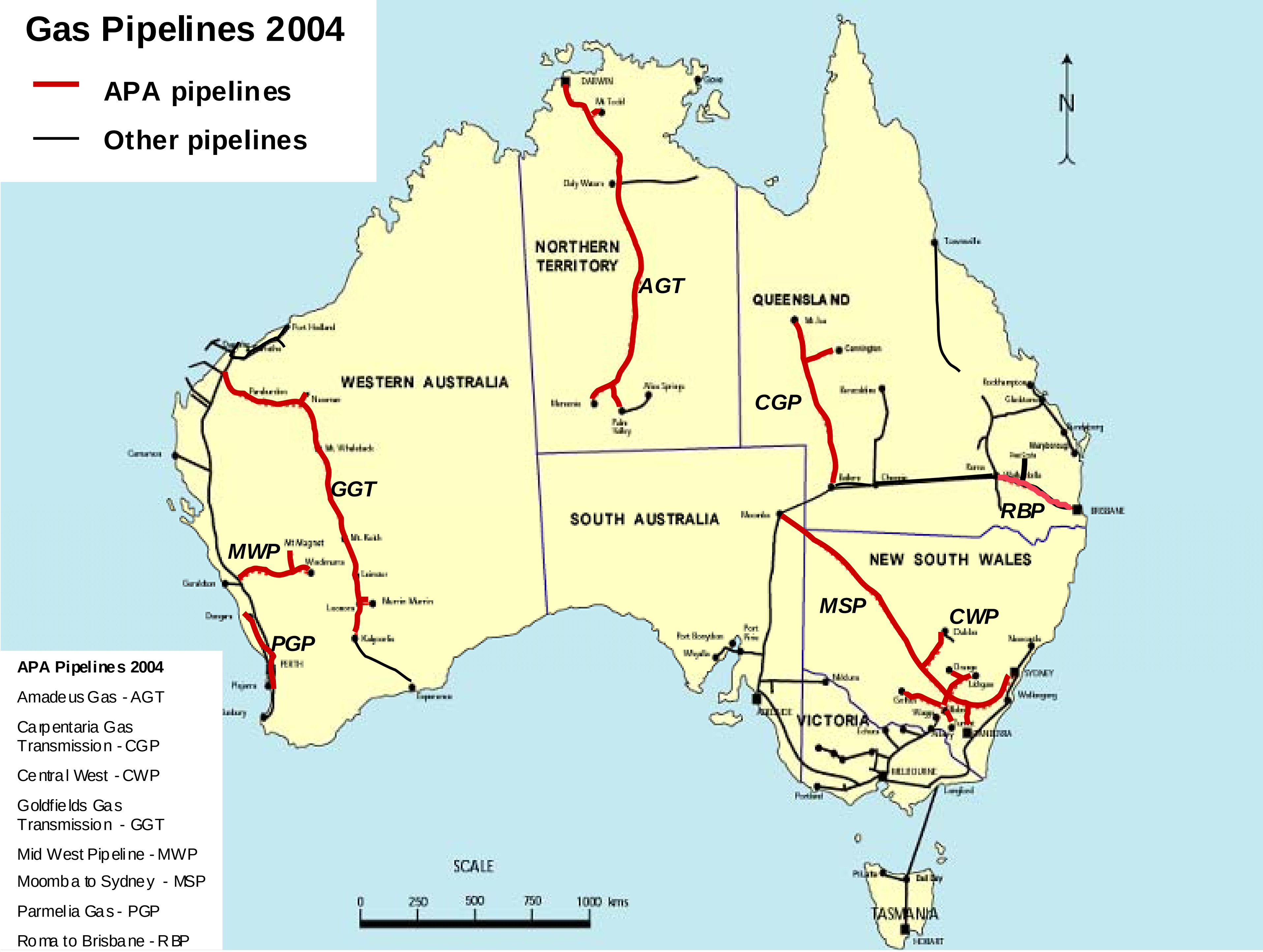
Gas Pipelines 2004

APA pipelines

Other pipelines



APA Pipelines 2004

Amadeus Gas - AGT

Carpentaria Gas Transmission - CGP

Central West - CWP

Goldfields Gas Transmission - GGT

Mid West Pipeline - MWP

Moomba to Sydney - MSP

Parmelia Gas - PGP

Roma to Brisbane - RBP

Progress Update

Continued strong performance

- Four years of consecutive growth in NPATM
- Balance Sheet in strong position after acquisitions
- Equity raising well received by market

Australian Pipeline Trust

Progress Update

Achieved Strategic Goals

- Acquisition of CMS Energy Corp's Australian pipeline assets
  - now own 88.2% owner of Goldfields Gas Transmission Pipeline (GGT), and
  - 100% Parmelia gas business, comprising pipeline, processing, storage assets and retail;
- Cost $206m, inclusive of all transaction costs plus any working capital adjustments
- Immediately earnings per unit and cash flow per unit accretive
- Purchase completed on 17 August 2004

Progress Update

Active Management of Capital Resources

- Raised A$493.23 million (net) in US Private Placement market;
- Activated Distribution Reinvestment Plan;
- Entered into tax consolidation;
- Raised equity of $61.19 million (net)

Progress Update

Positive regulatory outcomes

- Moomba to Sydney
  - Decision to partially partially revoke coverage
  - Australian Competition Tribunal rejects valuation methodology on access arrangements for MSP
  - ACCC has now appealed to Federal Court of Australia, outcome expected next calendar year

Progress Update

Positive regulatory outcomes

- Productivity Commission Final Report
  - Recommends lighter-handed regulation
  - Potential for “no coverage” for 15 years on greenfields pipelines on case-by-case basis
  - Price regulation applies when net benefits outweigh monitoring costs
  - Regulated revenues to be at least sufficient to meet efficient costs of providing services

Australian Pipeline Trust

Progress update

Involved in Industry Rationalisation

- Only bid at a commercially justifiable price
  - Roma to Gladstone Pipeline (Qld), South West Queensland Pipeline (Qld), Pilbara Pipeline System (WA) bids
  - Bid to build Telfer Pipeline
  - Due Diligence costs were significant but necessary ($5.8 million)

Australian Pipeline Trust

Progress update

Corporate Changes

- Unitholders now able to nominate directors for Australian Pipeline Limited
  - Three directors (other than the two AGL, one Petronas and Managing Director) are now able to be elected by unitholders
  - All three non-corporate directors are retiring and re-nominating

Operational Review

- X-Strata mine closure in WA
  - Write-off of Mid West Pipeline following closure of vanadium mine
- Stress Corrosion Cracking
  - Identified on MSP in remote areas of SA
  - Pressure management plan implemented
  - Further investigation planned - intelligent pig
  - Repair and rehabilitation program being prepared if required

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Operational Review

- Moomba Gas Plant Fire
  - Fire at Santos Moomba gas plant in January 2004 disrupted gas supplies
  - Domestic and small user services were maintained, although industrial users were temporarily interrupted
  - APA met all contractual obligations
  - No financial impact due to GTD
- Roma to Brisbane
  - Transportation agreement with Energex on a spot basis to existing peaking gas-fired power stations.

Australian Pipeline Trust

Financials

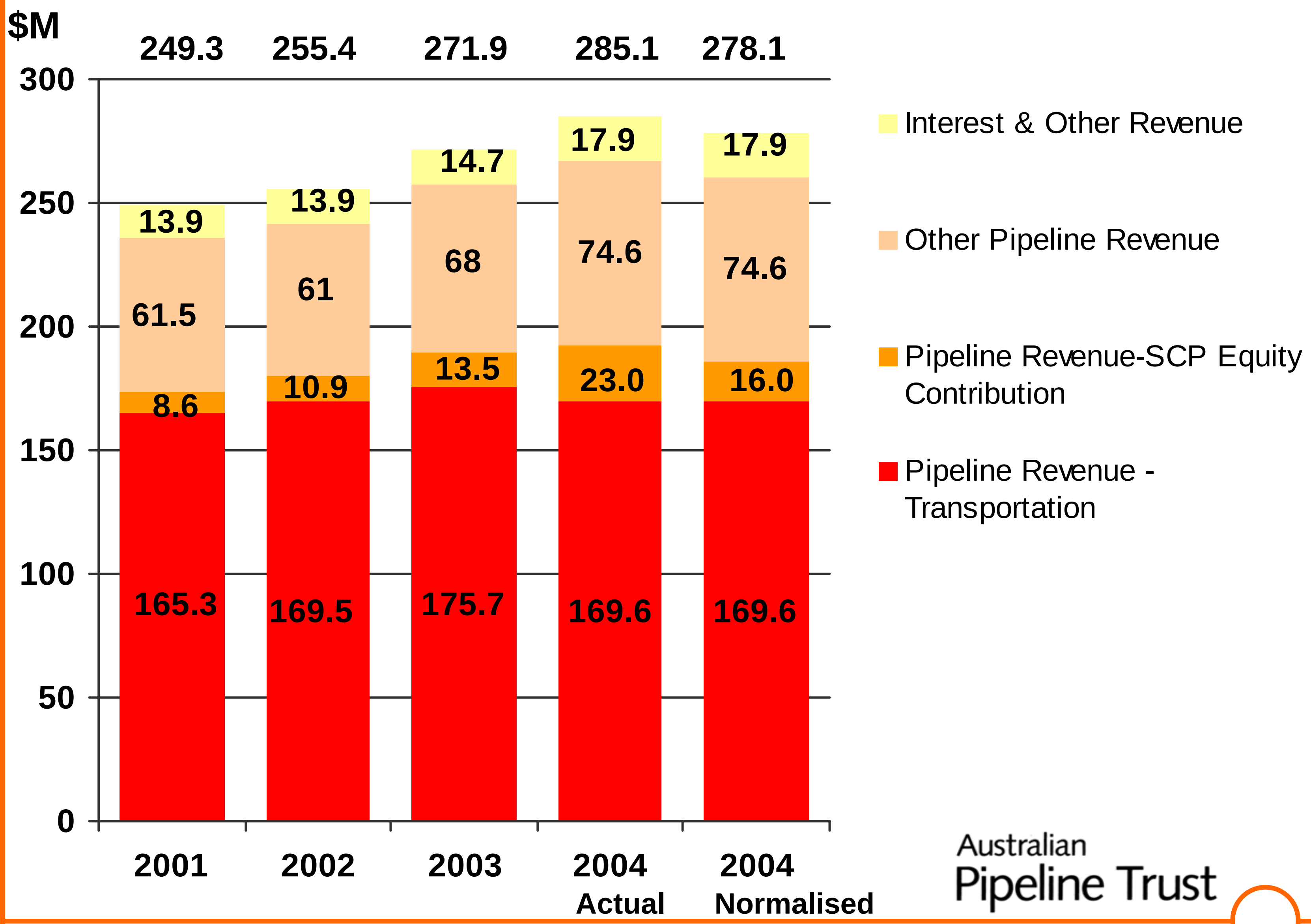
Year ended 30 June	Actual 2004 $M	Normalised 2004 $M	Actual 2003 $M	% Change vs normalised
Total Pipeline Revenue *	267.1	260.2	257.2	+1.2
EBITDA	135.1	133.9	137.8	-2.8
Profit after tax & minorities	121.3	45.0	41.0	+9.6
Earnings per unit (cents)	49.2	18.3	16.8	+8.9
Distribution per unit (cents)	21.5	21.5	21.5	-
Interest Cover Ratio	2.3	2.3	2.4	-
EBITDA Margin (%)	50.6	51.5	53.6	-
Net Tangible Asset Backing per unit	$2.08	-	$1.79	-
Operating Cash Flow per unit (excluding interest)	47.2 cents	-	56.4 cents	-16.3

* Includes SCP contribution and passthrough revenue

Australian Pipeline Trust

Financials

Full Year Revenue Breakdown



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Financials

Year ended 30 June	Actual 2004 $M	Normalised 2004 $M	Actual 2003 $M	% Change vs normalised
EBITDA	135.1	133.9	137.8	-2.8
Depreciation & Amortisation	22.6	22.6	24.1	+6.2
Net Interest Expense	46.3	46.3	48.6	+4.7
Profit before Tax	46.3	65.0	65.1	-0.2
Tax	(75.2)	19.8	23.8	+16.8
Minorities	0.2	0.2	0.3	-
Net Profit after Tax	121.3	45.0	41.0	+9.6

Australian Pipeline Trust

Financials

- Operating Expenses
  - Pipeline Operation and management expenses flat year on year but minor reduction due to over-provision in Amadeus Gas Trust
  - Other Expenses increased because of due diligence and regulatory legal costs
- Effective tax rate approaching corporate tax rate
- Net interest expense reduced by 4.7% as a result of re-negotiation of various hedge contracts
- Depreciation reduced by 6.2% due to lower throughput on MSP

Financial

Tax Consolidation

- APA was able to elect to be treated as single entity for tax from 1 July 2003, as a consequence of legislation passed 25 June 2004
- Increase in tax values resulted in an income tax benefit of $92.9m
- Accounting depreciation remains unchanged
- Effective tax rate will approximate to corporate tax rate
- Future distributions will be partly franked

Financials

Non-recurring Items 2004

	$M
Due diligence cost write-off	(5.763)
Mid West Pipeline write-off	(19.943)
Tax consolidation benefit - SCP	6.964
Non-recurring items before income tax	(18.742)
Tax effect of non-recurring items	2.138
Tax consolidation benefit - APA	92.912
Non-recurring items after income tax	76.308

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Financials

Full Year Distribution Maintained

Cents per unit	Interims Paid to 30/06/04	Final Q4 04	Actual	
			FY 04	FY 03
Total Distribution	15.0	6.5	**21.5**	21.5
Income Distribution	8.6	6.5	**15.1**	17.0
Capital Distribution	6.4	0.0	**6.4**	4.5
Date of Final Distribution	27/09/2004			

- Final profit distribution (2004) franked to 40%, at corporate income tax rate
- Future distributions must be out of consolidated profits first
- DRP is still active

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Acquisition Overview

Goldfields

- Pipeline
  - 1,380km pipeline
  - Transports competing gas streams from Harriet and East Spar, NW Shelf to North Eastern and Eastern Goldfields regions in WA
  - Capacity 105 TJ/d increasing to 164 TJ/d under full compression
- Major Customers
  - WMC - MDQ 45.8 TJ/d
  - Newmont - MDQ 20.4 TJ/d
  - Numerous third parties - balance

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Acquisition Overview cont'd

Parmelia

- Parmelia gas business
  - 416km gas pipeline (capacity - 70TJ/d)
  - Mondarra storage (capacity 6-9PJ)
  - Dongara gas processing plant
  - Small Gas Retail business
- Customers
  - 24 active transportation contracts - approx 35 TJ/d
  - long-term contracts to process gas at Dongara gas processing plant
  - Delivered gas service to commercial and industrial customers in Perth region

Benefits of Acquisition

Advancing Strategic Goals

- Positive financial impact on APA (cash and earnings accretive)
- Diversification of APA's portfolio
- Enhanced footprint in WA
- Sound long term prospects
- Commercial control by APA
- Meets financial criteria and strategic goals

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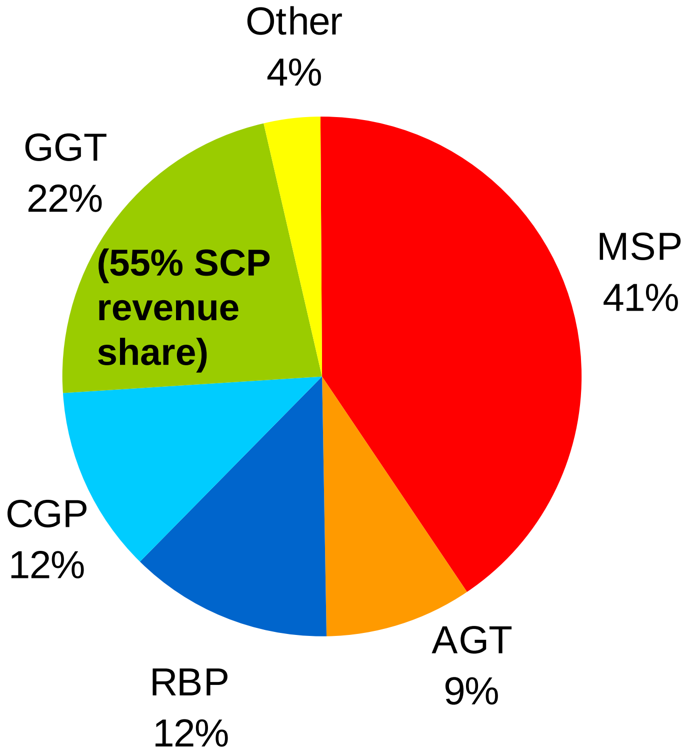
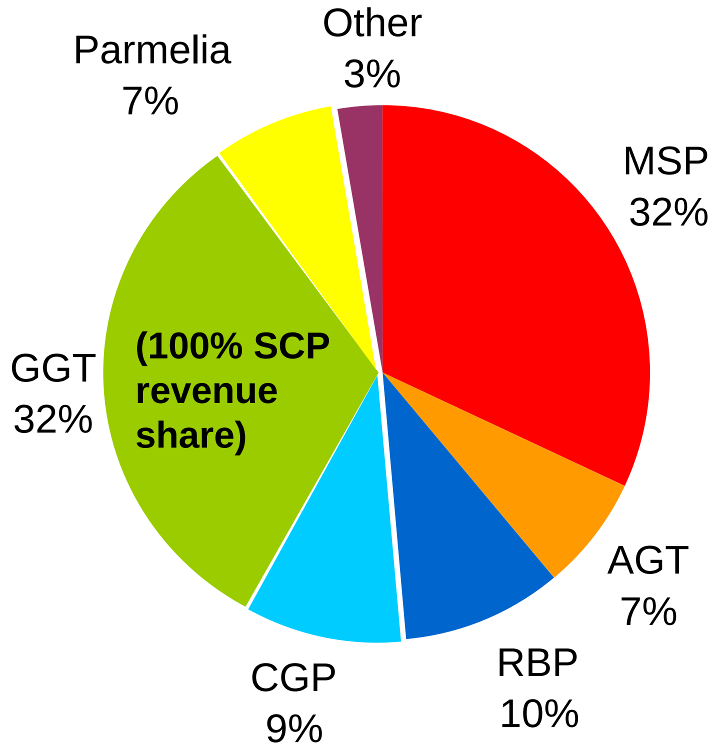
Portfolio Diversification

MSP Reliance Reduced

APA 2004 Revenues
Pro forma pre-acquisition



APA 2004 Revenues
Pro forma post acquisition



Note: GGT revenues shown on an equity share consolidated basis pre & post acquisition for accurate comparison

Revenues exclude pass-through revenue

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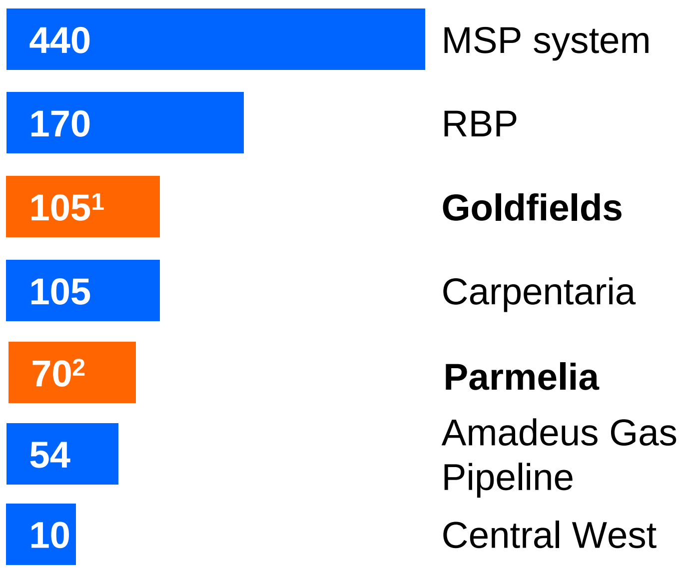
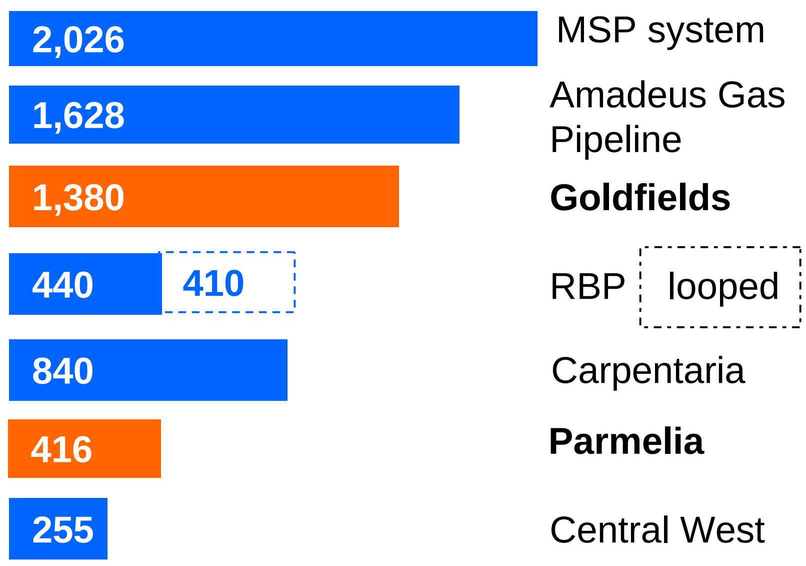
Portfolio of Major APA Pipelines

MSP Reliance Reduced

Approx. Capacity (TJ/d)



Length (Km)



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Funding

- Equity raising
  - Institutional bookbuild to 30 investors;
  - Raised $61.19 million (net) through placement:
    - 24.5 million new units
    - issue price of $2.52 per unit
    - AGL and Petronas took up their pro rata entitlements
- Borrowings
  - Gearing ratio at end of financial year, 59.0%, well below debt covenants. Excluding tax consolidation adjustments, 64.0%.
  - Gearing ratio remains below debt covenants after consolidation of SCP debt

Other Acquisition Opportunities

- Dampier to Bunbury Natural Gas Pipeline
  - Final bids 27 August 2004
  - APA will now bid alone with the support of major unitholders
- Continuing to pursue minority interests
- Further industry rationalisation?

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Strategy

- Continue to grow profitability by: -
  - Filling our existing pipelines and expanding their capacity
  - Acquiring minority interests
  - Participating in industry rationalisation;
  - Diversifying into other transmission pipelines and complementary industries (gas treatment, water, power)

Outlook for 2005

- Acquisition of Goldfields and Parmelia assets will more than offset the contracted reduction in GTD payments;
- Emergence of competition and full retail contestability will begin to improve MSP revenues
- Expectations of improved business in Queensland
- Distribution expected to be at least maintained, and partially franked going forward

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Summary

- Continued strong performance
- Acquired remaining interest in SCP and Parmelia gas business
- Active management of capital resources
- Positive regulatory outcomes
- Involved in industry rationalistion

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Annual Meeting

Carlton Crest Hotel, Sydney

11.30 am 20 October 2004

[SLIDE 1]

MANAGING DIRECTOR'S SPEECH -

Thank you Chairman for your kind comments regarding the results and good morning ladies and gentlemen. Before commencing with my portion of the presentation, I would like to take a moment to introduce you to our other senior management team sitting in the front row - Graeme Williams – our chief financial officer, Sandra Dureau – our General Counsel, Mick McCormack – our chief operating officer and David King – General Manager, GGT.

The 2004 financial year was a year in which many of the issues of interest to APA reached major milestones. These issues - industry rationalisation, future gas supply for eastern Australia, fair and reasonable economic regulation and the importance of natural gas in the energy mix of this great nation, continue to be important to the future prospects of the natural gas transmission industry.

The Chairman has spoken about the changes in the regulatory environment, the finalisation of the Productivity Commission report and our continuing strong business performance. I am proud that APA has achieved its fourth year of compound annual growth in its net profit and at the same time put considerable effort into managing its capital. I am delighted with the acquisition of the Southern Cross Pipeline Group assets. This balances our pipeline portfolio and I believe we are in good shape for the future.

[SLIDE 2]

Today I would like to discuss several matters. First, - some operational issues which arose during the 2004 financial year.

Second - the acquisition of the Southern Cross Pipeline Group assets and industry rationalisation generally.

Third - the continuing challenge of gas supply for south-east Australia.

Finally I would like to talk about APA's strategy going forward. Now that the gas transmission industry rationalisation is largely complete, it is time to consider consolidation of major players and to recognise that further opportunities for APA to grow may not come within the traditional gas transmission industry but from diversification into complementary energy endeavours.

While diversity will require APA to have new skills to ensure the proper management of the infrastructure, it will also provide for greater diversity to balance the limitations inherent in holding one class of asset.

[SLIDE 10 – ACQUISITION OF THE Southern Cross Pipeline Group Assets

SLIDE SHOWING WHERE GGT AND PARMELIA ARE]

Returning to our successful acquisition of the remaining interest in Southern Cross Pipeline group, let me talk about what these businesses are and what we believe they can offer APA.

These assets are both in Western Australia, which is an economy driven by gas and gas-fired power generation. It is a world class mineral province and the accessibility of gas through the Varanus Island hub, and the elevated price of liquid fuel, will better position gas in power generation.

[SLIDE 11 - ACQUISITION OVERVIEW]

[Goldfields Gas Transmission Pipeline]

SCP Investments (No 1) Pty Limited owns 88.2% of the 1,380 kilometre Goldfields Gas Transmission pipeline which transports competing gas streams from Harriet and East Spar, North West Shelf to the north eastern and the eastern Goldfields regions in Western Australia.

The pipeline has a present capacity of 105 terrajoules per day, which can be increased to 164 terrajoules under full compression. We are running fully contracted and are planning additional compression on the pipeline.

The major customers of the pipeline are WMC Resources which has a maximum daily quantity of 45.8 terrajoules per day, Newmont Australia, which has a maximum daily quantity of 20.4 terrajoules per day and the balance of deliveries are for numerous third parties.

[SLIDE 12 - GGT GROWTH]

This slide outlines the likely areas of growth potential for the Goldfields Gas Transmission pipeline.

- Several projects under active consideration: -

Thunderbox Gold which is a conversion of diesel generation to dual fuel

systems (that is gas and diesel) and is well advanced, with a 1.5Terrajoule per day transport contract expected to be finalised before end of 2004.

- Esperance lateral opportunities

A number of projects including pumping desalinated water from Esperance to Goldfields industrial customers is reported to be under active consideration, which may result in additional loads of up to 5 - 7 Terrajoule per day by early 2006. The development of the Ravensthorpe laterite nickel resource could also result in a further 4 – 5 Terrajoule per day load to Esperance

- Paraburdoo Iron Ore

Discussions are currently progressing for the transport of approximately 8 Terrajoules per day to Paraburdoo to supply the first of two proposed gas-fired power generation unit which is expected to be required by the end of 2005

- Murrin Murrin Expansion

There has been some discussion of another large autoclave at Murrin Murrin and if approved may require another 4 - 5 Terrajoules per day.

- Spot Market Development

The shortage of gas transport on the Dampier to Bunbury Natural Gas Pipeline, and the resulting limitation on Western Power Corporation's peak generation capacity during the hotter months, has been widely reported. A new opportunity to develop a daily spot market for unused GGT capacity to be used to generate additional power generated from Kalgoolie to the Perth region has been identified and is being pursued.

[SLIDE 13 – Acquisition Overview Cont'd]

[Parmelia gas business]

The Parmelia gas business is made up of four businesses – a 416 kilometre gas pipeline, which has a capacity of 70 terrajoules per day, the Mondarra gas storage facility which has a capacity of 6 to9 petajoules, the Dongarra gas processing plant and a small gas retail business.

There are currently 24 active transportation contracts on the pipeline which total about 35 terrajoules per day. There is active exploration and recent success from both ARC Energy and Origin has led to additional hydrocarbon discoveries in the Perth basin, which the Parmelia gas pipeline services.

The Dongara gas processing plant has in place long-term contracts to process Perth Basin gas and the Parmelia business offers a delivered gas service to commercial and industrial customers in the Perth region.

The depleted Mondarra gas field has been used for limited storage and load management services for a number of years.

[SLIDE 14 – Parmelia Growth Potential]

[Spot market for natural gas]

The spot market for gas transportation services is generally used for Western Power generation for peak loads, as the Parmelia is connected to the Kwinana Power station. There has also been some spot load generated by the recent constraints on the Dampier Bunbury Natural Gas Pipeline.

[Connection to Alinta Network planned]

A second interconnect agreement which would allow Parmelia to connect into the southern network providing long term access to industrial customers in the southern metro area, has been under negotiation and is expected to be executed in the next few months.

Australian Pipeline Trust

Managing Director's Presentation

Jim McDonald
Sydney, 20 October, 2004

Acquisition Overview

Goldfields

- Pipeline
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  - Transports competing gas streams from Harriet and East Spar, NW Shelf to North Eastern and Eastern Goldfields regions in WA
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- Major Customers
  - WMC - MDQ 45.8 TJ/d
  - Newmont - MDQ 20.4 TJ/d
  - Numerous third parties - balance

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GGT Growth

- Projects under active consideration
  - Thunderbox Gold - 1.5TJ/d transport contract.
  - Esperance Lateral
  - Paraburdoo Iron Ore
  - Murrin Murrin Expansion

- Spot Market Development
  - arising from potential shortage of gas transportation on DBNGP.
  - Power generated in Kalgoorlie area to be provided to Perth region.