ALINTAGAS'S SECOND SUBMISSION TO REGULATOR ON EPIC ENERGY'S DBNGP ACCESS ARRANGEMENT

ACCESS ARRANGEMENT SHOULD INCLUDE A "T1-EQUIVALENT" REFERENCE SERVICE AND REFERENCE TARIFF

A. Subject matter of this submission

1. This submission addresses the fact that the proposed Access Arrangement does not include:

   (a) a T1-equivalent Reference Service; or

   (b) a Reference Tariff substitutable for the current T1 tariff pursuant to section 20 of the *Dampier to Bunbury Pipeline Act 1997* (**"DBPA"**).

B. Request to Regulator to require changes to Access Arrangement

2. For the reasons summarised in section C below, AlintaGas considers that the proposed Access Arrangement does not include a Reference Service (**"T1-equivalent Reference Service"**) materially the same as the T1 service (**"T1 service"**) currently enjoyed by users[1] under *Gas Transmission Regulations 1994* (**"GTR"**) access contracts and *Dampier to Bunbury Pipeline Regulations 1998* (**"DBPR"**) access contracts.

3. For the reasons set out in section D below, AlintaGas believes that Epic Energy is required by law to include a T1-equivalent Reference Service in its Access Arrangement. Furthermore, at the time of the sale of the DBNGP Epic Energy represented to AlintaGas that it would include such a service and tariff. In any event, the Regulator is entitled in his discretion to require Epic Energy to offer a T1-equivalent Reference Service, if he considers it appropriate.

4. AlintaGas therefore requests the Regulator to require amendments to the Access Arrangement which include in the Access Arrangement:

   (a) a T1-equivalent Reference Service; and

   (b) a Reference Tariff for that T1-equivalent Reference Service which complies with section 8 of the Code and which does not involve a material price shock (having regard to the nature and value of the service) from the tariffs currently payable under the DBPR for the T1 service.

[1] For consistency with the Code, in this submission AlintaGas uses the term "users" to refer to those previously referred to by the GTR and the DBPR as "shippers".

C. Firm Service and T1 service are materially different

5. This section C highlights some of the commercial and operational differences between the current T1 service and the proposed Firm Service, and the inappropriateness of applying the proposed Firm Service Reference Tariff to the T1 service.

C(i) Differences in terms and conditions

6. **Appendix 1** is a table setting out in note form a comparison between the T1 service and the proposed Firm Service. AlintaGas has not yet completed a detailed assessment of the proposed terms and conditions for the proposed Firm Service. It will in due course make separate submissions on that subject. The objective of this section C(i) and Appendix 1 is merely to demonstrate that the T1 service and Firm Service are materially different.

7. Key differences between the 2 services include the following:

   (a) Balancing and peaking are substantially more restrictive under the Firm Service. Epic Energy proposes $15 /GJ peaking and imbalance penalties (ie. 1500% of the normal tariff for each penalty). If these penalties were lawful, which AlintaGas doubts, they would constitute a substantial additional cost hidden within the purported $1.00 /GJ tariff.

   (b) The Firm Service is considerably more restrictive than the T1 service in relation to capacity aggregation and relocation of capacity between delivery points.

   (c) The Firm Service imposes additional charges for overrun capacity in some circumstances, and treats all overrun capacity as interruptible in Epic Energy's discretion. The T1 service generally does not impose an additional charge for overrun, and allows Epic Energy less discretion in interrupting overrun.

   (d) The Firm Service does not provide for renominations after the start of a gas day, and imposes a 1500% penalty for incorrect nominations in certain circumstances. The T1 service allows renominations and has no penalties for incorrect nominations.

   (e) The proposed Secondary Market is inflexible, and provides for firm capacity only. The T1 service permits flexible informal capacity dealing directly between users (through use of each other's nominations, including at non-contracted delivery points) and incorporates an AT3 interruptible service for daily spot capacity.

C(ii) Differences in value, and in effective tariffs

8. Not only is the Firm Service offered by Epic Energy in its Access Arrangement materially different to the T1 service in a range of operational and commercial respects, but also there are a number of reasons why the tariff for one service is not applicable to the other.

9. Epic Energy has asserted to users that the Firm Service is considerably more attractive and flexible than the T1 service. This presumably indicates that Epic Energy considers the Firm Service to be more valuable. AlintaGas has not yet concluded its

analysis regarding the comparative values of the Firm Service and the T1 service, and may make submissions on the subject in due course.

10. For the moment, AlintaGas notes the following merely to demonstrate that the proposed Firm Service Reference Tariff cannot be automatically applied to the T1 service:

    (a) Some elements of the T1 service are excluded from the Firm Service, and are offered as additional non-reference services presumably on separate tariffs.

    (b) Differences between the 2 services may have different impacts on different types of user. For example, compared with the T1 service the Firm Service restricts capacity relocation and aggregation. When AlintaGas has completed its detailed review of Firm Service terms and conditions, it may conclude that the Firm Service contains offsetting benefits in some other area. However, for a load aggregator such as AlintaGas, the reduction in value due to diminished aggregation and relocation flexibility may be greater than any increase in value arising from that offsetting benefit. The converse may be true for a different type of user.

    (c) Under the Firm Service tariff structure, approximately 95.5% of the transportation charges are fixed. This compares with the T1 contract where less than 73% of the transportation charges are fixed. This tariff structure has 2 direct consequences. First, it involves a significant transfer of risk from Epic Energy to the User, compared with the T1 service, because almost all of Epic Energy's investment and costs are underwritten by users regardless of throughput. Second, since all users have load factors of less than 100%, this increase in the proportion of tariff comprised in the fixed component results in an effective increase in the unit price of transporting gas. However, the impact of this restructuring on each user will vary, depending on each user's load factor.

C(iii) Conclusion

11. The above discussion demonstrates that:

    (a) the terms and conditions of the proposed Firm Service are materially different from those of the current T1 service, in a range of important technical and operational respects; and

    (b) accordingly, there is no T1-equivalent Reference Service in the proposed Access Arrangement.

12. The above discussion also demonstrates that (not surprisingly, given the differences between the Firm Service and the T1 service):

    (a) the structure of the proposed Firm Service Reference Tariff is materially different from the current T1 tariff;

    (b) the proposed Firm Service Reference Tariff will not integrate easily (if at all) with the T1 service; and

    (c) there is therefore no Reference Tariff in the proposed Access Arrangement readily applicable to the T1 service.

D. Epic Energy is required to offer a T1-equivalent Reference Service

D(i) Section 20 of the DBPA and section 96 of the GPAA

13. In March 1998, when AlintaGas sold the DBNGP, the Government expected that there would be reasonably significant falls in DBNGP transmission tariffs. The Government wished to ensure that existing users of the DBNGP had the opportunity to receive the benefit of the expected decline in tariffs, despite having grandfathered transmission contracts.

14. Section 20 of the DBPA is the statutory device to achieve this objective. It obliges Epic Energy to offer to vary the price under the existing transmission contracts to a price not exceeding the statutory price applicable from time to time for the service provided for in the contract. The **"statutory price"** is the price that a person could insist on paying if the person were, at the time concerned, entering into a contract for the service concerned. AlintaGas has accepted the offer under section 20 of the DBPA.

15. Regulation 35(3a) of the DBPR provides the "statutory price" up to the date the Access Arrangement is approved, which is a combined full-haul tariff for a 100% load factor T1 service of $1.00 /GJ, applicable both upstream and downstream of Kwinana Junction.

16. For section 20 of the DBPA to achieve its objective, the statutory price must also be determinable after the Access Arrangement is approved. AlintaGas submits that section 96 of the *Gas Pipeline Access (Western Australia) Act 1998* (**"GPAA"**) accordingly imposes a statutory requirement that Epic Energy's Access Arrangement contain a T1-equivalent Reference Service.

17. Section 96 of the GPAA deals with DBNGP transitional matters. It applies to all access contracts in force immediately before the approval of Epic Energy's Access Arrangement (**"existing contract"**), and provides as follows:

> "96 (1) The Code does not affect the continuance or operation of a contract to which this section applies.
>
> (2) Nothing in subsection (1) —
> (a) affects the operation of section 20 of the *Dampier to Bunbury Pipeline Act 1997* …."

18. Section 96(2) of the GPAA is clearly intended to preserve the effect of section 20 of the DBPA. However, that result could be achieved by a clause which stated simply that nothing in **the Code** affects the operation of section 20, so section 96(2) must be meant to do something more. Section 96(2) states that nothing in **section 96(1)** affects the operation of section 20, ie. that the operation of section 20 is unaffected by the statement in section 96(1) that the Code does not affect the operation of an existing contract. This means that, to the extent required by section 20, the Code **does** affect the operation of an existing contract. The only way a Code provision could affect a GTR contract under section 20 is by specifying a suitable Reference Tariff which is to apply as the "statutory price". Given the content of existing GTR contracts, this would be a Reference Tariff for a T1-equivalent Reference Service and possibly (although AlintaGas itself does not need one) for a T2-equivalent Reference Service.

19. This conclusion is supported by the State Parliament's second-reading discussion of section 96 on 18 June 1998, when the Minister for Energy said:

> "The transitional access regime contained in the Dampier to Bunbury Pipeline Regulations 1998 came into effect on 25 March when the Dampier to Bunbury natural gas pipeline assets were transferred to the new owner. That regime applies until 1 January 2000 or until an Access Arrangement is approved for that pipeline under the [National Access] Code. The transitional regime features negotiability of tariffs and declining capped reference tariffs. Firm full-haul tariff at 100 per cent load factor will fall from $1.19 per gigajoule to $1.00 per gigajoule by the year 2000. **Existing transmission contracts will be grandfathered, although** the new owner of the Dampier to Bunbury natural gas pipeline is obligated to offer the current declining capped tariffs to existing shippers which are not exempt contractors. In addition, **beyond 1 January 2000, the owner is obligated to offer prices contained in the approved Access Arrangement under the Code to shippers which are not exempt contractors**." (emphasis added)

20. Parliament thus intended GTR users to be offered "prices contained in the approved Access Arrangement under the Code" under section 20 of the DBPA. Section 96 is there to ensure that the Access Arrangement specifies Reference Tariffs for a T1-equivalent Reference Service, to be picked up by the offer under section 20 of the DBPA.

21. To place any other interpretation on section 96 of the GPAA would be to risk an outcome where it is much harder to identify the "statutory price" for GTR contracts. The Minister's words quoted above make it clear that the Government did not intend section 20 of the DBPA to be hampered in this manner.

D(ii) Augmenting the National Access Code by the GPAA

22. AlintaGas has submitted above that section 96 of the GPAA imposes on Epic Energy a statutory obligation to include in its Access Arrangement a Reference Service materially the same as a T1 service under the GTR and the DBPR, and to set a Reference Tariff for that service.

23. This statutory obligation is in addition to the contents of the Code. AlintaGas submits that there is no policy or legal difficulty with the GPAA augmenting the Code in this fashion:

    (a) From a policy perspective, section 96 of the GPAA has been approved by all other parties to the *Natural Gas Pipelines Access Agreement*.

    (b) From a legal perspective, the Gas Pipelines Access Law (being Schedule 1 to the GPAA together with the National Access Code in Schedule 2 to the GPAA) applies in Western Australia by operation of, and hence subject to, the GPAA. The transitional (and other) provisions of the GPAA can legitimately augment the operation of the Gas Pipelines Access Law. It is not inconsistent with the Regulator's independence under the GPAA, for the GPAA to add this transitional requirement to the other requirements of the Code.

D(iii) Sections 3.2 & 3.3 of the NAC

24. Turning to the Code itself, AlintaGas considers that section 3 provides ample scope for the Regulator to require Epic Energy to include a T1-equivalent Reference Service, if he considers it appropriate.

25. Section 3.2(a) of the Code provides that:

> "[3.2](a) The Access Arrangement must include a description of one or more Services that the Service Provider will make available to Users or Prospective Users, including:
> (i) …; and
> (ii) any Service or Services which in the Relevant Regulator's opinion should be included in the Services Policy."

26. This clearly empowers the Regulator to require the Services Policy to include a T1-equivalent Service, if he considers it appropriate. There is no "significant part of the market" test in clause 3.2(a)(ii).

27. Section 3.3 of the Code provides that:

> "3.3 An Access Arrangement must include a Reference Tariff for:
> (a) …; and
> (b) each Service that is likely to be sought by a significant part of the market and for which the Relevant Regulator considers a Reference Tariff should be included."

28. This empowers the Regulator, if he considers it appropriate, to require that the T1-equivalent Service be made a Reference Service, with a Reference Tariff and with terms and conditions specified under section 3.6 of the Code. Before the Regulator can do so, he must be satisfied that the Service "is likely to be sought by a significant part of the market".

29. "Significant" means "important, of consequence". In AlintaGas's opinion, as a user with approximately 190 TJ/d of contracted DBNGP capacity, out of approximately 525 TJ/d of total contracted full-haul capacity, even by itself AlintaGas clearly comprises an important or consequential, and hence significant, part of the market. However, the total capacity contracted to GTR users with T1 services is, AlintaGas understands, more than half the total contracted full-haul capacity, which is undoubtedly significant. (These approximate figures are for illustrative purposes only.)

30. The requirement that the Service be "sought" by that part of the market is also easily satisfied. The Service is sought in at least 3 senses, each of which is sufficient to satisfy section 3.3(b) of the Code:

    (a) As a user currently using a T1 service, AlintaGas (and presumably other GTR T1 users) will be seeking that Service from Epic Energy under its existing contracts on the first day the Access Arrangement comes into effect and on each day thereafter.

    (b) For the reasons outlined above, to give efficacy to the statutory offer made by Epic Energy under section 20 of the DBPA, AlintaGas (and presumably other GTR T1 users) seeks a T1-equivalent Reference Service in order to enable it to determine the "statutory price" which is the subject of that offer.

    (c) Because it already has a substantial amount of capacity subject to T1 terms and conditions, if AlintaGas were to contract for any further capacity, it is likely for reasons of administrative and operational convenience to seek to have that capacity on the same terms and conditions as its existing capacity.

D(iv) DBNGP Asset Sale Agreement

31. One of the factors the Regulator may wish to take into account in determining whether to require Epic Energy to include a T1-equivalent Reference Service in the Access Arrangement, is that Epic Energy has already made representations to AlintaGas that it will do so.

32. Contrary to certain claims made by Epic Energy recently, to AlintaGas's knowledge (having been intimately involved in the DBNGP sale process) there was no "regulatory compact" or similar between Epic Energy and either the State or AlintaGas arising out of the DBNGP Asset Sale Agreement, the negotiations leading to the execution of that Agreement, or the bidding process which preceded those negotiations.

33. **Appendix 2** to this submission is an extract from the Asset Sale Agreement by which AlintaGas sold the DBNGP to Epic Energy. The extract is Schedule 39 to that Agreement, in which Epic Energy set out its proposed tariff path for the DBNGP. Schedule 39 was the subject of a contractual warranty by Epic Energy to AlintaGas. Epic Energy was aware that AlintaGas proposed to disclose the contents of Schedule 39 in the course of DBNGP tariff determinations, and expressly consented to that disclosure.

34. On page 2 of Schedule 39 (see page A4 of this submission), Epic Energy states:

> "The proposed tariffs provide for the recovery of prudently incurred costs, **including a reasonable rate of return on the investment** over the full term of the asset economic life." (emphasis added)
>
> "The proposed tariffs reflect the costs of providing service to the shippers."

These representations must be read in the context of the following material, where it becomes clear that Epic Energy is referring to tariffs for the T1-equivalent service, not tariffs for a service such as the proposed Firm Service.

The representation that the tariff path in Schedule 39 would provide a "reasonable rate of return on the investment" must be read in light of the fact that Epic Energy **knew at the time it made that representation** that it was paying $2.4 billion for the DBNGP. AlintaGas will expand on this point when making its submissions on Epic Energy's proposed Initial Capital Base.

35. On page 3 (see page A5 of this submission), Epic Energy states:

> "Epic will offer two classes of transportation service:
> - **Forward Haul Firm Transportation Service (T1 equivalent reference service)**; and
> - Forward Haul Interruptible Transportation Service (T3 equivalent reference service)." (emphasis added)

This passage, first, constitutes a representation by Epic Energy that it will offer a T1-equivalent Reference Service, and second, makes it clear that the tariffs discussed in Schedule 39 are for such a service, and not for a service of different value such as the current proposed Firm Service.

36. Also on page 3 (see page A5 of this submission), Epic Energy states:

> "Epic proposes a standard tariff for Forward Haul Firm Transportation Service for all existing contracts and new contracts… . **The proposed Standard Forward Haul Firm Tariff is**

> **$1.00/gj** on a combined basis (at 100% load factor) based on a receipt point upstream of the inlet side of CS1 and a delivery point **at Kwinana Junction**… . … The **Forward Haul Firm Tariff would represent a substantial discount to the current T1 tariffs** of $1.189 /GJ for 1998 and $1.095 /GJ for 1999. The **reduction in transportation tariffs** would increase the demand for gas by contributing to significant real reductions in the delivered gas price." (emphasis added)

37. There is no ambiguity in these representations. It is abundantly clear that Epic Energy, when purchasing the DBNGP, represented to AlintaGas that it would include in its Access Arrangement a Reference Service which was materially equivalent to the T1 service, and that the combined 100% load factor tariff payable for a T1-equivalent Reference Service under the Access Arrangement would be $1.00 /GJ for full-haul to Kwinana Junction.

38. This tariff of $1.00 /GJ was to be for a T1-equivalent Reference Service, not for the very different Firm Service currently proposed in the Access Arrangement, which furthermore is accompanied by a range of ancillary charges which make the true cost of that Firm Service considerably more than $1.00 /GJ.

39. Even if the above were not clear enough, Epic Energy represented in Schedule 39 that the Access Arrangement tariffs would constitute a price reduction, when compared with the tariff of $1.09 /GJ payable for a T1 service in 1999. A tariff of $1.00 /GJ for the Firm Service, increased in practice by the tariff structure, ancillary charges and enormous surcharges embedded in that Firm Service, then further inflated by whatever tariffs are to be charged for supplemental services such as the Park and Loan Service and the Peaking Service, is inconsistent with this representation.

D(v) Regulator's discretion

40. AlintaGas does not suggest that representations by Epic Energy to AlintaGas at the time of privatisation are generally binding on the independent Regulator. However, the Regulator is entitled to have regard to Schedule 39 and all the circumstances surrounding the privatisation, when reviewing the proposed Access Arrangement.

41. A number of the principles under section 2.24 of the Code permit this:

    (a) The fact that Schedule 39 was the subject of a contractual warranty by Epic Energy to AlintaGas could bring it within paragraph (b) of section 2.24, to the extent that the warranty and the representations in Schedule 39 constitute firm and binding contractual obligations of the Service Provider.

    (b) AlintaGas submits that the public interest, referred to in paragraph (e) of section 2.24, includes a component of holding the acquirer of a privatised government asset to its representations given at the time of privatisation.

    (c) Finally, it is of course in the interests of Users and Prospective Users under paragraph (f) of section 2.24 that a T1-equivalent Reference Service be included in the Access Arrangement, in order to give effect to their offer under section 20 of the DBPA, for convenience of integrating new capacity with their existing contracts, and generally.

42. From the perspective of AlintaGas only, there is one exception to the proposition that Schedule 39 is not binding on the Regulator. Given that Schedule 39 comprises a contractual representation from Epic Energy to AlintaGas, section 2.25 of the Code

precludes the Regulator from approving an Access Arrangement which would deprive AlintaGas of the benefit of that representation.

Appendices follow:

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Appendix 1
Schedule comparing proposed Firm Service with T1 service

Proposed DBNGP Firm Service	T1 service
The DBNGP is divided into 10 Zones. Zone 9 includes the metropolitan area distribution system and ends at Kwinana Junction. Zone 10 is downstream of Kwinana Junction.	Full-haul capacity is Zone 9 and Zone 10 combined.
There is to be one Reference Service, called a Firm Service, and a number of ancillary Non-Reference Services.	The T1 service is by and large an all inclusive service.
The 100% load factor price is: $1.00 /GJ for Zone 9 $1.08 /GJ for Zone 10. 95% of the price is a fixed charge.	The 100% load factor price at 1 January 2000 for full-haul capacity was $1.00 /GJ. This is a postage stamp tariff to all points south of CS9. 73% of the price is a fixed charge.
Restrictions and/or additional charges may apply when relocating spare capacity between delivery points.	Flexibility exists to relocate spare capacity between outlet points. Relocated capacity is the same price as contracted capacity.
Capacity taken in excess of a delivery point's MDQ or if a user's total MDQ on a day is exceeded, is overrun capacity. Overrun capacity is subject to additional charges and is interruptible at Epic Energy's discretion.	Overrun only occurs, in effect, if a user's total MDQ on a day is exceeded. Overrun capacity is the same price as interruptible capacity.
Imbalance limit is ±2% of total reserved capacity. $15.00 /GJ surcharge (which is 1,500% of the $1.00 /GJ tariff) applies for each GJ in excess of the imbalance limit. A Park and Loan Non-Reference Service is available to assist users maintaining imbalances (no details of the Park and Loan service are available).	Imbalance limit is ±8% of total reserved capacity. No imbalance penalties presently apply.
Hourly peaking limit is 120% of the reserved capacity at each delivery point. $15.00 /GJ penalty may be applied if demand at an outlet point in any hour exceeds the hourly peaking limit.	Hourly peaking limit is 120% in summer and 125% in winter, but determined on the total reserved capacity aggregated across all delivery points. No imbalance penalties presently apply.

Proposed DBNGP Firm Service	T1 service
The ability to renominate is not provided for within a gas day. There is a $15.00 /GJ penalty for incorrect nominations in certain circumstances.	There is a reasonably flexible renomination mechanism comprising 3 renomination windows during the gas day. There are no penalties for incorrect nominations.
Unused capacity can be sold on the Secondary Market. The Secondary Market appears inflexible, with the market intended to provide firm capacity. There is no provision for interruptible capacity.	Unused capacity can be sold directly to other users by nominating at delivery points where the user does not have contracted capacity. Terms and conditions can be flexible depending on the requirements of the users. Interruptible AT3 capacity is available on a daily bidding basis as an integral part of the T1 service.
Non-Reference Services, all presumably being provided at extra charge, are: Secondary Market; Park and Loan; Seasonal – the provision of additional firm capacity in the cooler months of the year; Peaking; Metering Information; Pressure and Temperature Control; Odorisation; and Co-mingling.	Different summer and winter reserved capacities cater for varying demand during the year, at no extra charge as an integral part of the T1 service.

Appendix 2
Schedule 39 of the DBNGP Asset Sale Agreement

This information is provided by Epic in relation to:

SCHEDULE 39
Buyer's Proposed Tariff Rates and Path
(Schedule 5 Paragraph 9)

INTRODUCTION

Epic's proposed tariff rates and path have been structured to be in compliance with the State of Western Australia's draft Transitional and Long Term Access Regimes and the National Access Code ("NAC"). The proposed tariff rates and path in conjunction with the access principles to be defined by Epic in the Access Arrangement for the DBNGP are expected to form the basis for the certification of the DBNGP by the National Competition Council ("NCC") as an effective access regime.

OBJECTIVES

In setting its tariff principles Epic has focussed on satisfying four tariff objectives:

- Promote greater gas throughput and development of the gas industry in Western Australia.
- Consistent with the regulatory review process, share the benefit of load growth with all customers through tariff reductions.
- Incorporate a zonal distance based element to the tariffs to more accurately reflect costs.
- Simplify the existing tariff structure and standardise tariffs for transportation services.

GENERAL PRINCIPLES AND GUIDELINES

The following general principles and guidelines are incorporated in Epic's Final Bid:

- Existing GTR contracts will continue to have full contractual effect for the duration of each contract. The tariff basis for the existing GTR contracts will be as prescribed by the draft Transitional and Long Term Access Regimes.
- The Alcoa contract is considered an exempted contract for purposes of the GTR.
- Epic has the right to negotiate with potential and existing shippers the terms and conditions of service, subject to a fallback mechanism to be incorporated in the DBNGP Access Arrangement.

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- The capacity of the DBNGP can be expanded to meet the requirements of new loads, provided that the capacity enhancements are commercially viable.
- The DBNGP Access Arrangement will incorporate provisions which will allow Epic to enhance the operating efficiency and utilisation of the asset.
- The proposed tariffs provide for the recovery of prudently incurred costs, including a reasonable rate of return on the investment over the full term of the asset economic life.
- The proposed tariffs reflect the costs of providing service to the shippers.
- From 1 January 2000 onward, Epic will submit to scheduled regulatory reviews where access principles and reference tariff paths will be approved by the regulator under an effective access regime that complies with the NAC.

TARIFF PRINCIPLES

In addition to the general guidelines and principles described above, the proposed tariff path incorporates the following principles:

- From 1 January 2000, the tariff path is based on escalation at a percent of CPI.
- From 1 January 2000, the tranche methodology is not used to define the capacity of the pipeline.
- From 1 January 2000 prudent discounts (as defined by the National Access Code) which benefit all shippers by improving the utilisation of the asset, may be recovered from the other users of the asset.
- New shippers and existing shippers which switch to the reference service, will provide for their fuel in-kind.
- Certain reference tariff setting principles, to be included in the DBNGP Access Arrangement, will be fixed for a period which exceeds the scheduled regulatory review periods including capital recovery mechanism, risk premium on WACC and asset life.
- The capital recovery mechanism will be structured such that it is consistent with the efficient growth of the markets over the economic life of the asset.
- The tariff structure includes zonal tariffs reflecting the cost of providing service.

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PROPOSED TRANSPORTATION SERVICES

Epic will continue to offer the existing T1, T2 and T3 reference services during the transition period up to 31 December 1999 to meet the Transitional Access Regime.

Epic's proposed tariff path from 1 January 2000 onwards is based on the underlying principles embodied in the National Access Code.

Epic will offer two classes of transportation service:

- Forward Haul Firm Transportation Service (T1 equivalent reference service); and
- Forward Haul Interruptible Transportation Service(T3 equivalent reference service)

An Authorised Overrun Service and a Shipper Facility Service would also apply although incentives would be put in place to encourage uniform customer conduct on the system (e.g. unauthorised overruns/gas imbalances).

Epic will also offer a backhaul transportation service.

FORWARD HAUL FIRM TRANSPORTATION SERVICE

Epic proposes a standard tariff for Forward Haul Firm Transportation Service for all existing contracts and new contracts (excluding Negotiated Contracts such as Alcoa). The proposed Standard Forward Haul Firm Tariff is $1.00/gj on a combined basis (at 100% load factor) based on a receipt point upstream of the inlet side of CS1 and delivery point at Kwinana Junction ("BP-KJ") from on 1 January 2000. Yearly tariff increases are proposed to be limited to 2/3 (67%) of annual inflation (CPI).

The Forward Haul Firm Tariff would represent a substantial discount to the current T1 tariffs of $1.189/GJ for 1998 and $1.095/GJ for 1999. The reduction in transportation tariffs would increase the demand for gas by contributing to significant real reductions in the delivered gas price.

The Forward Haul Firm Tariff would be levied as three separate charges all of which will be zone-distance based:

- Pipeline Capacity Charge (MDQ based)
- Compression Charge (MDQ based)
- Pipeline Commodity Charge (throughput charge only)

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The Pipeline Capacity Charge will be zone-distance based. The distance between each compressor station will represent one zone with Kwinana Junction also treated as a "compressor station" for this purpose.

In total there will be 10 "Pipeline" zones which will be of equal size (approximately 150km each). A summary of the Pipeline Zones and the Pipeline Capacity Charge per zone is set out in the following table:

Zone	Pipeline Zone	1 January 2000 Pipeline Capacity Charge $/gj (MDQ based)
1	KP0 to CS2	$0.0629
2	CS2 to CS3	$0.0629
3	CS3 to CS4	$0.0629
4	CS4 to CS5	$0.0629
5	CS5 to CS6	$0.0629
6	CS6 to CS7	$0.0629
7	CS7 to CS8	$0.0629
8	CS8 to CS9	$0.0629
9	CS9 to KJ	$0.0629
10	BP-KJ to MLV 157	$0.0629

Full Haul Cap	KP0 to BP-KJ	$0.572

The Compression Charge will be zone-distance based. Excluding CS1 which is part of the gas header, there will be eight compression zones based on the location of existing compressors CS2 to CS9. Shippers will be able to use their own compression and avoid compression charges. The compression charge per zone will be $0.0392/gj (MDQ based) and will be capped at $0.285/gj for a full haul through all eight compression stages (KP0 to BP-KJ)

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The Pipeline Commodity Charge will be throughput based at $0.148/gj.

Recognising the need for flexibility and commercially acceptable outcomes, Epic and a shipper can agree to vary the Standard Forward Haul Firm Tariff and escalation rate to meet a shippers particular circumstances.

Epic believes that a tariff structure that is zone-distance based best meets the needs of the current and future Western Australian gas market participants as it promotes gas-on-gas competition while it reflects underlying distance based cost drivers. In particular shippers can decide if they wish to introduce gas above or below a compressor station and would therefore potentially avoid one compression charge if gas producers can more efficiently compress gas into the pipeline system.

FORWARD HAUL (INTERRUPTIBLE SERVICE)

Epic proposes a standard tariff for Forward Haul Interruptible Transportation Service for existing and new customers for incremental or new loads based on the Firm Service tariff. Epic expects a market to develop for Interruptible services and that the rate paid will be negotiated.

AUTHORISED OVERRUN CHARGES

Authorised Overruns will have priority to the Interruptible Service and therefore Authorised Overruns would be charged at a premium (10-20%) to the published Standard Forward Haul Interruptible Tariff to reflect the priority to be given to Authorised Overruns.

SHIPPER FACILITIES

Epic proposes nominal operating and maintenance charges which will be cost reflective in respect of Shipper Facilities including laterals and metering stations. Epic will also contribute to capital if required and shippers will be charged for capital recovery for the installed Shipper Facilities.

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SCHEDULE 39
Buyer's Proposed Tariff Rates and Path
(Schedule 5 Paragraph 9)

SUMMARY

		Reference Tariff Assumptions
Firm Transportation		
Transition Period	1998 total (Full-haul combined tariff)	$1.189/GJ
	1999 total (Full-haul combined tariff)	$1.095/GJ
Post Transition (NAC)	2000 (nominal $)	$1.000/GJ (Perth customers @ 100% load factor)
	Compression Charge (MDQ based)	$0.285/GJ
	Pipeline Capacity Charge (MDQ based)	$0.572/GJ
	Pipeline Commodity Charge (Throughput)	$0.148/GJ
	Total (combined tariff)	$1.000/GJ (Customers with delivery points after Kwinana Junction pay a tariff higher than $1.000/GJ
Escalation	Tariffs escalation	67% CPI
Interruptible Transportation		
Transition Period	1998 & 1999	Binding as per Regulations
Post Transition (NAC)	2000 (nominal $)	Firm Transportation Rate (see above)
Part Haul		
Transition Period	Both capacity & commodity charges distance based by kilometre in 1998 and 1999	
Post Transition (NAC)	Both capacity & commodity charges distance based by zone post-2000	
Discounts		
Contracted Discounts	Wesfarmers LPG	50% discount on total tariff
Special Discounts	Nil	

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