



GOLDFIELDS GAS PIPELINE

SUBMISSION ON ACCESS ARRANGEMENT
DRAFT DECISION

PREPARED BY ANACONDA NICKEL
LIMITED

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Foreword

This submission has been prepared by Mr. Simon Lill and Mr. Alistair Baron of Anaconda Nickel Limited. All queries should be directed to them.

The Submission has been prepared with a similar structure to the Draft Decision and addressed the proposed amendments in order, prefaced with some general overall comments. Hence it should be read in conjunction with that document.

Some amendments are deliberately left without comment as we either did not believe the section required comment, had been covered in an earlier section, or was to be covered in a later section. There were several areas where we were in strong agreement with the Regulator and stated as much.

Executive Summary

Anaconda highlighted the potential for tariff reductions of **at least 30%** in its submission on the proposed Access Arrangement for the Goldfields Gas Pipeline. Offgar, in its draft decision, arrives at a similar conclusion using different assumptions.

The Regulator has been more “aggressive” in some of its Reference Tariff considerations than Anaconda. However in other areas we are in disagreement on the Regulators’ stance on key tariff issues such as:

The low actual GGT throughput, provided by the GGT and accepted by the Regulator. We estimate it to be low by **at least 20%** from our understanding of the actual throughput. We are concerned that the GGT throughputs are inaccurate and result in a lesser reduction than should be available.

Further, we continue to argue the GGT’s growth forecasts have been extremely pessimistic. It would be more accurate for them to forecast positive growth rates. Anaconda deliberately did not respond to the GGT Economic Development Tariffs (“EDT”), not because it did not have Projects under development, but more because it took the view that the regulated tariff would be below the EDT, and any new Project was most likely to justify a Tariff review anyway. Despite evidence to the contrary, the Regulator and GGT apparently view the future load potential through the pipeline in a negative light, in what could become a self-fulfilling prophecy

The Regulator has acknowledged the use of a higher capital base generated by utilising the Depreciated Actual Cost versus the Depreciated Optimised Replacement Cost than it would normally use, resulting in an enhanced capital base of some \$28.7M. This has been allowed as a result of the acceptance of initial design constraints placed on the Service Provider.

We cannot agree that there were any design constraints – we have long argued that the pipeline was initially undersized. To resolve this issue the Regulator should provide more information as to what were the perceived constraints were placed on the Service Provider, and what effect they actually had on the capital investment decision.

Further we continue to request a process be implemented whereby changes to Tariff Levels are brought in immediately, whilst non-tariff issues can continue to be debated and resolved in a different timeframe.

We are encouraged by the Regulator’s consistent comments that Tariff reductions will not be delayed through any GGT legal or other process.

Overall

In the first instance we would like to provide some general comments on the Draft Decision, as follows:

i) Timing of Tariff Reductions

The considerations of the Regulator on the Access Arrangement fall within the following three categories:

- Non-tariff Matters
- Reference Tariff
- Fees and Charges (other than the Reference Tariff)

Amendments are required to several aspects of the Access Arrangement in all of the above categories. However it is essential that the reduced tariff levels are brought into effect promptly. The non-tariff matters can be resolved over a longer period if necessary. It is important that the GGT do not succeed in unnecessarily delaying the Final Decision through a deliberate process of delaying resolution of non-tariff issues that, in many instances, will not overly concern existing consumers.

For example, we estimate that Offgar's required tariff reduction will lead to monthly savings to Murrin Murrin of approximately \$250,000. We have already advised Offgar of our concerns about the costs to Murrin Murrin of the longer than expected review period.

Conversely, every month that the GGT delay a final decision will result in an additional, and as deemed by Offgar, unfair, \$250,000 from Murrin Murrin to GGT.

We note that this situation may be reversed in the future where it may be in the Users' interest to delay the decision due to a predicted increase in tariffs. Consequently it is important that the process ensures decisions in accordance with set timetables – the regulator will be aware of that requirement.

It is therefore important that all future decisions be handed down in a timely fashion, although it is expected future decisions will take less than six months due to knowledge gained from the current review, as well as the reduced scope for consideration.

ii) Forecast Throughput

Anaconda's major area of concern remains the excessively low throughput forecasts contained in the proposed Access Agreement, and seemingly accepted by the Regulator.

The GGT figures provided for forecast and actual throughput in the pipeline is shown in the table below:

YEAR	2000	2001	2002	2003	2004
Projected pipeline throughput TJ/day	71	71	74	72	69

If these throughput figures accurately reflect the GGT actual conditions there should be no problems associated with any User wishing to source up to 20 TJ/day of short-term capacity, and there would be no need to install the Wiluna compressor station. Both these circumstances have come to pass in the last year.

There is enough information available for Offgas to use actual figures for 2000 and 2001. We believe these figures are reasonably consistent at about 85 TJ/day, and that there is no reason not to use that figure in the forecasts through to 2004.

If the Regulator believes this is due to constraints placed on the pipeline design due to the State Agreement we would ask that those constraints be detailed so that the User group can understand and accept them.

Anaconda have recently been advised that the commissioning of the Paraburdoo compressor station had been delayed due to the reduced load through the pipeline, when compared to the GGT forecast. Indications are however that an increase of approximately 3TJ/day in the Anaconda MDQ would be sufficient to justify this capacity increase for the pipeline. This indicates that the GGT are running in excess of the above throughput levels, and at almost maximum pipeline capacity.

iii) Lack of comment regarding Venton Analysis

We were also disappointed with the lack of attention given to the Venton paper, and its conclusions on pipeline construction costs. The GGT referenced this paper to show that the construction costs for the pipeline were “best practice”, although this is clearly not the case.

Venton states that the majority of gas pipelines in Australia were constructed at a cost of between \$400/mmkm and \$800/mmkm. The comment was also made in the paper that construction costs had reduced over the period. Anaconda would submit that it is reasonable to expect that costs would further reduce over time. Indeed this view was supported by the Worley estimate of \$428M for the replacement cost of the GGT pipeline.

The Regulator has provided no explanation as to why the replacement cost for the GGT was allowed to fall outside the guidelines provided by Venton. It is imperative that a focus on “best practice” for all aspects of the GGT pipeline be used to generate the key figures affecting the tariff structure, and the Initial Capital Base is certainly one of these. Anaconda would propose a figure for the Optimised Replacement Cost which falls within the Venton guidelines.

1. Amendment 1

It is difficult to assess the acceptability of a proposed interruptible service without the additional detail the Regulator has requested of GGT. It is important that the conditions for this service be consistent with other pipelines and regulated decisions to ensure that the service is reasonable. It would be unfair for GGT to structure the interruptible service in such a fashion as to discourage its use – there is certainly a perceived need for such a service.

Anaconda feels that every care must be taken to ensure that any required services are defined in the Access Arrangement. Several other parties have suggested that the Regulator examine the inclusion of the following discontinued services:

- Parking Service
- Interruptible Service
- Authorised Imbalance Service

Although GGT have indicated a willingness to negotiate any required service outside the Reference Service the basis of this discussion is in “good faith”. A Prospective User negotiating for a non-Reference Service has the potential to be disadvantaged during the contract discussions, with the potential to suffer higher tariffs until the next Access Arrangement period. The GGT is a monopoly supplier of pipeline gas to the region and as such must provide a reasonable tranche of services to Users, ensuring no-one is placed at a disadvantage.

It is understood that any Prospective User who is unhappy with the GGT negotiations for the required non-Reference Service can use the dispute resolution procedure under section 6 of the Code. However it would be sensible to try and provide clear definition of all services likely to be required to minimise the use of this procedure.

2. Amendment 2

The North West Shelf Gas submission highlights the possibility of an alternative Inlet point to the GGT from the DBNGP. Anaconda would welcome such a connection, as it would enable all gas suppliers to provide gas to Users, opening the GGT to full competition between gas producers. It is positive that the Regulator has recognised the need for the Access Arrangement to incorporate the possibility of an alternative Inlet Point.

Any amendment of the Access Arrangement to incorporate additional Inlet Points must clearly define the charges which would apply to this inlet, and the conditions associated with the new inlet. One important aspect is the impact on tariffs for Users who move to the new Inlet Point. Under Clause 6.9 of the General Terms & Conditions Users can alter their Outlet Point but are still committed to paying total aggregate charges no less than their existing commitments (with respect to Capacity Reservation and Toll Charges).

If a more competitive Inlet Point is provided by a third party, it would be commercially sensible for Users to move to the new supply. The ability to do this would be hampered if GGT maintain a similar philosophy to Inlet Point modifications that they have for Outlet Points. GGT need to allow additional Inlet Points without inhibiting improvement and best practice in the pipeline.

The Regulator should examine Clause 6.9 of the General Terms and Conditions to determine whether it is fair for the User to pay total aggregate charges no less than their existing commitments (with respect to Capacity Reservation and Toll Charges) if they change to Outlet Points. Anaconda's Three Nickel Province Strategy (3NP) means there is a real chance that Outlet Points may be altered from time to time as production profiles change. It is imperative that a party not be unfairly disadvantaged through the application of this clause.

3. Amendment 3

It is our view that the requirements of the Code in respect of Reference Services, and indeed in other areas, are inconsistent with the Service Provider having the ability to impose conditions at their discretion. This would lead to potential penalties being suffered by end users between Access Arrangements. Anaconda supports the removal of discretionary powers from GGT with respect to the pipeline.

Anaconda strongly concur with the Regulator's decision to amend Clause 8 of the proposed Access Agreement to remove the discretionary power of GGT to attach conditions to Service Agreements for provision of Reference Services where such conditions are additional to those stated in the Access Arrangement, including Appendix 3 being the General Terms and Conditions.

4. Amendment 5

The proposed amendment to Clause 12.1(m) of the General Terms and Conditions (GT& C) is necessary to protect the legitimate business interests of any User with the potential to supply gas to third parties.

Anaconda is in a unique position with the Murrin Murrin lateral, and although there are currently no third party users on this pipeline, there is a strong possibility in the future that gas will be supplied to a third party from this lateral. Many of the gold operations in the Leonora/Laverton region are currently assessing their power supply, in fact we understand one recent proposal for using gas generation instead of diesel power fell through due to the high tariffs down the GGT, and hence we believe there is the potential for significant third party loads.

5. Amendment 9

Anaconda welcomes the requirement for GGT to incorporate an index of reliability of supply as part of the role as a "prudent pipeline operator". It is felt that consideration must be given to the mechanics and application of this index, prior to the approval of the Final Decision for the GGT pipeline.

The key aspects of the reliability index which need to be considered include:

- How is the index applied and measured. Is it one index for the total pipeline or is it one index for each customer. Anaconda would suggest that the index should apply to each customer, with the tariff reductions applying if the particular Users reliability criteria are not met. This would also allow GGT to negotiate reliability factors for new services for Prospective Users on a case by case basis.
- Form of the reduced tariffs and how the reductions are passed on to the Users. Is it a refund at the end of a contract period i.e. year or month, or is it an immediate reduction based on a real time continuous reliability measure.

A clearer view on this can be formed once GGT clarify their proposed amendment regarding a reliability measure, and its application to tariff reductions.

6. Amendment 10

Clause 9.12 of the General Terms and Conditions clearly states that all tariffs and charges continue to apply if there is an interruption to supply for maintenance, emergency or force majeure. This is an undue burden and risk on the User, especially with the high proportion of fixed charges (~80%) applicable on the GGT.

Any interruption of the gas supply caused by force majeure or an emergency has the potential to cause significant commercial business loss to Users, which GGT have protected themselves against through removal of liability. It is unacceptable that the charges for an interruption continue to apply, when the Users have no ability to recover business interruption costs from GGT.

The amendment proposed by the Regulator is welcomed and seeks to remove this impost on the Users where the interruption of supply is caused by the GGT. It is imperative that the tariffs are waived for the entire period of the interruption, not after the period of 24 hours described by GGT.

The calculation of the reliability index should include any time caused by the above interruptions in its downtime component to ensure a complete view of reliability is formed.

7. Amendment 11

The method for calculating the amount of bond payable by both Users and Prospective Users should be clearly detailed and highly transparent. GGT have given no indication of their formula used for bond calculation, and have given no indication on whether existing Users will be asked to pay a higher bond if they increase their MDQ in line with their contracts.

Care must be taken to ensure that there is a concept of reasonableness incorporated into the calculation of bond levels. This test will need to incorporate the risk for the User and GGT in entering the contract, whilst not providing an unfair obstacle to Prospective Users.

Anaconda feel one case regarding increasing bonds with an increasing MDQ warrants serious consideration. It is likely that some increases in MDQ will require the installation of compression into the pipeline, however the bond level should not consider the expense of the compressor station. This would see an excessive bond level for what could theoretically be a small load increase. The risk for the compressor station is dealt with through the Access Arrangement and valid capital expenditure provisions.

We recognise it is difficult to comment accurately on the proposed amendments and bond calculation methodology until GGT have submitted the revised document.

8. Amendment 12

Clause 13.7 considers the procedure for correcting an underpayment or overpayment of an invoice. Anaconda concurs with the Regulators proposed amendment that interest on this payment accrues once a reasonable period of time has elapsed. The Regulator should comment on the length of time considered “reasonable”.

Anaconda submits that the timeframes, with respect to an overpayment or underpayment, need not be identical. GGT are responsible for the preparation of the invoice and we feel it is more likely that an incorrect invoice would lead to a User being overcharged. To provide GGT with an incentive not to overcharge the customer the “reasonable” timeframe relating to the application of interest to overcharges should be significantly less than that for undercharges.

9. Amendment 15

The Regulator should review the liability provisions to ensure there are adequate levels of protection afforded to both parties.

10. Amendment 16

We have previously discussed this point in relation to Amendment 9 above but feel there are factors specific to the mechanics of the refund procedure, based on the reliability index, that need to be considered:

- Process for the notification of the reliability index (RI)
- Timeframe for notification of RI performance
- Ability to continuously track performance

Anaconda supports the proposed amendment that the requirement for Users to make application for a refund or credit be removed.

11. Amendment 21

We concur with the Regulator that the Access Arrangement be amended to clearly state the position of an existing User wishing to exercise a contractual option to raise their MDQ. Anaconda certainly has this option available to them and would like the process for handling this outcome clearly set out.

It is difficult to comment on whether we consider the system for handling such increases to be acceptable, without the clarification requested by the Regulator.

Anaconda feel that existing Users increasing their MDQ should have a priority on the smaller quantities of gas, with Prospective Users gaining access to newer installed capacity. Existing Users have been the life-blood of the GGT and care must be taken not to place them at a disadvantage through the treatment afforded to new Prospective Users.

12. Amendment 23

The amendment proposed is not clear in defining whether the Regulator must approve the decision of GGT to cover a given pipeline extension or expansion. Under the amendment the GGT only have to provide written notice to the Regulator, not necessarily gain his approval.

Users would support the inclusion of a pipeline expansion that sensibly fits under the structure of the GGT and is commercially sound. Benefits would accrue to all users under this scenario. Conversely Anaconda would be strongly against the inclusion of an expansion that was uneconomic.

13. Amendment 25

The Regulator is correctly removing any upfront commitment to pay for installing Developable Capacity until after the investigation. However the proposed Amendment does not go far enough, and should also remove the obligations of the Prospective User to pay for the investigations regarding the feasibility of the extension/expansion.

Effectively GGT are asking new users to pay for their Business Development Costs, which we believe are already included, excessively, in their operating costs. We comment on this further but note here that these excessive Business Development costs seem at odds with the GGT forecasts for future load growth.

14. Amendment 26

Anaconda believe that the Effective Date for this Access Arrangement will coincide with the date the Final Decision is handed down. This would be consistent with an Access Arrangement being valid for a period of 5 years from the Final Decision. It is recognised that this is also necessary due to the length of time taken to reach the Final Decision.

If this is correct then GGT need to provide additional information to the Regulator on the following:

- Actual throughput data from September 1999 to the present. This would enable an accurate picture of load factor and forecast accuracy to be obtained.
- Actual capital and operating cost data from September 1999 to the present. It is expected that the capital for the Wiluna compressor station would be a valid cost and may well need to be included in the Initial Capital Base figure. The Regulator will then need to revise the Initial Capital Base, given the additional 18months of depreciation from the initial submission date.

- Reliability of supply data to enable a notional historic reliability index to be developed. A judgement could then be made on the performance of GGT, as well as an assessment a target level for the proposed RI.
- Forecast throughput data for 2005/2006. This was the period where the Australian Pipeline Trust forecast materially differed from that of the GGT. There will almost certainly impact on the tariff levels and revenue streams, especially given the levelised tariff approach of GGT.

The Regulator should ensure that all the relevant data for the 5 year period of the Access Arrangement is available and incorporated into the final decision.

We would also make the further following observations:

- It is probably of no great import if the assessment period for the proposed Access Arrangements is increased from 6 months to 9 months. However with respect, we recognise the Regulator's difficulties with timely decisions since OffGAR's inception, but would suggest that through the next Access Arrangement Period they will be dealing with Service Providers and Users who are more used to the regulatory environment and its outcomes. Indeed OffGAR itself will have gained from its recent learning experience.
- Further, the Regulator has had to deal with some complicated legal and political issues in its recent Draft Decisions. One agrees these have delayed decision processes, but are issues that should not be on the table in the next round.

15. Amendment 27

The next Access Arrangement should take less time to review, only really considering the capital and operating expenditure, along with any new capital spent during the current access period.. The Initial Capital Base (ICB) is already determined from the depreciation schedule and capital base for the current decision

There is no need to amend the Revisions Submission Date for the Access Arrangements, but will accept the Regulators decision on this matter.

16. Amendment 28

An excess of 25% of delivered over forecast is too great. It provides no imperative for forecasting accuracy whilst, in the current GGT example, could allow GGT to achieve additional revenues of \$10M per annum without reference to the Regulator.

In a competitive environment, such as the minerals processing industry, a major reduction in an operating cost should be passed through immediately. We would suggest 10% as a more suitable benchmark.

The Regulator should be prescriptive regarding the assumed throughput levels, and hence the throughput levels required to trigger a revision of the Access Arrangement. Anaconda has assumed the levels are those detailed in section 5.3.1 of the Draft Decision.

Our view on the assumed throughput levels, and the need to use actual data from the last 18 months of GGT operation have been made earlier in our submission. It is likely however that if the current forecast throughput levels is maintained that the GGT pipeline is already close to requiring review using the 25% trigger point.

We believe the intention of the March timing for submission was to give a deadline of three months for the preparation of a revision document. As such the Regulator should consider adjusting this date to reflect the period of the Access Agreement, which may well not be from January 1 of a given year.

Amendment 28 also requires the GGT to revise the Access Agreement if taxation changes or regulation changes decrease the likely operating costs for the following year. To be consistent we feel this amendment should be revised to also allow for any changes in the law or regulations that serve to increase the operating costs by 5%. This would ensure GGT is not unfairly affected by an adverse change to taxation laws or other regulations.

The Regulator should clearly state the assumed operating costs that are to be used for the variation calculation. It has been assumed that this will be consistent with the Regulators decision on the allowable operating costs in the tariff section of the report.

In general Anaconda feel it is necessary for the Regulator to prescribe the baseline assumptions to be used for performance criteria in the Access Arrangement. This will ensure no confusion between the parties.

The Access Arrangement also allows GGT to review the Access Arrangement if they think it is necessary, even if some of the trigger points have not been reached. It is only fair that Users also have the ability to apply for a review of the Access Arrangement if they believe it is necessary. The Regulator should include a clause in the Access Arrangement to allow a User triggered review.

17. Amendment 31

It is positive to see the Regulator include a list of KPI's the GGT must calculate for the pipeline. However there is no comment on the frequency of the KPI calculations and the mechanism by which GGT informs the Users and the Regulator of their performance in this regard.

Anaconda believe the main reason KPI's are used is to enable all parties to ensure the GGT is operating at world's best practice, and to justify "reasonably incurred" costs. As such we feel that the Regulator should also set some benchmark levels at the "best practice" standard.

We are of the view that the management costs for GGT are far from best practice, especially with the unwieldy structure for the pipeline management. As such it is felt that the measure of Management Cost/Customer should be added to the KPI list.

18. Amendment 32

The Code is clear on the matter of boundary conditions for the Initial Capital Base (ICB) in as much as this should not normally fall outside:-

- Depreciated Actual Cost (DAC)
- Depreciated Optimised Replacement Cost (DORC)

The Regulator has calculated the values of these boundary conditions, which indicate the ICB for the pipeline should be between \$406.7M and \$425M. No satisfactory reason has been given for arriving at a value of \$438M, some \$13M above the upper limit of this range, apart from the restrictions imposed on the original constructors of the pipeline.

Anaconda's views on this matter were strongly expressed in their initial submission on the Access Arrangement, and more recently in our response to the GGT submission on the Draft Decision.

A further summary of the Anaconda arguments is found below.

The general rule of thumb is that an optimal pipeline system provides for the free-flow of initial capacity requirements. It is clear this was not the case for the GGT pipeline because two compressor stations were installed and operated from the first day of gas flow.

Any capital penalty for the larger pipeline has been well paid for through the excessive profits GGT have been allowed to earn since the pipeline commenced operations. The Federal Government's Infrastructure Bond programme which the Regulator continues to ignore, has also well covered any capital penalty which we would continue to say does not exist. These profits were allowed by the Government that forced the construction of the "oversized pipeline".

The pipeline is currently at capacity and hence cannot be considered "oversized". If a smaller pipeline had been initially constructed then the current capacity may not have been achieved as efficiently.

The GGT construction cost clearly falls outside the "best practice" ranges provided by the Venton paper. The Regulator appears to have given this little consequence, which we could accept, other than that GGT provided the analysis to justify their costs, which it does not.

Minimal analysis has been provided by the Regulator on the total economic differences between the pipeline constructed initially for free-flow, or that using two compressor stations. There is obviously a trade-off between capital and operating costs which require further definition as we have previously identified.

For the purpose of transparency, and to help put the matter of supposed limitations due to the initial pipeline legislation to rest, Anaconda believe GGT and the Regulator should summarise the following in table form within the Final Decision:

- What pipeline would GGT have constructed based on the original loads?
- What were they “forced” to build by the Government?
- What was the capital penalty?
- What would have been “Best Pipeline Practice”?
- What does the Regulator consider to be the “Optimal System”?

This would assist the understanding of all parties and remove ongoing discussion and reliance on this matter in the future.

Anaconda are of the view that the ICB should certainly fall within the usual boundaries, and probably at the lower end. A value of \$406.7M, consistent with the DORC, is considered the most appropriate.

No consideration should be given to the fact that the new GGT owners paid a significantly higher price. They were well placed to understand the changing regulatory environment. They took that risk, that’s their problem.

19. Amendment 33

Management costs on the GGT pipeline are still too high, particularly given the small number of customers, the lack of interest in new pipeline capacity and poor outlook for future throughput. A pipeline with these limitations would surely only be in a “care and maintenance” mode requiring operating costs at an absolute minimum. It is clear that GGT do not believe their assertions regarding the negative future for the pipeline, otherwise the management cost structure would be vastly different. We would be pleased to see a comment from Offgas as to whether the assessed costs are equivalent to the actual costs and whether there is an unreasonable level of “fat” in these costs.

The cost structure allowable under the code should be based on best practice for pipeline owners. The organisational structure of GGT for the management of the pipeline is not best practice. Users should not be asked to subsidise an unwieldy structure that is not best practice. Our concerns regarding the marketing and management expenses have been discussed above.

20. Amendment 34

The data used to calculate the WACC value should be updated to include the latest gas usage and forecast figures, as well as any other appropriate changes.

It is considered appropriate for the Regulator to adjust the Corporate Tax Rate to a value of 30%. This is consistent with the applicable tax rate from the Effective Date of the Access Arrangement.

It can always be argued that the Federal Government might renege on tax promises. Perhaps the Regulator could use the proposed 30%, but agree a mechanism to change the regulated tariff if the tax concessions do not eventuate.

Anaconda's view of the other variables and appropriate values can be found below:

Inflation Rate

We concur with the Regulators view that the inflation rate be calculated as the difference between the 20-day moving average for nominal and real indexed bonds.

This figure should be re-calculated for the Final Decision to ensure the most recent data is used.

Gearing Assumptions

Although Anaconda agrees that a gearing level of 60% is consistent with other decisions we would like to reiterate that several energy asset sales in Victoria used levels of 70%, and more mature overseas markets commonly use levels of 80%. Indeed we would submit that the actual pipeline gearing be used as we believe it is more likely to be 80:20 rather than 60:40.

Debt Margin

The Debt Margin of 1.2%, although consistent with the majority of other decisions for pipelines in Australia, is still felt to be high. Anaconda feel a value of 1.0% would be more appropriate – especially given the funding history of the pipeline.

Nominal Risk Free Rate

Anaconda concur with the Regulators view that the Nominal Risk Free Rate should be calculated using the 20 day moving average for 10 year Government Bonds.

Australian Market Risk Premium

As stated in Anaconda's first submission, a value of 5.5% for the Market Risk Premium is considered appropriate for the WACC calculation. This is in line with the views expressed by the ACCC that the market risk premium is unlikely to be above 6.0%, with this lower level constantly under review. IPART formed the view that values below 6% may be more appropriate for use in the WACC calculation.

Beta (Equity)

Anaconda feel that the selection of an asset beta at the top end of the acceptable range is not appropriate, and lead to an excessive equity beta value. On the basis of other decisions within Australia, and also the Draft Decision for the DBNGP, we feel an asset beta of value of 0.60 is more appropriate – leading to an equity beta of 1.2.

Company Tax Rate

As discussed above it is deemed appropriate, particularly given delays in assessment, to use a value of 30% for the company tax rate. This rate will apply for the period of the Access Arrangement.

Dividend Imputation Factor

A value of 0.5 for the franking credit utilisation is considered reasonable. We note with interest the Australian empirical studies which show a value of 0.7 may well be a more appropriate value, although this is tempered by the estimate that only 80% of franking credits are distributed in the year they are created. Future decisions may well incorporate some of the work from these empirical studies to vary the gamma factor

21. Amendment 36

Depreciation is a strong driver for movement in the Capital Base for the GGT and as such ANL strongly support the final view of the regulator that a straight line depreciation over 65 years represents a reasonable depreciation regime.

22. Amendment 37

GGT have been charging high tariffs during the whole process of Access Arrangement review (some 18 months beyond the expected Effective Date) leading to a potential windfall gain of at least \$15M, and indeed prior to this period. This is due to throughput levels in excess of those used in the Access Arrangement, as well as tariff levels some 30% higher than those resulting from the Draft Decision.

The Regulator needs to assess the impact that this excess recovery of costs has had on the returns on the pipeline by GGT. It would be open for the Regulator to make further adjustments to several of the key WACC inputs or adjust the required revenue figures to bring these impacts to account.

Another alternative would be for the Regulator to propose a mechanism for the excess tariffs to be returned to the Users.

23. Amendment 38

Anaconda feel that the 16% discount offered by the GGT to Users signing long-term contracts is not adequate. Long-term contracts significantly reduce the risk for the GGT with respect to future throughput and should attract a higher discount factor. In the reverse they enforce a substantial risk on the User through a long term TOP arrangement. A monopoly asset such as the GGT should not be able to use that monopoly power.

24. Amendment 42

Anaconda supports the Regulators proposed amendment to return 95% of the revenue from the Quantity Variation Charges to the Users. However it is difficult to comment fully on this matter without seeing GGT's proposed mechanism for rebating these penalties to the Users. The items which need to be addressed include timeframe for the returns (e.g. every quarter or every year) and the policy with respect to the interest charge for the penalty funds.

One useful piece of information would be the historical revenue GGT has earned from penalties, especially in the 18 month period of the Draft Decision, and the mechanism for returning 95% of these funds. It may require the total revenue from the penalties to be deducted from the allowable revenue over the Access Arrangement Period.

25. Amendment 43

This section of the Access Arrangement is heavily focussed on a user pays approach for pipeline problems – especially for system gas. The Regulator should consider a mechanism whereby GGT pay for system gas if they are the party at fault. This would lead to GGT being accountable for a gas leak due to their mismanagement or lack of maintenance. It would clearly return the focus to best practice for pipeline operation.

26. Amendment 44

Anaconda concurs with the amendment to Clause 7 of the GT & C to ensure the Accumulated Imbalance Charge does not apply in respect of the amount of the tolerance allowed.

27. Amendment 49

This amendment requires the GGT for user specific information to be available to Users on a timely basis. It is difficult to comment on whether the timing proposed by GGT is appropriate and will actually facilitate a more efficient pipeline operation through increased User awareness.

In light of the findings by the Regulator in respect of Key Performance Indicators (KPI) the provision of data should include any relevant KPI's. The timing of this information should be scheduled by the Regulator and detailed for the duration of the Access Arrangement.