Attachment 4

Report on the sale of the DBNGP – Submission to Parliament May 1998

See Attached.

Report on the Sale of the Dampier to Bunbury Natural Gas Pipeline

MAY 1998

Dampier to Bunbury Natural Gas Pipleline
Gas Pipeline Sale Steering Committee

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Dear Mr Barnett

REPORT ON THE SALE OF THE DAMPIER TO BUNBURY NATURAL GAS PIPELINE

Following completion of the Dampier to Bunbury Natural Gas Pipeline privitisation on March 25, 1998, I present this report and accompanying attachments. The report contains a summary of the sale process, key issues arising during the sale process and the costs of the sale.

Yours sincerely

D.R. Kelly

D.R. Kelly
Chairman

May 20, 1998

PURPOSE

To inform Parliament on, and to provide costs of the recently completed sale process of the Dampier to Bunbury Natural Gas Pipeline (DBNGP).

BACKGROUND

The process for the sale of the DBNGP began on 23 July 1996 when Cabinet gave approval to establish the Gas Pipeline Sale Steering Committee, and culminated on 25 March 1998 with the completion of the sale, the largest privatisation in the State's history. The 1530 km DBNGP, formerly owned and operated by the Gas Corporation trading as AlintaGas, represents one of Western Australia's most important and most valuable energy assets.

ENERGY POLICY IN WESTERN AUSTRALIA

The Government is pursuing a policy of reform and deregulation in the energy sector which aims at achieving reduced energy prices, developing a more competitive energy industry, achieving greater private sector involvement in energy supply, and fostering development of secondary processing and economic development more generally by exploiting synergies between energy and other industries. The Government seeks to ensure that the energy needs of the Western Australian community are met safely, efficiently and economically. The sale of the DBNGP assets is a further step in the progressive deregulation of the natural gas market in the State.

Changes in policy settings over the past five years have been crucial in achieving a more competitive energy market which in turn has resulted in significant falls in the price of energy, particularly for industry, and the encouragement of the downstream processing of the State's rich mineral resources.

The Government's commitment to National Competition Policy reform is a major area of policy relevant to the sale of the DBNGP assets. Western Australia has been at the forefront of competition policy reform in Australia, especially in the areas of structural reform of public monopolies, providing access to the services of essential facilities, reviews of anti-competitive legislation and the development of competitive neutrality policies. The Government's policy developments, which are already well advanced in Western Australia, will be taken forward in a manner consistent with National Competition Policy reforms.

Third party access to the DBNGP is being progressively phased in from 1 January 1995 and, currently, any gas customer who takes a least 250 TJ/a at a single site is able to negotiate with the supplier of their choice. Third party access was extended to the South West gas distribution system at the 500 TJ/a level on 1 January 1997. This threshold was reduced for both the DBNGP and the South West gas distribution system to 250 TJ/a on 1 January 1998 and will be reduced to 100 TJ/a on 1 January 2000, to 1 TJ/a on 1 January 2002, and by 1 July 2002, the threshold will be eliminated altogether. It is estimated that currently 91% of all gas sold in Western Australia falls within the existing threshold limit. This third party access policy has resulted in vigorous competition occurring at the large gas user end of the market, and a similar effect is expected on the rest of the market in due course.

The process of progressing competition policy reform in accordance with the national agreements to which the State is a signatory, including those relating specifically to free and fair trade in natural gas, will involve amending legislation and regulations and introducing new legislation. The Government is well advanced in the process of simplifying and updating the existing energy legislation to better meet the requirements of a more open and competitive energy industry and to achieve economic and other objectives of the State.

The Government's policy on a second pipeline to the South West (independent of the DBNGP) is that before the middle of 1998, expressions of interest will be sought in an open and competitive process which may lead to a second pipeline being built to the South West.

GAS PIPELINE SALE STEERING COMMITTEE (GPSSC)
TERMS OF REFERENCE

The GPSSC was established by the Western Australian State Cabinet in July 1996 to oversee the process of privatising the Dampier to Bunbury Natural Gas Pipeline in whole or in part.

The GPSSC reports to the Minister for Energy, and was originally comprised of:

Mr Ian Baker (Chairman)	AlintaGas Director and Chairman
Dr Les Farrant	Co-ordinator, WA Office of Energy
Dr Des Kelly	CEO, WA Dept of Resources Development
Mr John Langoulant	Under Treasurer, State Treasury
Mr John Shawley	AlintaGas Director

In November 1997, due to AlintaGas's close involvement in some elements of the sale, Mr Ian Baker and Mr John Shawley left the Committee. The Committee then comprised:

Dr Des Kelly (Chairman)	CEO, WA Dept of Resources Development
Dr Les Farrant	Co-ordinator, WA Office of Energy
Mr John Langoulant	Under Treasurer, State Treasury

Alternates for the above were:

Mr Geoff Suttie (Alternate for Dr Kelly)	Director - Policy and Advisory Services, WA Dept of Resources Development
Mr Ken Hodgkin (Alternate for Dr Farrant)	Director, Policy & Agreements Division Office of Energy
Mr Neville Smith (Alternate for Mr Langoulant)	Assistant Under Secretary, State Treasury

A number of observers approved by the Minister for Energy along with relevant invitees, also attend Committee meetings.

The GPSSC has also been supported by:

- a Working Group of three full-time professional staff,
- the management and staff of AlintaGas, who provided expertise on all matters concerning the DBNGP and the current commercial business centred on it;

- a strategic consultant (JPMorgan/Hartley Poynton);
- various specialist consultants who provided legal, accounting, employee relations and other expertise.

In the resolution of various issues, a number of Government agencies have also been in involved including Treasury, the Office of Energy, Department of Resource Development, the Department of Land Administration, the Department of Minerals and Energy and the Crown Solicitor. The sale process has also been the subject of a review by the Auditor General who has provided a special report to Parliament as required under Section 53 of the Dampier to Bunbury Pipeline Act 1997.

The Terms of Reference for the GPSSC were widely framed. Essentially, after considering a number of material issues and receiving guidance from the Minister for Energy, the objective was to negotiate with potential purchasers and develop a contract of sale for submission to the Western Australian State Cabinet. The Terms of Reference were amended twice during the course of the sale. A copy of the original Terms of Reference and the two amended versions is included as Attachment 1 to this report.

The principal issues addressed by the GPSSC were:

- the development of a clear basis for future control and regulation (including pricing of transmission services) consistent with the interests of the State, existing and prospective shippers, ultimate gas customers, and in particular with the State's commitments to National Competition Policy principles;
- precisely defining the assets to be sold - this included the DBNGP and all plant/facilities/equipment/contracts directly associated with it, but with various details to be resolved (eg easements, laterals, etc);
- the percentage of the assets to be sold;
- the exempt contract with a longstanding and major user of transmission services (Alcoa of Australia);
- issues associated with Transmission employees;
- the time-frame for the sale;
- the structure of the sale - for example, whether this would be best handled as a sale of assets and formation of a joint venture, or by sale of shares in a pipeline company, or some other structure;
- various matters related to the sale, such as financial aspects, taxation, warranties and ongoing liabilities.

OBJECTIVES OF THE DBNGP PRIVATISATION

The objectives for the DBNGP privatisation could not be developed without careful consideration of the national reform agenda in general and in particular the objectives for the structure of the State's gas transmission industry. Industry objectives which were considered to be consistent with the principal aims of energy reform in Western Australia included:

- security of supply;
- the facilitation of open access to gas

transmission infrastructure to encourage competition in gas supply and retailing;

- ensuring that gas transmission providers do not extract monopoly rents particularly from small customers;
- promoting efficient investment in infrastructure by the private sector through transparent and commercial regulation;
- reducing the potential for conflicts of interest between political, social and commercial imperatives through the separation of gas transmission from AlintaGas' other business.

In the light of the above, the following DBNGP privatisation objectives were adopted and approved by the GPSSC:

- maximise the proceeds from the sale of the DBNGP Assets within the context of the objectives listed below;
- enhance the operating efficiency and utilisation of the DBNGP Assets;
- reduce transmission prices;
- reduce future demands upon State capital;
- reduce the State's exposure to the business risks of the DBNGP Assets;
- minimise the impact of the sale upon the Transmission Division's workforce;
- facilitate the ongoing viability of the remaining AlintaGas businesses, and
- reduce the potential for conflicts of interest which might potentially compromise the efficient operation of the DBNGP Assets and the operation of a competitive gas market in the State.

In addition it was recognised that the proceeds from the sale would provide an opportunity to significantly reduce the State's debt.

SALE PROCESS DESCRIPTION

The sale can be divided into the following four broad phases:

The ***Preliminary Phase*** represented the initial part of the sale process which began with the formation of the Gas Pipeline Sale Steering committee in August 1996. With a view to obtaining a better understanding of the market, press advertisements were placed nationally encouraging parties to formally register their preliminary interest in the sale and provide their credentials. A preliminary information package was prepared which was widely and freely distributed to interested or potentially interested parties. 31 parties registered their interest in the sale as a result of this initiative.

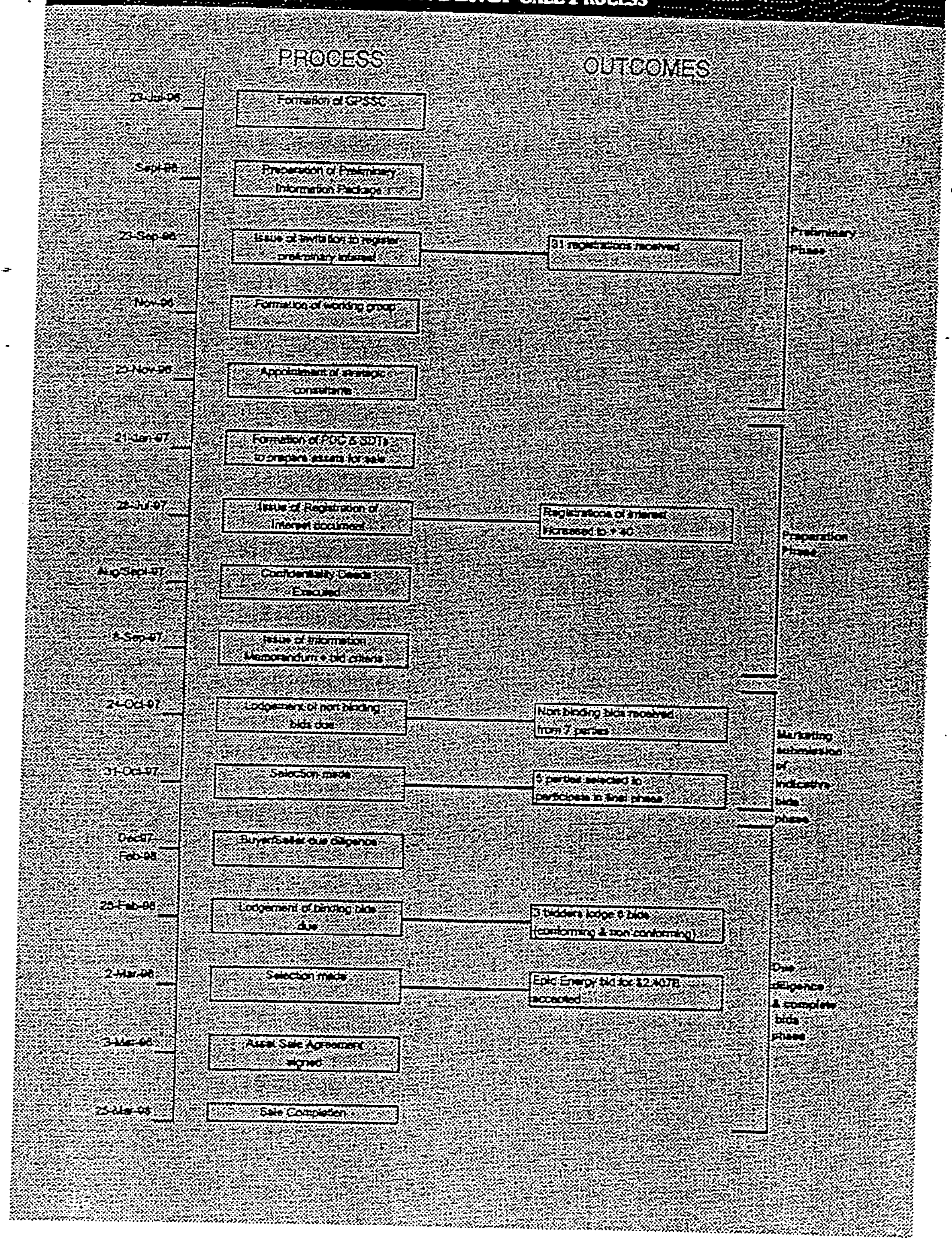
This phase also saw the formation of the working group, the appointment of the working group head and the appointment of the major strategic adviser to the sale (JP Morgan/Hartley Poynton).

The GPSSC, in consultation with its strategic adviser, considered a variety of alternative sale methodologies which could be employed for the privatisation of the DBNGP.

These included:

- a four phase trade sale process including an indicative bid process requiring the preparation of an Information Memorandum as a basis for bidders to make indicative bids from which a selected short list would be invited to make final bids. This type of sale

EXHIBIT 1: DBNGP SALE PROCESS



targets 'trade' bidders with the appropriate expertise to operate the business.

- an accelerated trade sale process which omits the indicative bid process referred to above, and which does not therefore need a detailed Information Memorandum.
- an initial public offering involving the sale of all or part of the equity interest in the business to retail, institutional, strategic and trade investors.
- a combination of an initial public offering and a trade sale which targets competent operator bids but also provides for a broad spectrum of public ownership.

The decision to adopt the four phase trade sale was based on the following rationale:

- A trade sale would be likely to generate greater sale proceeds for the State than an initial public offering or combined trade sale / initial public offering given that strategic infrastructure investors would attribute greater strategic, financial and business value to the asset than institutional and retail investors;
- A four phase trade sale process would maximise competition, and therefore sale proceeds, from the process by involving a broad range of bidders who would utilise a diverse range of approaches in seeking to acquire the DBNGP;
- While an accelerated process would save between six and eight weeks on the scheduled sale process, such a process might reduce the opportunity to optimise the group of potential acquirers included in the process in terms of the qualitative and quantitative criteria set down for them; and
- The need for public ownership through a public offering of stock to entrench a focus on service to Western Australia is less critical given the slim likelihood of a shift in service focus of the DBNGP operators away from Western Australian consumers.

The preparation phase involved the preparation of the asset for sale and the compilation of the sale marketing documents (Information Memorandum).

To undertake the workload in this phase a Process Development Committee (PDC) was formed reporting to the Gas Pipeline Sale Steering Committee, and comprising senior members of the Working Group and Steering Committee alternates. Under the PDC, eight Structure Development Teams (SDTs) were formed to undertake assigned tasks and to report back to the PDC. The eight SDTs were as follows:

SDT1	Definition of Assets for Sale
SDT2	Customer Contracts Transition
SDT3	"Exempt Contract" Transition (Alcoa & WLPG)
SDT4	Information Memorandum Industry & Market Analysis
SDT5	Privatisation Legislation
SDT6	Financial Statement Preparation
SDT7	Valuation
SDT8	Advance Due Diligence Preparation

A description of the scope of work of each of the SDTs is included as Attachment 2 to this report.

On 27 May 1997, the Due Diligence Committee was established. Reporting to the GPSSC, the Due Diligence Committee's mandate was to review various aspects of the sale including the contents of the Information Memorandum and other information provided to potential purchasers of the pipeline, either in the data rooms or in response to requests for additional information or clarification.

Concurrent with the preparation of the Information Memorandum, a Registration of Interest document was completed. This latter was primarily a marketing document designed to generate interest in the sale from parties who had not yet registered their interest. This document was advertised in the Australian press in July 1997, and widely distributed during July and August 1997. A copy is included as Attachment 3 to this report.

The Information Memorandum provided the information on which potential purchasers could make indicative bids. In addition to a description of the assets for sale, it also included information regarding Western Australia's gas industry structure, the future expected regulatory regime and current and potential customers. Given the confidential nature of customer contract information provided in the Information Memorandum, all interested parties wishing to obtain a copy were required to sign confidentiality agreements.

The preparation phase culminated on 28 July 1997 with the completion of the Information Memorandum.

The next part of the process, the *marketing and submission of bids for preselection phase*, involved the promotion of the transaction to potential acquirers, the distribution of marketing documents, the completion by bidders for the DBNGP of non-binding bids and the short-listing of bidders for due-diligence.

The main steps involved were the:

- registration of expressions of interest by bidders who had not already registered their interest during the preliminary registration;
- signing of Confidentiality Deeds by potential bidders;
- preliminary preparation for buyer due diligence and the setting up of data rooms;
- issue of a sale process letter and the Information Memorandum (the former providing details and timing of the remainder of the sales process to potential bidders)
- the lodgement by bidders of non binding bids; and
- the evaluation of the non binding bids received and the selection of short listed bidder.

Each candidate was required to provide the following information with their bid:

- identity, structure and financial resources of the candidate;
- a non binding bid price;
- key assumptions supporting the bid price;

- the candidates strategic plans for the pipeline;
- the intended operating arrangements and credentials to operate the pipeline;
- plans for financing the bid proposal;
- list of external advisers.

In addition, candidates were made aware that this was their only opportunity to put their best bid forward to qualify for the later phase of the sale, and consequently they should take the opportunity to submit indicative bid proposals to best meet the objectives of the State.

By 5:00 p.m. (WST) on Friday, 24 October methodologies which could be employed for the privatisation of the DBNGP.

These included:

- a four phase trade sale process including an indicative bid process requiring the preparation of an Information Memorandum as a basis for bidders to make indicative bids from which a selected short list would be invited to make final bids. This type of sale targets 'trade' bidders with the appropriate expertise to operate the business.
- an accelerated trade sale process which omits the indicative bid process referred to above, and which does not therefore need a detailed Information Memorandum.
- An initial public offering involving the sale of all or part of the equity interest in the business to retail, institutional, strategic and trade investors
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The decision to adopt the four phase trade sale was based on the following rationale:

- A trade sale would be likely to generate greater sale proceeds for the State than an initial public offering or combined trade sale / initial public offering given that strategic infrastructure investors would attribute greater strategic, financial and business value to the asset than institutional and retail investors;
- A four phase trade sale process would maximise competition, and therefore sale proceeds, from the process by involving a broad range of bidders who would utilise a diverse range of approaches in seeking to dividually sign confidentiality agreements and no copies of documents were to be made for remote examination outside of the Data Room.

In January 1998 bidders were provided with a draft asset sale agreement which was not-negotiable in terms of the risk allocation under representation and warranties. Bidders were engaged in intensive negotiations in order to agree a consistent complying bid document. All bidders were required to lodge a complying binding bid as a pre requisite for consideration, however, bidders were given the opportunity to also lodge non-complying bids, providing an opportunity to suggest variations to the terms and conditions of the Asset Sale Agreement. These variations could include variations to the value of the bid in order to encourage innovative bid proposals. These negotiations enabled the negotiating team to maximise competitive pressure among the bidders.

Three complying and three non complying bids were received from the following consortia by 12 noon on 28 February 1997:

- Australian Gas Light Company / CMS Energy Corporation;
- Epic Energy Pty Limited;
- Nova Gas Australia Pty Limited / UniSuper Limited.

Upon lodgement candidates were given the opportunity to remain with their bids until 12:00 noon, when the bids were opened consecutively in the presence of the Steering Committee and legal advisers. Strict security arrangements were in place for receiving, opening, storing and handling the bid documents.

BID ASSESSMENT

The detailed assessment of the bids was carried out by the GPSSC Working Group, assisted in conducting the financial analysis by J.P. Morgan, Hartley Poynton and Price Waterhouse, and with legal advice from Jackson McDonald, Anderson Legal and Skea Nelson and Hager. Briefing and presentations were made to the GPSSC, the Minister for Energy and the Premier.

Final approval was provided by Cabinet on 3 March 1998.

SELECTION CRITERIA

In addition to the evaluation criteria used for indicative bids the following items were also considered:

- *Purchase price and stamp duty*
  Bidders were required to identify the purchase price and stamp duty component of their final bids. The stamp duty assessment was referred to the Department of State Revenue and the estimates confirmed prior to announcing the winning bidder.
- *A properly executed Asset Sale Agreement*
  Each of the bidders was required to provide 5 signed copies of the complying Asset Sale Agreement at the time that they lodged their bids with the GPSSC.
- *Current financial position of the bidders and any parent entity or entities.*
  The bids received were accompanied by updated and audited financial statements, the most recent annual reports, credit ratings where applicable, and details of material changes to financial positions that occurred since the audited financial statements were prepared.
- *Evidence of the ability of the bidders to finance the acquisition of the pipeline*
  Final bids had to include evidence of the bidder's unconditional ability to fund the total proceeds of the sale. The information included the levels of debt and equity and whether the debt and equity would be provided by third parties or by the owners/principals of the bidders.

  To the extent that the bids were being financed by third party debt or equity, details of any proposed facilities, including financing/underwriting documents and conditions precedent were required.

- *Evidence of the necessary internal and external approvals*
  The bidders were required to provide evidence that they had obtained the internal and external approvals necessary to complete the acquisition of the pipeline. This evidence included Board approvals and regulatory approvals.
- *A detailed transition plan*
  The bidders were required to include a detailed plan outlining the proposed transition from AlintaGas to the purchaser. The plan was to deal with the period between the signing of the Asset Sale Agreement by AlintaGas and the completion of the sale process. The plan was to also deal with any support arrangements that would be required between the purchaser and AlintaGas and also explain employee related issues.
- *A detailed overview of the ownership structure*
  Each bidding consortium was required to specify the ownership and operational relationships between the participants in the consortium.
- *A statement of material variations in assumptions from the non-binding bid*

SALE OUTCOME

The Epic Consortium was the successful tenderer on the basis of a complying bid, with a gross purchase price of $2,407 million which included $104 million stamp duty.

The proceeds of sale were significantly in excess of book values and compare favourably with other pipeline sales both domestically and internationally.

The Epic consortium comprises of:

- El Paso Natural Gas Company (El Paso) 33.33 %
- Consolidated Natural Gas Company (CNG) 33.33 %
- Isarose Pty Ltd comprising 33.33 %
  - AMP Life Ltd
  - SAS Trustee Corporation (Axiom)
  - Utilities Trust of Australia (Hastings)
  - Australian Infrastructure Fund (Hastings)

El Paso and CNG bring to the operation of the DBNGP a vast wealth of experience in operating pipelines around the world. Their combined pipeline systems extend over 70,000km with over 200 compressor stations. The combined systems transport more than 20,000 Tj/d. They also operate large onshore and offshore gathering systems, gas production wells, offshore platforms and gas processing plants. Isarose Pty Ltd is comprised of major Australian fund managers with aggregate net assets of over $30 billion.

Epic Energy Australia has extensive pipeline operating experience within Australia, though ownership of the Moomba to Adelaide pipeline system, the South West Queensland Pipeline, the Pilbara Energy Pipeline and the Burrup Extension Pipeline construction.

Epic committed to lower gas tariffs through the transitional access regime where tariffs will fall from $1.19 nominal in 1998 to $1 nominal in 2000. From the year 2000 the National Access Code is to be adopted.

An undertaking as to the expansion of the pipeline was given with Epic prepared to spend $874 million through to 2007 to double the capacity of the pipeline.

Epic has guaranteed priority rights to AlintaGas and Western Power on capacity to serve residential and small business customers. Employees' interests were protected through Epic's detailed transition plan which guaranteed employment for two years and preservation of accrued benefits for those employees who accepted the offer to transfer to Epic.

ISSUES ARISING DURING THE SALE OF THE DBNGP

To obtain an understanding of the sale process, it is necessary to grasp some of the issues which had to be addressed during the sale. These issues included the proportion of the DBNGP to be sold, the Alcoa and Wesfarmers contracts, the supply of gas to the Mid West Iron and Steel Plant, transmission employees, the DBNGP Corridor, gas quality and taxation.

Proportion of the DBNGP to be Sold

Among the State's privatisation objectives, an important balance was recognised between the maximisation of the proceeds from the sale and the protection of the strategic energy needs of the State so as to provide a maximum economic benefit to the State.

The principal reason for the State to retain an interest in the DBNGP was to maintain some level of influence over the pipeline, ensuring it was operated in the best interests of the State's economy, customers and taxpayers, to the extent that this was different from purely commercially motivated investors. However, it was recognised that there were a number of other mechanisms that could be applied to achieve this, namely;

- qualification in the privatisation process of the operating credentials and expertise of those groups who would become operators of the pipeline after the sale;
- third party open access regulations that ensure the equitable provision of transmission capacity when it is available or commercial to develop; and
- the introduction of effective competition in the provision of gas transmission services in the State.

The GPSSC recommended the privatisation of 100 percent of the DBNGP on the basis of a range of both economic and non-economic reasons. These included:

- Development by the State of an industry structure with effective regulation and competitive pressures will ensure that the State's industry objectives are met without the need for a retention of DBNGP equity;
- Sale of 100 percent of the DBNGP removed a substantial amount of State capital from the risks associated with ownership and operation of gas transmission assets in a highly competitive commercial environment, and removed any risk exposure associated with perceptions of an implied State guarantee of the business;
- Sale of 100 percent provided for complete control of strategy and operating practices by

private entities who could employ a fully commercial approach to achieving greater efficiencies and utilisation resulting in lower transmission costs for the State;

- Sale of 100 percent completed the separation of the gas transmission business from the State's gas trading and distribution enterprises and therefore removed any real or perceived conflicts of interest between the businesses.
- Sale of 100 percent was considered most likely to maximise total sale proceeds by capturing the value of control and avoiding discounts which might be associated with government ownership; and
- Sale of less than 100 percent would add significant complexity to, and reduce proceeds realised from, the sale process given the need to structure partnership, financing, taxation and other arrangements with potential acquirers and their financiers.

Cabinet decided to accept this recommendation, subject to first priority access being provided to AlintaGas and Western Power to service residential customers, and the right to negotiate for lower tariffs for these priority rights up to a prescribed maximum.

Agreement with Alcoa of Australia

Alcoa represents by far the largest gas transmission customer of the DBNGP.

Under the terms of the Alcoa contract, permission was required to assign the contract to the acquirer of the DBNGP.

Prior to permission being granted, bidders were required to make presentations to Alcoa in the presence of the GPSSC. The presentations included details of the candidate's bid structure, arrangements with unit holders, decision making structure, financial structure, and operational expertise.

The Alcoa Contract contains provisions which allow Alcoa to cease paying capacity reservation charges in the event of certain legislative or administrative action being taken by the State which action prevents Alcoa utilising gas or which adversely affects its rights ("State Action" and "State Force Majeure"). As the owner of the DBNGP was no longer to be a State Government corporation, an indemnity was given by the Treasurer on behalf of the State of Western Australia indemnifying the purchaser against the consequences of State Action or State Force Majeure which was beyond the control of the purchaser, but within the control of the State, and which caused a loss of contract revenue to the purchaser."

Wesfarmers LPG Contract

Wesfarmers LPG Pty Ltd owns and operates a LPG extraction plant which straddles the DBNGP. The LPG plant extracts LPG from the natural gas flowing through the DBNGP at the Kwinana Metering Station. The WLPG Contract between AlintaGas and Wesfarmers LPG Pty Ltd previously comprised two elements. Firstly it comprised the sale of the LPG's by AlintaGas to Wesfarmers LPG. Secondly it comprised the terms and conditions which govern the relationship between the DBNGP and the LPG plant as to technical, engineering and operational matters. Negotiations took place between AlintaGas and Wesfarmers LPG to disaggregate the WLPG Contract into two contracts dealing separately with the two elements mentioned above. The contract dealing with the relationship between the DBNGP and the LPG plant was statutorily assigned from AlintaGas to the purchaser under the Sale Legislation in the transfer order.

Mid West Iron & Steel Project

In the latter half of 1996, expressions of interest to supply gas to a proposed Mid West Iron and Steel Project were called. The steel mill was to be located near Geraldton and the owners of the proposed plant, An Feng Kingstream Steel Limited, were seeking expressions of interest to supply 170 Tjd of natural gas for power generation over a period of approximately 15 years.

Epic Energy's proposal was based on an arrangement negotiated with AlintaGas. Under this proposal, Epic would enhance the DBNGP by the construction of additional looping under a construction contract with AlintaGas, and would also have a shipper agreement with AlintaGas to transport gas on the pipeline. This arrangement was subject to the approval of the ACCC.

In June 1997, An Feng Kingstream announced the award of their gas transportation contract to Epic Energy. In October 1997, the ACCC advised AlintaGas that it would review the arrangements between Epic Energy and AlintaGas. In February 1998 the ACCC advised AlintaGas that the arrangements with Epic Energy were likely to be in breach of the Trade Practices Act and should not proceed. As a result of this advice, the contract was not proceeded with and was not included in the assets for sale.

Transmission Employees

The sale objectives required the benefits to the State arising from the sale to be maximised whilst at the same time reducing the impact of the privatisation upon the existing DBNGP workforce as much as possible.

Following the sale, AlintaGas would have no requirement for the services of the 137 employees of the Transmission Division who were involved in the direct operation of the pipeline. AlintaGas had no access to redeployment through the public sector redeployment process for those employees who remained with AlintaGas. Whilst redeployment and retraining within AlintaGas would be offered to remaining employees, their current skills were unlikely to be readily transferable and redundancies would therefore be inevitable. This could have seen an undesirable situation if employees had elected to stay with AlintaGas in order to access a redundancy package only at some later point to seek re-employment with the purchaser of the pipeline.

Other pertinent factors relating to the Transmission employees included:

- the requirement for a purchaser of the DBNGP to immediately have staff available to operate the pipeline. Prospective purchasers had already indicated they would need the bulk of the workforce and were prepared to offer employment to all existing employees;
- the need to avoid industrial disputation and the negative effect this could have on potential bidders; and

- the need to provide an attractive package for Transmission employees to encourage them to transfer to the yet unnamed bidder. Employees were unlikely to be attracted to the move unless they were offered conditions of employment and rates of pay equivalent to that being offered in the private gas industry.

After considering a range of alternatives it was agreed to construct a mechanism which would allow employees, at their election, to transfer their employment from AlintaGas to the purchaser.

To affect the transfer a wholly owned subsidiary company of AlintaGas was set up. The subsidiary company made the offer of employment on agreed terms and conditions expressed in an Award and Certified Agreement. The Certified Agreement and Award had been ratified by the Australian Industrial Relations Commission on 6 January 1998, after considerable negotiation with the Unions and an extensive education and discussion program with employees. The new Certified Agreement and Award were to take effect only upon completion of a sale. As a condition of the sale, the subsidiary company was acquired by the purchaser. All but five employees accepted the offer and transferred to the purchaser at the time of the sale.

As a consequence AlintaGas has avoided potential redundancy costs of up to $7 million and industrial disputation. Employees have retained job security with Epic providing a guaranteed employment for two years and continuation of all accrued benefits. Epic have obtained the benefit of a well trained workforce on reasonable terms and conditions relative to other transmission pipelines.

DBNGP Corridor

The DBNGP lies within the DBNGP Corridor, which is approximately 30 m wide for the majority of the pipeline's length, from the North West Shelf Gas Pipeline facilities on the Burrup Peninsula to Wagerup West, 1,489 km from the northern end of the pipeline, and a width of 16 m for the remaining 41 km of the pipeline. The pipeline lies approximately 6.5 m from the DBNGP Corridor's eastern boundary for most of the pipeline's length, although this spacing varies in some sections.

The DBNGP Corridor was a major factor in the sale, and the adequacy of the corridor to allow future expansion of the DBNGP was fundamental to the State achieving a substantial price for the assets.

The privatisation of the pipeline necessitated a number of changes related to the DBNGP Corridor. In particular the State was keen to retain ownership of this valuable infrastructure asset. The documented and registered easements and other tenure rights held by AlintaGas in relation to the DBNGP Corridor were assigned by virtue of the Sale Legislation to the DBNGP Land Access Minister (acting at the discretion of the Energy Minister). Additionally the statutory rights which AlintaGas exercised under the Energy Corporation (Powers) Act 1994, but geographically limited to the DBNGP Corridor, were terminated by the Sale Legislation, and equivalent statutory rights relating to access for the purpose of the construction, operation and maintenance of the DBNGP, and further gas transmission enhancement or development were granted to the DBNGP Land Access Minister in respect of the DBNGP Corridor.

The DBNGP Land Access Minister has the power to confer access rights over the full length of the DBNGP Corridor as derived from the AlintaGas documented and registered easements, the vesting of Land Act Reserves, the grant of the reformulated statutory powers, and the reserved and retained powers over the freehold land transferred to and vested in the Acquirer. The DBNGP Land Access Minister has the power to grant licences to use the access rights to the whole, or specified parts of the DBNGP Corridor or for an Additional Corridor.

The Initial Access rights were issued to AlintaGas and subsequently assigned to the acquirer of the pipeline at sale completion. The Initial Access rights provide the acquirer with rights of access to the DBNGP Corridor for the purposes of the operation, and maintenance and other functions of the DBNGP. The Initial Access rights were granted for an initial term of 21 years and the Acquirer will be able to apply to renew the term of that Initial Access rights for further terms of 21 years. The Initial Access rights will be transferable, with the consent of the DBNGP Land Access Minister.

The Sale Legislation also empowers the DBNGP Land Access Minister to issue Access rights to third parties authorising the use of the western most alignment of the DBNGP Corridor for the construction and installation of gas transmission infrastructure which is separate from the DBNGP.

Development of an Additional Corridor

In order to facilitate the State's commitment to seek expressions of interest in a second pipeline from the North West to the South West of the State and having regard to potential longer term development opportunities, the State has committed to expanding the DBNGP Corridor on both sides of the existing DBNGP Corridor, where practical, and, where this is not feasible, on one side of the DBNGP Corridor. In either case the total expansion will be 70 m (the additional 70 m to be referred to as the "Additional Corridor"). The State is undertaking and intends to actively pursue the acquisition of the Additional Corridor to facilitate the issue of Access Rights. The Access Rights for the Additional Corridor will also be held by the DBNGP Land Access Minister, who will have the ability to issue Access Rights to parties seeking to develop gas transmission infrastructure.

Gas Quality

Gas Quality refers to the composition of gas used by consumers of gas from the DBNGP. Gas quality for gas let into, or delivered from the DBNGP is set out in the Dampier to Bunbury Pipeline Regulations 1998 and DBNGP Access Manual. This provides maximum and minimum quantities of elements of the gas and provides for particular performance criteria. Gas quality is an important issue for this Government and can have a significant impact on gas customers, gas producers and transporters of gas.

Since 1994 and throughout the period when the DBNGP was being prepared for sale, gas quality has been under review. Broadening the gas specification is seen by this Government as desirable with a view towards reducing the cost and increasing the diversity of gas supply in the State. It is essential, however, to ensure the gas remains fit for purpose, meets safety, environmental and reliability considerations and does not affect the integrity or operational reliability of the pipeline.

The Government's policy on gas quality is included as Attachment 6 to this report.

In seeking to implement its Policy on Gas Quality in respect of the DBNGP, the Government has adopted a staged approach to achieving changes recommended by the Office of Energy and accepted by the Government in early 1996. The first stage, involving a number of steps, was achieved with the completion of the sale of the DBNGP when under the Dampier to Bunbury Pipeline Act 1997 (the Act) the Dampier to Bunbury Pipeline Regulations 1998 commenced. The second stage relies in part on commercial initiative by the DBNGP owner, and will be on-going.

The new approach embodied in the Dampier to Bunbury Pipeline Regulations 1998 marks a significant change in the approach to prescription of gas specifications for the DBNGP. The approach in the terms of those regulations is:

1. a "Broadest specification" is prescribed by regulation for each category of gas;
2. an "operating specification' is established for categories of gas and may be amended by approval of the Coordinator of Energy (Coordinator) following consultation with stakeholders;
3. the DBNGP owner only may propose to the Coordinator for approval a change in the "operating specification" and it is intended that any change make the specification less stringent unless there are special circumstances making it necessary for the Coordinator to approve a more stringent specification;
4. no party is permitted to enter an access contract or an extension to an existing access contract that does not have as an essential term that the gas specification may be changed within the "broadest specification", and the contract remain valid;
5. the DBNGP owner may impose a surcharge on shippers for accepting, with its permission, out-of-specification gas at an inlet point (the existing provision for compensation if the LPG content is less than 1.45t/TJ remains to 30 June 2005, with the "broadest specification" having the minimum required LPG level of zero from that date).

Taxation

On 4 August 1997, the Commonwealth Treasurer announced changes to the income tax treatment of depreciation of exempt entity assets which enter the income tax net. Purchasers of such assets (being plant) on or after that date would not be allowed tax depreciation on the purchase price of the assets. Instead, they could (in broad terms) claim depreciation deductions only on an amount based on either original cost or a pre-existing audited book value, notionally depreciated in either case up to the purchase date.

The announcement was unclear as to whether, in a case such as that of AlintaGas, the 1996 or the 1997 values recorded in the AlintaGas financial statements would be the relevant book values.

In January 1998, the Commonwealth clarified its position by indicating that the most recent accounts audited before 4 August 1997 would establish the relevant book values. AlintaGas' 1997 annual accounts had been audited prior to 4 August 1997. This may have provided the purchaser with a higher depreciable base, which in turn may have assisted a higher bid price.

LEGISLATIVE AND REGULATORY AMENDMENTS RELATING TO THE SALE OF THE DBNGP

The principal legislative change arising from the sale of the DBNGP was brought about by the Dampier to Bunbury Pipeline Act 1997 which was assented to on 12 December 1997. This Act has four main functions:

- to provide AlintaGas with the legal power to effect the sale of the DBNGP - recognising that prior to the Act this power did not exist;
- to provide legal certainty to the process for the sale, so that bidders could proceed to formulate their bids with sufficient finality that a contract of sale could subsequently be signed with the successful bidder;
- to establish a mechanism for transferring the existing easement to a State body as well as giving the State the ability to expand that easement; and developing arrangements for the new owner of the DBNGP, and potentially other pipeline owners, to have access rights to the existing and expanded easement; and
- to develop principles for third party access to the privatised DBNGP which were further expanded in the new regulations (the Dampier to Bunbury Pipeline Regulations 1998).

A more detailed and exhaustive summary of the legislative and regulatory amendments relating to the sale is included as Attachment 4 to this report.

SALE PROCEEDS AND COSTS OF SALE

The proceeds from the sale amounted to $2,407 million including $104 million in State Government Stamp Duty. The proceeds of the sale will be used to repay debt associated with the DBNGP and all costs of the sale process. $40 million is also to be paid into the DBNGP Corridor Trust Account to provide funds for the acquisition of additional easements over the DBNGP Corridor.

The total costs of the sale at 31 March 1998 was $12.5 million and it is estimated that final costs could be in the order of $18 million once all costs of the sale have been incurred. This cost will represent only 0.75% of the total sale proceeds, and is considerably less than costs incurred in similar asset sales both within Australia and overseas (typically around 1% - 2% or higher, of the sales value).

EXHIBIT 11: SALE COSTS

	$ M GPSSC	$ M AlintaGas	$ M Sub-Total
Actual Costs to 31 March 1998			
Legal Consultants	4.1	0.1	4.2
Strategic Consultant	3.9		3.9
Other Consultants	0.8	0.7	1.5
Other Expenses	1.3	0.2	1.5
Transition Payment to Transmission Employees Note 1		1.4	1.4
	10.1	2.4	12.5
Estimate of costs to be incurred:			
Legal Consultants	0.3		0.3
Other Consultants		0.1	0.1
GPSSC Funding 1998/1999	0.5		0.5
Other Expenses	0.1		0.1
Payout of GESB Transferred Service Credit Note 2		0.7	0.7
Superannuation 1.75% discount Note 3		0.7	0.7
AlintaGas Redundancy Costs Note 4		1.5	1.5
AlintaGas Internal Sale Costs Note 5		1.6	1.6
	0.9	4.6	5.5
Total Costs	**11.0**	**7.0**	**18.0**

Notes

1. Payments made to Transmission employees under standard conditions of transfer of government employees.
2. Payment of Liability with respect to former members of the State pension scheme arising on transfer from GESB superannuation scheme.
3. Reimbursement for discount applied by GESB in respect of Transmission employees who transfer out of the GESB superannuation scheme.
4. Anticipated redundancy costs in respect of AlintaGas employees following post sale restructuring of AlintaGas.
5. Anticipated salary and other internal costs incurred by AlintaGas during the sale process.

Attachment 5 to this report provides the total estimated cost of each consultancy associated with the sale.

ATTACHMENTS

ATTACHMENT 1
GPSSC TERMS OF REFERENCE

(i) Original Terms of Reference

(ii) Amended Terms of Reference (9 June 1997)

(iii) Amended Terms of Reference (1 March 1998)

GAS PIPELINE SALE STEERING COMMITTEE
TERMS OF REFERENCE

The Gas Pipeline Sale Steering Committee is required to address the issues necessary to enable an optimal price to be realised for the sale of the Dampier to Bunbury Natural Gas Pipeline, in whole or in part, while protecting the strategic needs of the State and complying with the State's commitment to competition policy principles; and to negotiate a sale.

Specifically, the Steering Committee should:

- Consider all matters relating to the Dampier to Bunbury Natural Gas Pipeline which could materially affect its sale value to potential purchasers, including:
  - developing a clear basis for future control and regulation consistent with the State's commitments under national agreements and existing contracts to shippers;
  - defining the assets for sale;
  - addressing the ALCOA contract;
  - addressing staffing issues.
- Consult with major users of the pipeline as appropriate;
- Develop options for the sale of the pipeline, in whole or in part, and for future operation of the pipeline; and recommend to the Minister for Energy a preferred approach or approaches;
- Advise on an appropriate time frame for any sale;
- Negotiate with potential purchasers and develop a contract of sale, for consideration by Government.

The Committee will be assisted by a working group comprising a team leader and two senior professionals. The team is to arrange for its own clerical support, office space, furniture and equipment, but may receive direct assistance in this from AlintaGas. Operation of the working group, including its expenditure and the appointment of consultants, will be subject to the approval of the Steering Committee, either directly or through delegated arrangements.

Funding of the Committee and the working group will be provided by AlintaGas except that representation by members of the Committee who are public servants shall be a cost to their respective agencies.

These arrangements are to apply for a period of 18 months. An extension of up to six months may be approved by the Minister for Energy should he consider it justified. Any further extension will be subject to Cabinet approval.

Attachment 1
GPSSC Terms of Reference

GAS PIPELINE SALE STEERING COMMITTEE
AMENDED TERMS OF REFERENCE 9 JUNE 1997

The Gas Pipeline Sale Steering Committee is required to address the issues necessary to enable an optimal price to be realised for the sale of the Dampier to Bunbury Natural Gas Pipeline, in whole or in part, while protecting the strategic needs of the State; and to negotiate a sale. Specifically, the Steering Committee should:

- Consider all matters relating to the Dampier to Bunbury Natural Gas Pipeline which could materially affect its sale value to potential purchasers, including:
  - developing a clear basis for future control and regulation consistent with the State's commitments under national agreements and existing contracts to shippers;
  - defining the assets for sale;
  - addressing the ALCOA contract;
  - addressing staffing issues.
- Consult with major users of the pipeline and with the AlintaGas Board, as appropriate;
- Develop options for the sale of the pipeline, in whole or in part, and for future operation of the pipeline; and recommend to the Minister for Energy a preferred approach or approaches;
- Advise on an appropriate time frame for any sale and on a sale process;
- Conduct a sale process and provide advice and, as appropriate, recommend actions to the AlintaGas Board in relation thereto;
- Negotiate with potential purchasers and develop a contract of sale, for consideration by Government.

The Committee will be assisted by a working group comprising a team leader and two senior professionals. The team is to arrange for its own clerical support, office space, furniture and equipment, but may receive direct assistance in this from AlintaGas. Operation of the working group, including its expenditure and the appointment of consultants, will be subject to the approval of the Steering Committee, either directly or through delegated arrangements. Funding of the Committee and the working group will be provided by AlintaGas except that representation by members of the Committee who are public servants shall be a cost to their respective agencies.

These arrangements are to apply for a period of 18 months. An extension of up to six months may be approved by the Minister for Energy should he consider it justified. Any further extension will be subject to Cabinet approval.

ATTACHMENT 1
GPSSC TERMS OF REFERENCE

GAS PIPELINE SALE STEERING COMMITTEE
AMENDED TERMS OF REFERENCE 1 MARCH 1998

The Gas Pipeline Sale Steering Committee (the Committee) is a committee of persons appointed by the Minister as referred to in section 6(3) of the Dampier to Bunbury Pipeline Act 1997 (the Act), that is required to address the issues necessary to enable an optimal price to be realised for the sale of the Dampier to Bunbury Natural Gas Pipeline (DBNGP) system, in whole or in part, while protecting the strategic needs of the State; to negotiate and bring to completion a sale and deal with incidental and related matters all in accordance with any direction by the Minister given under section 6 of the Act.

Specifically, the Committee should:

- Consider all matters relating to the DBNGP system which could materially affect its sale value to potential purchasers, including:
  - developing a clear basis for future control and regulation consistent with the State's commitments under national agreements and existing contracts to shippers;
  - defining the assets for sale;
  - addressing the ALCOA contracts; and
  - addressing staff issues.
- Consult with major users of the DBNGP system and with the AlintaGas Board, as appropriate.
- Develop options for the sale of the DBNGP, in whole or in part, and for future operation of the system; and recommend to the Minister for Energy a preferred approach or approaches.
- Advise on an appropriate time frame for any sale and on a sale process.
- Conduct and conclude a sale process and deal with incidental and related matters including any liabilities arising under the contract of sale, and provide advice and, as appropriate, recommend actions and provide instructions to the AlintaGas Board in relation thereto.
- Negotiate with potential purchasers and develop a contract of sale, for consideration by Government.
- Take such steps as are necessary or appropriate to facilitate:
  - the execution of the contract of sale by AlintaGas;
  - the due performance of the contract of sale by AlintaGas;
  - the administration of the contract of sale both before and after completion under the contract of sale, including dealing with any claims made under or rising out of the contract of sale.

The Committee will be assisted by a working group comprising a team leader and two senior professionals. The team is to arrange for its own clerical support, office space, furniture and equipment, but may receive direct assistance in this from AlintaGas.

Operation of the working group, including its expenditure and the appointment of consultants, will be subject to the approval of the Committee, either directly or through delegated arrangements. Funding of the Committee and the working group to the completion of the sale to 30 June 1998 will be provided by AlintaGas and recouped by it from the proceeds of sale for expenditure approved by the Committee. The funding of the Committee and the working group for the period from 1 July 1998 to 31 August 1999 will be met by the Department of Resources Development and recouped from the Consolidated Fund. Representation on the Committee by members of the public service shall be a cost to their respective agencies.

These arrangements are to apply until 31 August 1999 and may be amended from time to time by the Minister for Energy. Any further extension of time or change in the basic funding arrangements will be subject to Cabinet approval.

Attachment 2
Structure Development Teams — Scope of Work

SDT PHASE 1 GENERAL MANDATES

SDT 1 - Definition of Assets for Sale

- Determine the elements of the DBNGP transmission business which the State may transfer to the acquirer of the pipeline
- Transmission business should encompass appropriate assets, contractual obligations, human resources, legal liabilities, information systems, etc.
- Business should provide for optimal transfer of transmission exposures while allowing for flexibility in acquisition financing, taxation structuring and depreciable asset base write-up, stamp duty treatment, debt repayment, etc.

SDT 2 - Customer Contract Transition

- Develop a plan for the transition of existing DBNGP customers from State to private ownership providing for the maintenance of existing contracts under the existing regulation or development of new contracts under a new regulatory regime
- Ensure the effective transfer of existing contractual obligations to the new transmission entity to be acquired by private investors
- Conduct necessary negotiations with existing customers, including AlintaGas Trading, such that existing customers can be transferred to the privatised transmission entity.

SDT 3 - "Exempt Contract" Transition (Alcoa & WLPG)

- Determine extent to which Alcoa and WLPG contracts will be transferred to new buyers, or remain with the State or AlintaGas
- Determine whether components of contracts can be amended to impact positively on the sale process
- Determine the issues related to the confidentiality of these contracts and recommend solutions to such confidentiality issues.

STD 4 - Information Memorandum Industry & Market Analysis

- Compile a comprehensive Information Memorandum by the end of Phase 1 on the basis of which potential acquirers can make credible indicative bids
- Conduct detailed analysis of the market for gas transportation services in Western Australia which captures the upside potential represented by the transmission business
- Include detailed commentary in the I/M of all matters affecting the transmission business including the regulatory environment, political structure and function, taxation, gas quality, etc.

Attachment 2
Structure Development Teams — Scope of Work

SDT 5 - Privatisation Legislation

- Facilitate the development of a legislative framework and program for the timely privatisation of the DBNGP
- Involve appropriate government officials to sponsor legislation and its effective passage
- Progress the passage of necessary privatisation legislation as appropriate and timely during Phase 1

STD 6 - Financial Statement Preparation

- Determine the historical and forecast financial statement information that will be required by potential bidders to submit a credible indicative bid at the end of Phase II and compile those statements for incorporation in the I/M
- Facilitate incorporation of financial statement forecasts into the valuation analysis being conducted

STD 7 - Valuation

- Analyse the valuation likely to be bid by potential buyers of the DBNGP
- Determine the impact of continued State ownership of the transmission business and various structural alternatives
- Determine the likely form and magnitude of financing of the DBNGP sale

STD 8 - Advance Due Diligence Preparation

- Determine any due diligence issues which should be considered early in the sale process given the timing implication of the issue:
  - transfer of right-of-way
  - definitions of the transmission/distributions asset interface
  - smart pigging
  - ODRC analysis

Attachment 3
Invitation to Register Interest

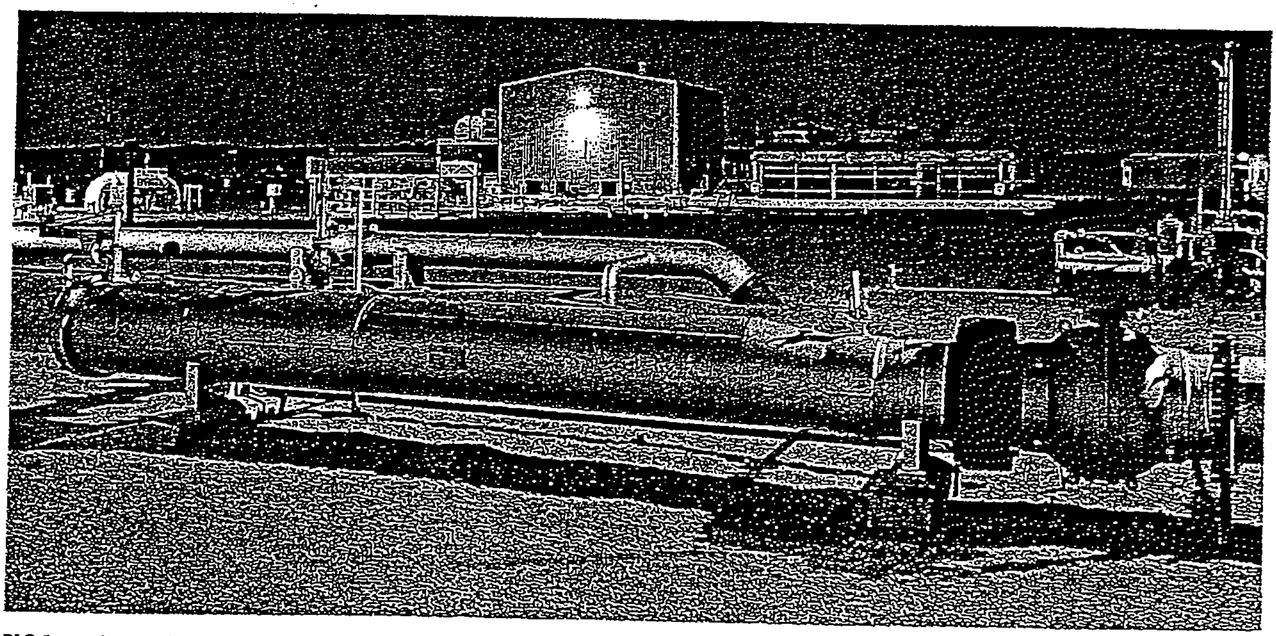
PROFILE OF THE DBNGP ASSETS

The DBNGP is currently owned and operated by AlintaGas, the State owned Gas Corporation formed from the separation, on 1 January 1995, of the electricity and gas businesses of the former State Energy Commission of Western Australia . AlintaGas' Transmission Division is responsible for the operation and maintenance of the DBNGP.

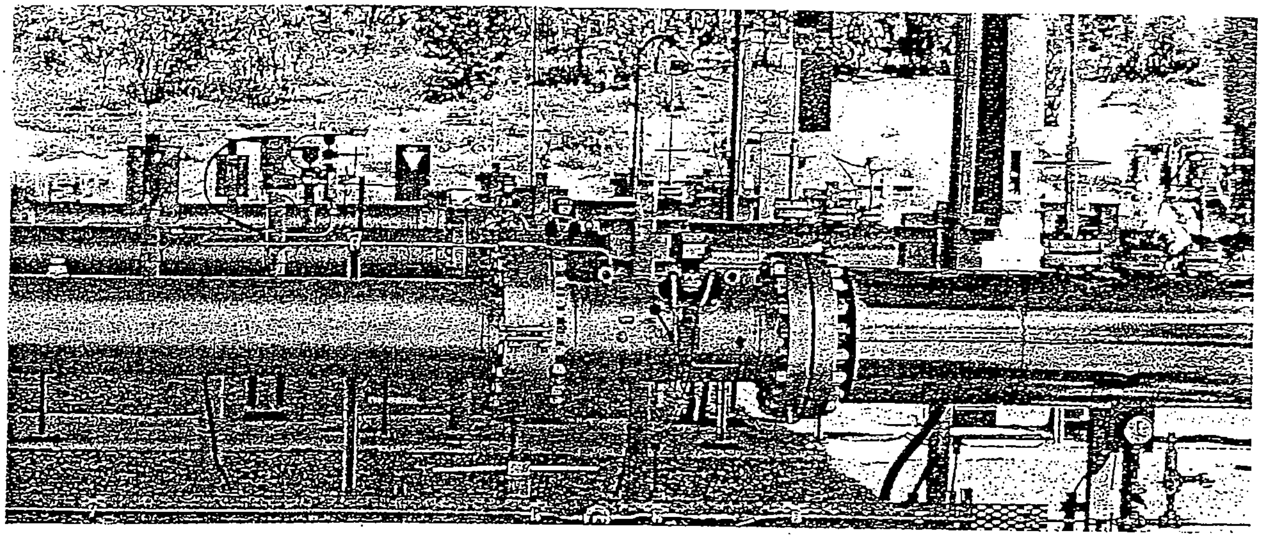
Commissioned in 1984, the DBNGP has shown almost no deterioration in its general condition as a result of the pipeline's state-of-the art coating and cathodic protection systems and the preventative maintenance practices of AlintaGas' Transmission Division.

In the year to 30 June 1997, the DBNGP transported a total of 178 petajoules (PJ) of gas with an average of 487 terajoules delivered per day (TJ/day). At 30 June 1997 the DBNGP Assets totalled around A$1,054 million and generated total revenues of approximately A$213 million for the year ended 30 June 1997.

AlintaGas is also involved in the distribution of gas throughout the Perth metropolitan area and some country areas through its Tariff Business, and gas trading through its Trading Division. The Tariff Business and Trading Divisions are referred to collectively as "AlintaGas' Other Business". AlintaGas' Other Business will not be offered for sale as part of the DBNGP sale process.



PIG Launcher at Compressor Station 7



Gas metering at Kwinana Junction

Pipeline assets

The main line of the DBNGP runs approximately 1,500 km from the Burrup Peninsula, starting near the township of Dampier, to the South West of the State near the City of Bunbury.

In addition to the main line, a range of pipeline-related facilities will be included in the DBNGP Assets to be offered for sale. These include compressor stations (CS), meter stations, 9 laterals, main line and lateral isolation valves and maintenance depots. The Geraldton Lateral and the pipeline south of Clifton Road near Bunbury will not be included in the DBNGP Assets.

The pipeline currently has nine operating compressor stations. The compressor stations are spaced, from the northern end of the pipeline, at intervals of approximately 140 km along the main line and are equipped with single or dual compressor units with ratings of either 4 MW, 9 MW or 10 MW. The current capacity enhancement program has installed a 10 MW compressor unit at CS9, and will add a 10 MW compressor unit to the 4 MW unit already in place at CS6 with the total enhancement programme scheduled for completion in December 1997.

Gas transport capacity

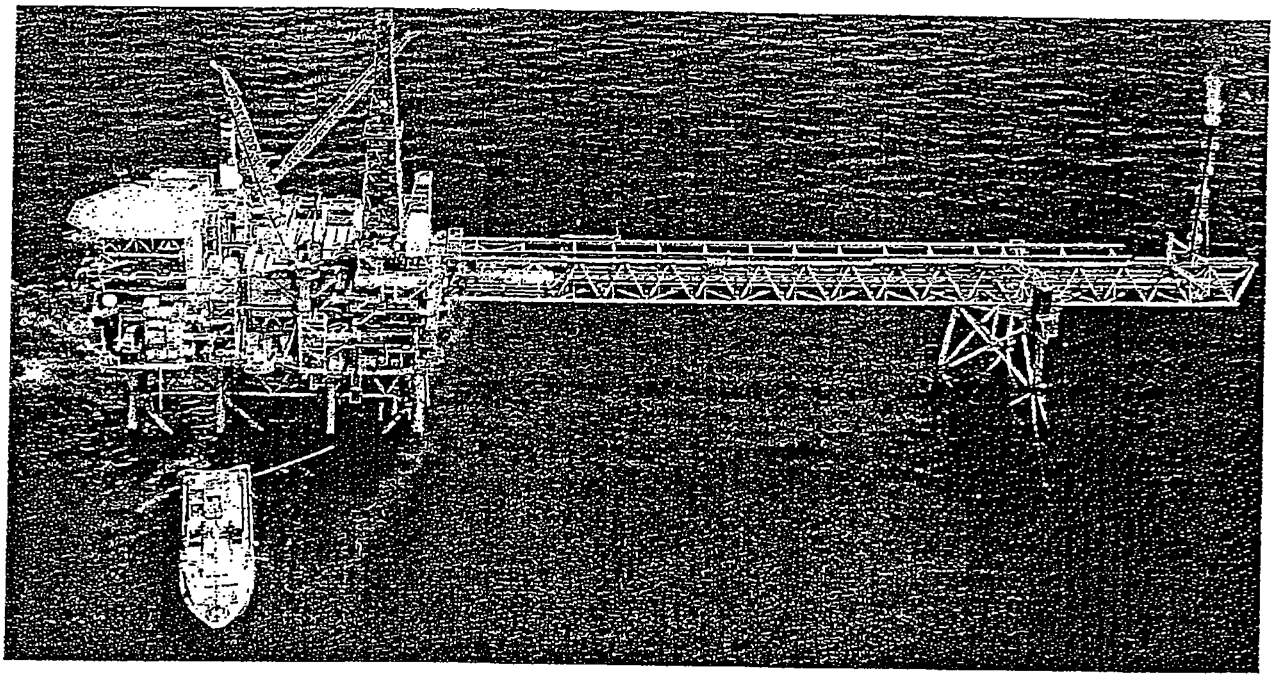
Total daily delivery on the DBNGP averaged 487 TJ/d during the year ended 30 June 1997 and peaked at 593 TJ/d during May 1997. Before the current expansion programme, the DBNGP was operating at close to full capacity. Average annual capacity downstream of CS9 is currently 476 TJ/d which will rise to 512 TJ/d after the expansion programme is completed in December 1997. This additional capacity is fully committed. Increased demand for gas transmission will require further capacity enhancement of the DBNGP.

Western Australia's Natural Gas Industry

The DBNGP transports natural gas produced from fields located onshore and offshore in the North West of Western Australia. This area encompasses Australia's largest reserves of natural gas, production from which is used in the manufacture of LNG for export, alumina refining, power generation and a range of other industrial sectors, as well as by commercial and residential users in the State. Supply of natural gas to the Western Australian market comes principally from reserves in the Carnarvon Basin which are owned and operated by the North West Shelf Joint Venture Participants ("NWSJVP"). The NWSJVP and other parties have substantial undeveloped reserves which may be brought on stream in the future to increase production capacity. Gas produced from fields in the Carnarvon Basin is transported to customers in the Pilbara, Mid West and South West regions of the State through the DBNGP.

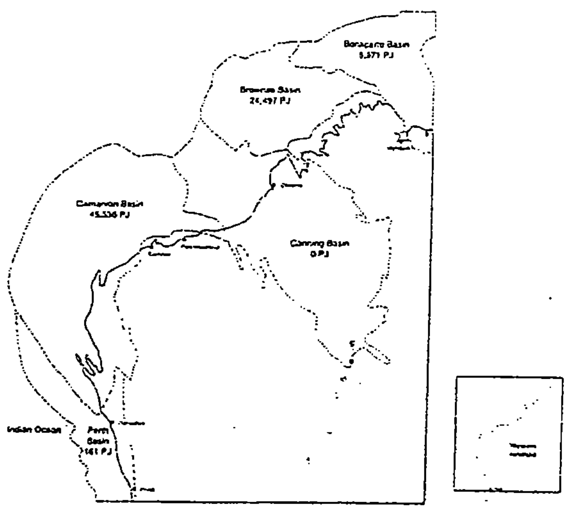
The Australian Gas Association ("AGA") estimates that potentially recoverable gas reserves in Western Australia and its offshore waters are approximately 70,000 PJ excluding the Bonaparte Basin. These reserves represent over 100 years of supply given current demand, including exports of LNG. Almost all of these reserves are located off the North West coast of the State in the Carnarvon and Browse Basins.

While the Carnarvon Basin accounts for over 60% of the State's gas reserves, it accounts for over 95% of developed gas reserves and over 95% of the 675 PJ of gas produced in the State annually.



North Rankin A platform on the North West Shelf (The facilities in this photograph are not included in the DBNGP Assets intended to be offered for sale)

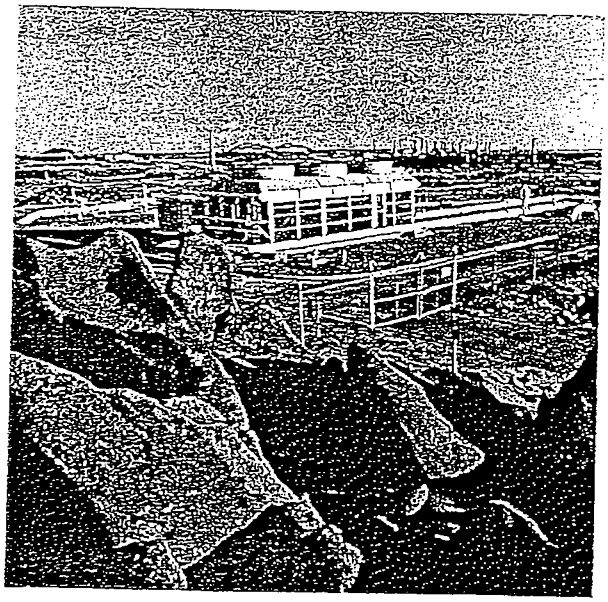
Principal Western Australian Petroleum Basins and Potentially Recoverable Natural Gas Reserves



Source: Department of Minerals and Energy (1997) and the AGA

Consumption of natural gas in Western Australia has increased significantly over the last 11 years, from 74 PJ in 1985 to 263 PJ in 1996, representing an average growth rate of 12.2% per annum. This growth in demand has occurred principally as a result of increased demand from the State's industrial and electricity generation sectors as well as greater penetration in the residential and commercial markets. Analysis recently published in the AGA's *Gas Supply and Demand Study 1997* forecasts that total gas consumption in Western Australia will grow at approximately 9.2% per annum over the next ten years, reaching 633 PJ in 2006.

Natural gas demand in Western Australia is dominated by the industrial and electricity generation sectors, which currently account for 63% and 30%, respectively, of total State gas demand before inclusion of gas used in gas transmission, distribution and production, and excluding gas used in LNG production. Recent projections by the AGA indicate that the industrial sector's proportion of total gas demand within the State is expected to reach 67% by 2006 with the commissioning and/or expansion of a number of large industrial projects.



Dampier Facilities at the Burrup Peninsula

REGULATION

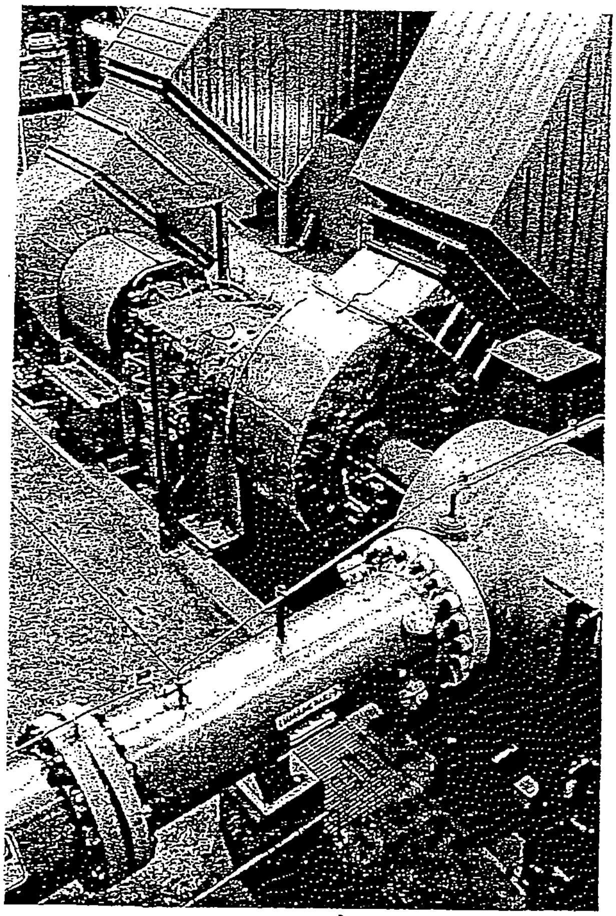
The State is selling the DBNGP Assets at a time of considerable reform and activity within the energy sector in Western Australia. A significant component of this reform has been the restructuring of the State's role in owning and regulating significant infrastructure assets. Within this context the sale of the DBNGP Assets is seen as a major step in the staged deregulation and reform of the energy sector within the State.

Since 1 January 1995, the DBNGP has operated under an open access regime which was established by the State's Gas Transmission Regulations 1994 ("GTR"). The GTR define the open access, pricing and other requirements by which AlintaGas is required to provide transport capacity on the DBNGP to customers. With the exception of a gas transport agreement with Alcoa of Australia ("Alcoa agreement"), all of the contracts under which AlintaGas currently provides gas transmission services to customers have been developed under the GTR.

As a principal element of the process for sale of the DBNGP, the State is reforming the regulatory regime which governs operation of the DBNGP. It is intended that a new negotiation based regime that is consistent with the National Third Party Access Code for Natural Gas Pipeline Systems, currently being developed by Australia's Commonwealth and State governments, will apply to the DBNGP after a transition period of around two years.

It is intended that the GTR will be substantially amended prior to the sale of the DBNGP Assets to allow the new owner and new and existing customers to negotiate the pricing and other terms of service during the transition period. The Minister for Energy has announced that over the two year period prior to the introduction of the Access Code on 1 January 2000, the State expects tariffs on the DBNGP to reduce from current levels of around A$1.25 per gigajoule (GJ) of full haul, firm capacity to around A$1.00/GJ at 100% load factor.

Compressor Station 8 interior showing a 9MW Solar Mars turbine and centrifugal compressor



Customer Contracts and New Developments

At present, approximately 86% of the DBNGP's annual throughput is delivered to industrial customers and users involved in a variety of alumina refining, power generation and other activities, while approximately 9% is consumed by liquefied petroleum gas and feedstock users, and approximately 5% is supplied to small commercial and residential customers.

The Transmission Division currently holds 13 contracts under which it transports natural gas for its customers. Existing contracts cover 398 TJ/d of reserved full haul capacity, 59 TJ/d of part haul capacity and 62 TJ/d of interruptible capacity. AlintaGas' Other Business and Alcoa account for over 77% of contracted firm capacity.

Existing customer contracts are to be assigned to the Acquirer. However, under the proposed amended GTR the Acquirer and customers will be able to renegotiate existing contracts.

Alcoa's agreement for the provision of gas transmission capacity by the DBNGP falls outside the GTR and has a number of unique characteristics. It is proposed that, subject to due process, the Alcoa agreement is also to be assigned to the Acquirer of the DBNGP Assets.

The Midwest Iron and Steel Project

AlintaGas has entered into a conditional agreement with Epic Energy under which an additional 170 TJ/day of capacity is to be added to the DBNGP for the purpose of transporting gas to the Midwest Iron and Steel Project ("MWIS Project").

Some details of the arrangements are still being negotiated. In developing the arrangements with Epic Energy a principal objective has been to ensure that Epic Energy has no material commercial advantage over other prospective buyers of the DBNGP Assets. In this regard, the arrangements are being structured on a basis that is cash flow neutral to the owner of the DBNGP and the new owner of the DBNGP will have the right to buy Epic Energy's rights and obligations with respect to the MWIS Project for a consideration based on development and construction costs.

The MWIS Project is expected to produce 2.4 million tonnes per year of slab steel from Direct Reduced Iron ("DRI") feedstock. It is proposed that the DRI and the slab steel plant will be located at Oakajee, 25 km to the north of Geraldton, and commissioned by 1 January 2000.

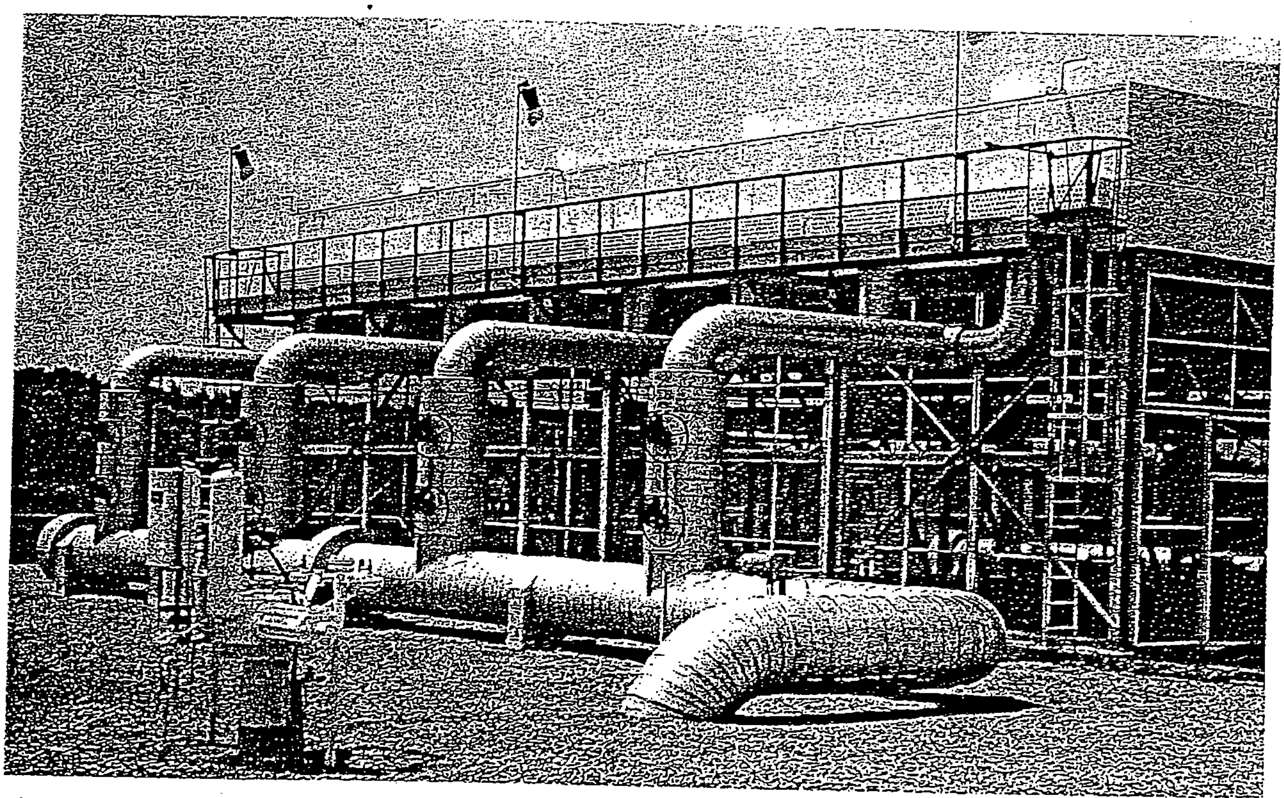
Under the arrangements, it is proposed that Epic will develop the 170 TJ/day enhancement of the DBNGP for the owner and act as shipper for the transport of natural gas to the MWIS Project for an initial period of 15 years.

In addition, AlintaGas has offered an option to the MWIS Project, if the Project is expanded for an additional 170 TJ/day of firm capacity for a term of 20 years on similar terms to the initial capacity. The option is subject to a number of conditions being satisfied before it can be exercised.

Pipeline Easement

The DBNGP lies within a 30 metre range of easements ("the Easement") which extends from the gas processing facilities on the Burrup Peninsula to Wagerup West, 1,489 km from the northern end of the pipeline. From Wagerup West the Easement reduces to 16 metres for the remaining 41 km of the pipeline. The pipeline lies approximately 6.5 metres from the Easement's eastern boundary for most of the pipeline's length, although this varies in some sections.

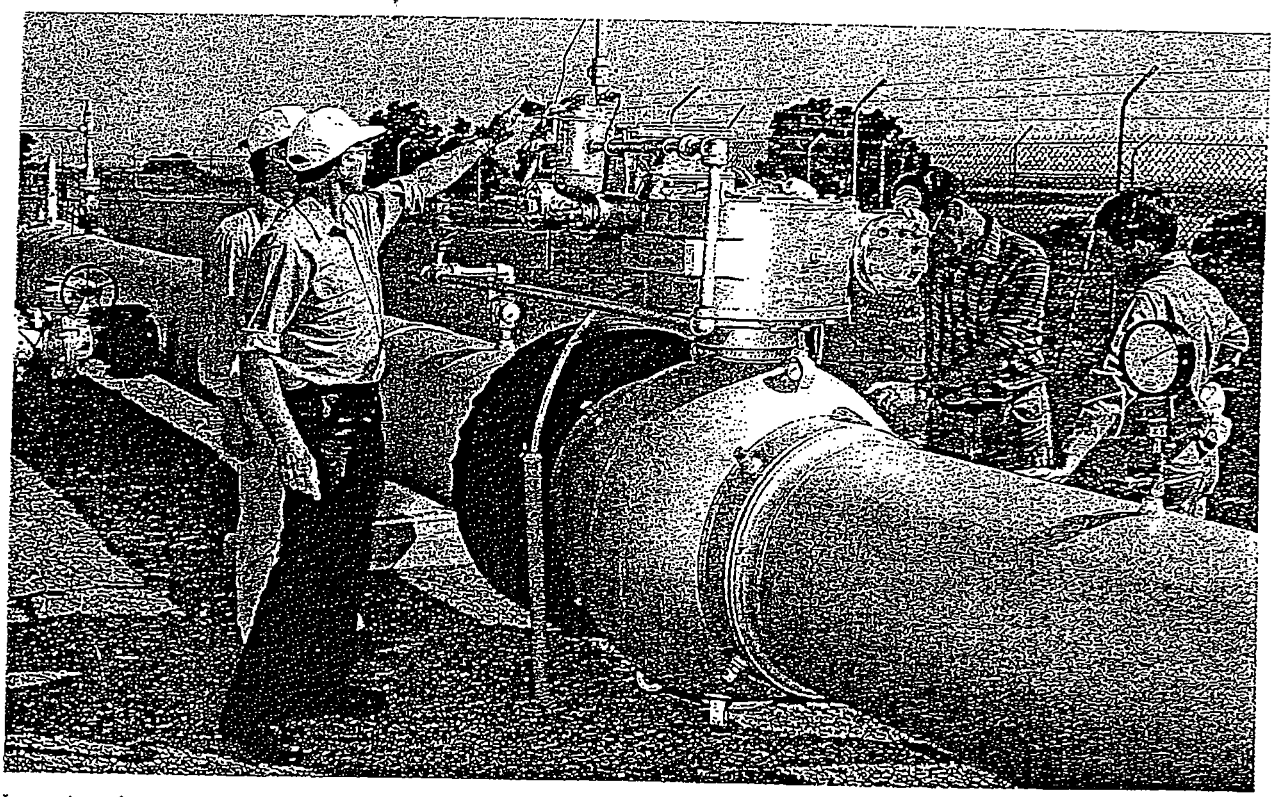
The Easement consists primarily of Crown easements and easements in gross. These easements are granted both by the Crown and the owners of freehold land in favour of AlintaGas. The State intends to provide specific rights for access to the Easement to the Acquirer at the time of sale. Details of the specific rights of access will be provided in the I.M.



Aftercooler facilities at a Compressor Station

EMPLOYEES

Approximately 150 AlintaGas employees are currently involved in the operation and maintenance of the DBNGP. The Acquirer will have the opportunity to engage these employees, subject to appropriate arrangements.



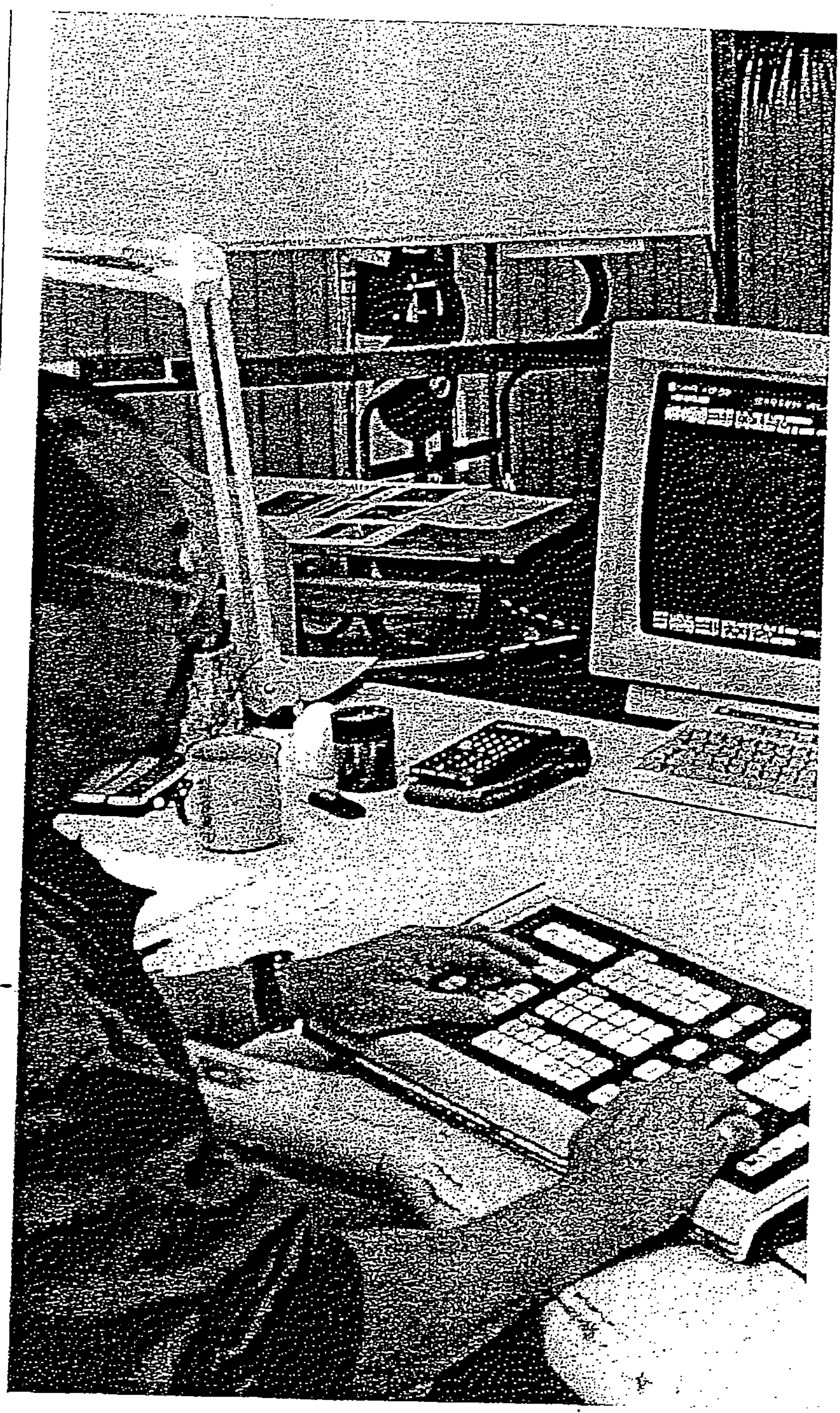
Inspection of an Isolation Valve at Compressor Station 9

Government of Western Australia

All communication and inquiries relating to the sale of the DBNGP should be directed solely to:

Graham Baker
Head of Project
GPSSC Working Group

GPO Box W2030, Perth
Western Australia 6001
Telephone: 618 9486 3280
Facsimile: 618 9486 3199



Monitoring the DBNGP from the East Perth Control centre

Important Notice

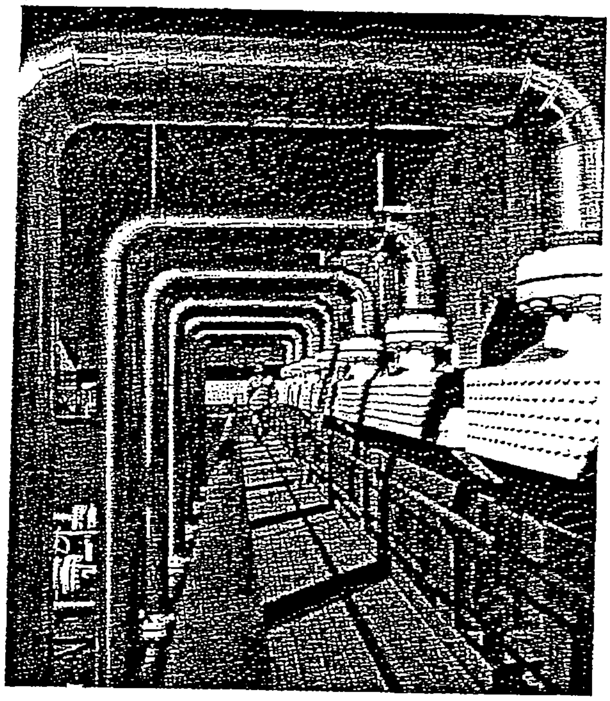
The sale process will be conducted on the basis, amongst other things, that it is subject to the necessary regulatory amendments and legislation being enacted by the Parliament of the State of Western Australia relating to the sale of the DBNGP Assets and the post sale regulatory environment. Should the State not proceed with the sale, or amend the sale process or the Parliament not approve the statutory amendments or enact that legislation and the sale not proceed, no liability will be accepted for any cost or loss incurred or suffered by any person.

The IRI does not constitute a recommendation, or an offer or invitation by, the State, the Minister for Energy, the GPSSC or its Working Group, AlintaGas, nor any adviser or consultant to any of the foregoing nor any officers, shareholders, partners, affiliates, employees or agents of any of them ("Relevant Persons"), to any person in relation to purchasing all or any of the DBNGP Assets or subscribing for or purchasing any shares or other securities which may comprise part of the DBNGP Assets.

None of the Relevant Persons

1. makes any representation or warranty, expressed or implied as to the accuracy, completeness or reliability of the information contained herein or which may subsequently be made available in connection with any further investigation of the DBNGP Assets by any person;

2. accepts liability, jointly or severally, for any loss or expense of any nature whatsoever



Inspection of Compressor Station 8 Aftercooler

(including consequential loss) ("Loss") arising directly or indirectly from any information contained or omitted in this IRI, including, without limitation, Loss due in whole or part to the negligence of any Relevant Person; and

3. undertakes to notify any person of any change in any information contained in the IRI and, if any such information is subsequently so provided, it shall not be regarded as thereafter obliging any Relevant Person, to provide any other such information to any other person at any time.

The maps in this IRI are not drawn to scale and are for illustrative purposes only.

This document has been prepared
and distributed by the
Gas Pipeline Sale Steering Committee

Government of
Western Australia

Attachment 4
Legislative & Regulatory Amendments Relating to Sale of DBNGP

New Act and Regulations

1. Dampier to Bunbury Pipeline Act 1997

The *Dampier to Bunbury Pipeline Act 1997* ("DBPA") was assented to on 12 December 1997. The essential objective of the DBPA was to facilitate the sale of the DBNGP. The DBPA also created the concept of the DBNGP Corridor, an area of land designated by the DBNGP Land Access Minister for gas pipelines or incidental purposes. Further, the DBPA creates a transitional third party access and pricing regime, to govern the DBNGP until the commencement of the National Gas Pipelines Access Code on 1 January 2000.

The main element of the DBPA are considered in more detail below.

(i) Functions and Powers:

The Act provided for AlintaGas to have, as one of its functions, the disposal of the DBNGP in whole or in part and to take steps to bring about that disposal. The legislation also empowered the Minister for Energy to give directions in writing to AlintaGas with respect to the performance of that function and for AlintaGas to allow a committee (in this case, the Gas Pipeline Sale Steering Committee — GPSSC) to implement the direction.

A direction by the Minister, referred to above, could deal with the disposal of proceeds from the sale, including a requirement for AlintaGas to pay to the Treasurer so much of the proceeds as the Treasurer certified to be surplus.

The legislation further validated anything done by AlintaGas or the GPSSC regarding the sale process prior to the direction being given, as the direction was not actually given until after the legislation had been passed by Parliament.

(ii) Sale Process

The Act gave effect to an assignment of the DBNGP and related assets and liabilities to the purchaser in accordance with the sale agreement between AlintaGas and the purchaser.

In order to give effect to this assignment, the Minister was empowered to make a transfer order, which included schedules listing the assets and liabilities to be assigned to the purchaser.

The Transfer Order was published in the Government Gazette on 23 March 1998.

The Transfer Order took effect at the time of transfer (ie. 11:00 am on the Completion Day - 25 March 1998) and the specified assets and liabilities of AlintaGas were transferred to the purchaser. Errors and/or omissions in the Transfer Order could be rectified under the provisions of the DBPA.

The legislation also facilitated the creation of a contract between AlintaGas and the purchaser which in effect validated the existing capacity rights enjoyed by AlintaGas Trading. These capacity rights were not previously formalised in a contract, as it was not possible for one part of AlintaGas to have a legal contract with another part of the same organisation.

(iii) Easement/Corridor:

The Act provided a mechanism for the transfer of AlintaGas' previous easement rights over the DBNGP Corridor to a "DBNGP Land Access Minister" and the creation of new statutory rights allowing the DBNGP Land Access Minister, acting only when so advised by the Minister for Energy and in accordance with that advice, to create and grant or to modify access rights which enabled the purchaser (and possibly other further pipeline operators) to operate and maintain a pipeline within a defined area of the corridor. The initial access rights were granted to AlintaGas and transferred to the purchaser via the transfer order.

AlintaGas was also granted access rights for the enhancement of the DBNGP which were assigned to the purchaser under the transfer order. Access rights are deemed to be sufficient evidence of easement rights for the issue of a petroleum pipeline licence under the Petroleum Pipelines Act 1969.

It was necessary for the initial licence to be granted with the easements then held by the DBNGP Land Access Minister to be those held by AlintaGas and which have been adequate for the current configuration of the DBNGP. Access rights for the enhancement were granted based on the status of previous easement rights although in doing so the requirement to enhance those easement rights, specifically to allow more than a single pipeline in some of the lands covered by the easements, could be triggered with compensation payments to be negotiated or to be determined as for a Public Work.

The DBPA also provides for the subsequent expansion of the existing easement which will again be vested in the DBNGP Land Access Minister. That Minister will be able to create and grant access rights for further pipelines in the expanded easement acting only when so advised by the Minister for Energy and in accordance with that advice to create and grant or to modify access rights, although in doing so, the enhancement of those easement rights specifically to allow more than a single pipeline in some of the lands covered by the easements could trigger claims for compensation payments to be negotiated or determined as for a public work.

The DBNGP Land Access Minister will be able to use the provisions of the Land Acquisition and Public Works Act (LAPWA) or its successor in order, when so advised by the Minister for Energy, to acquire additional easements over land for the DBNGP Corridor and to deal with the issue of compensation for existing provisions of the law in respect of native title rights. Settling compensation for extinguishment of native title right is, however, able to be expedited under the provisions of the LAPWA.

Provision was made for the establishment of a DBNGP Corridor Trust Account formed from a portion of the surplus funds of the sale. $40 million has been allocated to this account. The Trust Account is to be used to fund the acquisition by the DBNGP Land Access Minister of additional easements over land for the DBNGP Corridor and to fund related compensation payments. The DBNGP Land Access Minister is empowered to cause officers of the Public Service to advise that Minister and to perform all related administrative tasks.

The DBNGP Land Access Minister has been identified by proclamation in the Gazette as the Minister for Lands, and the administration of easements and access rights and of the Trust Account has been delegated to the Department of Land Administration, but expenditure of funds from the Trust Account has been undertaken with the concurrence of the Treasurer.

The DBPA empowers the DBNGP Land Access Minister to charge fees for access rights to recoup the day to day administrative costs in respect of the licences and easement, plus a return on investment on the current value of an appropriate portion of the DBNGP Corridor easement, including the previous easement transferred from AlintaGas. These fees are estimated, depending upon the number of licenses in operation and the investment in the corridor, to be in the range of $1-5 million per year per licence.

Annually, any surplus of monies received from access right fees above related administrative costs and compensation costs not otherwise provided for and incurred by the delegated agencies in response to direction by the DBNGP Land Access Minister, will be returned to the Consolidated Fund.

The DBPA also enabled the Department of Land Administration to register the initial assignment of AlintaGas' easement rights for the DBNGP to the DBNGP Land Access Minister, and any subsequent assignments or acquired easement rights. It was not intended for access rights to be registered as encumbrances on title to land, but following current practice the existence of any subsequent petroleum pipeline licence will be so registered.

For the purpose of rating, the State in the person of the DBNGP Land Access Minister is exempt from local government rates, however the purchaser of the DBNGP and any subsequent access right holder within the DBNGP Corridor will pay rates based on gross rentable value over freehold land and based upon improved value on all other land including areas of the DBNGP Corridors as specified in an access right.

Provision is made in the DBPA for other State agencies or authorities or corporations having or seeking an interest or right over lands subject of the DBNGP Corridor, to consult with the DBNGP Land Access Minister concerning the interaction of those interests or rights with current or future rights held by that Minister.

(iv) Principles for Third Party Access:

The Act provides principles for third party access to the DBNGP post-sale. Those principles contain several key elements, including:

- non-discriminatory first come, first served access for third parties;
- negotiable tariffs below a nominated, declining cap (until 2000);
- negotiable terms and conditions;
- preservation of existing contractual rights.

The post-sale access regime for the DBNGP is transitional only, lasting until 1 January 2000 when it is expected that the State will introduce an access regime consistent with the proposed National Access Code. At that time, prices, terms and conditions for the access regime will be subject to determination by the State's proposed Independent Gas Pipeline Access Regulator. (A separate submission addresses the proposed participation by the State in the National Access Code, to apply to third party access arrangements on the DBNGP from 1 January 2000).

Although the sale legislation provides principles for third party access in the transition period post-sale to 1 January 2000, regulations have been developed and gazetted to implement these principles. The regulations (see below) move closer to the provisions of the National Access Code, which favour negotiated outcomes for most terms and conditions, rather than the prescriptive approach of the previous Gas Transmission Regulations.

The DBPA makes a number of consequential amendments to, or to the operation of, various Acts as set out in Schedule 4 to the DBPA. These are detailed later in this Schedule.

2. DAMPIER TO BUNBURY PIPELINE REGULATIONS 1998 AND DBNGP ACCESS MANUAL

The *Dampier to Bunbury Pipeline Act 1997* ("DBPA") and the DBNGP Access Manual were both made under the DBPA, and together they constitute the transitional regime for third party access and pricing for the DBNGP, which is to apply for the period between the sale date and the commencement of the National Gas Pipelines Access Code on 1 January 2000. The DBPR and Access Manual came into effect at the pipeline transfer time of 11:00 am on 25 March 1998, and they reflect the essence of the repealed Gas Transmission Regulations 1994.

The DBPR also contain "ringfencing" provisions which govern the separation of business activities of the DBNGP owner.

Many of the existing terms and conditions of the Gas Transmission Regulations are embodied in the Access Manual. The Access Manual contains many of the technical elements of the Gas Transmission Regulations, but is a flexible document, able to be modified, subject to approval of the Coordinator of Energy, to reflect the experience gained in operating the pipeline as a private business.

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3. Dampier to Bunbury Pipeline (Corridor) Regulations 1998

The *Dampier to Bunbury Pipeline* (Corridor) Regulations 1998 were made under the DBPA. They prescribe the fees, identify the civil penalty conditions for the purpose of s.37(1)(a) DBPA, and outline the procedures for making a claim for compensation.

Amendments to Acts and Regulations

4. Gas Corporation Act 1994

The consequential amendments to the *Gas Corporation Act 1994* ("GCA") made by the DBPA reflect the fact that the DBNGP is no longer owned by AlintaGas. The most significant amendment is the change in the definition of"gas transmission system" in s.90 GCA so that it refers only to those parts, if any, of any gas transmission pipeline systems that are operated by AlintaGas. There are presently no such pipelines.

5. Land Acquisition and Public Works Act 1902 and Land Administration Act 1997

The amendments to the *Land Acquisition and Public Works Act 1902* and to the *Land Administration Act 1997* reflect the introduction of the DBNGP Land Access minister under s.29(1) DBPA. The operation of both acts is also modified by Schedule 4 to the DBPA, so that certain provisions do not apply to the land in the DBNGP Corridor.

6. Gas Distribution Amendment Regulations 1998

The *Gas Distribution Amendment Regulations 1998*, made under the GCA, amend the *Gas Distribution Regulations 1996* to reflect the fact that the DBNGP and the gas distribution system are no longer owned by the same person.

7. Gas Referee Amendment Regulations 1998

The *Gas Referee Amendment Regulations 1998*, made under both the DBPA and the GCA, extend the operation of the Gas *Referee Regulations 1995* to disputes between the DBNGP owner and Coordinator of Energy, between the DBNGP owner and the AlintaGas' Distribution Business, and between the DBNGP owner and any shipper or prospective shipper.

Repeal of Regulations

8. Gas Transmission Repeal Regulations 1998

The *Gas Transmission Repeal Regulations 1998*, made under the GCA, came into operation on the commencement of the DBPR. They repeal the *Gas Transmission Regulations 1994*, which provided for third party access and pricing to the DBNGP when it was owned by AlintaGas. They were replaced by the DBPR and the *DBNGP Access Manual* (see above).

ATTACHMENT 4
LEGISLATIVE & REGULATORY AMENDMENTS RELATING TO SALE OF DBNGP

MODIFICATION OF OPERATION OF ACTS

While not directly amended, the operation of the following acts in relation to the DBNGP are modified by Schedule 4 to the DBPA.

9. ABORIGINAL HERITAGE ACT 1972

An owner of the land under s. 18 of the Aboriginal Heritage Act 1972 includes a reference to the holder of rights under s.34 DBPA, to the holder's nominee as approved under s.34(3) DBPA and to a person who has authority under s.7 Petroleum Pipelines Act 1969 to enter land.

10. ENERGY CORPORATIONS (POWERS) ACT 1979

The operation of the Energy Corporations (Powers) Act 1979 is modified to reflect the fact that AlintaGas no longer has statutory access rights in respect of the land in the DBNGP Corridor.

11. LOCAL GOVERNMENT ACT 1995

The DBPA modifies the operation of the Local Government Act by providing for the payment of rates to the relevant local governments in respect of certain land in the DBNGP Corridor.

12. PETROLEUM PIPELINES ACT 1969

The DBPA clarifies the application of the Petroleum Pipelines Act 1969 to the privatised DBNGP system. As at the pipeline transfer time, the DBNGP owner is the holder of a licence under the Petroleum Pipelines Act. However, certain provisions of the Petroleum Pipelines Act, as specified in Division 8 of Schedule 4 to the DBPA, do not apply to the privatised DBNGP system.

13. TOWN PLANNING AND DEVELOPMENT ACT 1928

The DBPA provides that s.20(1) Town Planning and Development Act 1928 does not apply to the conferral of rights under s.34 DBPA.

14. ZONING LEGISLATION GENERALLY

The operation of any pipeline in the DBNGP Corridor is to be regarded as being within the purposes for which land in the DBNGP Corridor may be used.

Not all amendments purely "consequential" upon sale of DBNGP

Not all of the amendments highlighted above could be described as purely consequential upon the sale of the DBNGP. In order to properly implement current State policy, some of the above changes go further than might be considered necessary if the intention was merely to preserve the status quo despite the privatisation of the DBNGP. Key examples of such amendments are the form of the transitional third party access and pricing regime, and the approach taken to the creation of the DBNGP Corridor.

Attachment 5
Consultant Costs

Government Dept/Agency	Name of Consultant	Purpose of Engagement	Period of Engagement	Estimated Total Cost of Consultancy
AlintaGas	Gibson Quai & Associates	Consultancy services for Pipeline communications	19/5/97 - 30/9/97	$21,920
AlintaGas	King & Co Midland Surveying Services	Audit of current easements along the Pipeline and laterals	20/5/97 - 31/1/98	$122,942
AlintaGas	Computing People	Provision of computer consultancy services to facilitate the 'split' of information systems originally provided by Western Power	7/8/97 - ongoing	$149,658
AlintaGas	Icon Recruitment	Provision of computer consultancy services to facilitate the 'split' of information systems originally provided by Western Power	1/9/97 - ongoing	$55,844
AlintaGas	NCUIS Financial Services	Provision of financial advice to Transmission employees	30/10/97 - 2/12/97	$17,210
AlintaGas	Ebsworth & Ebsworth	Legal advice provided to AlintaGas re: DPNGP sale	15/12/97 - 31/3/98	$36,165
AlintaGas	Jackson McDonald Barristers and Solicitors	Advice to AlintaGas regarding DPNGP Sale Agreement	15/12/97 - 31/3/98	$7,020
AlintaGas	Jackson McDonald Barristers and Solicitors	Legal advice/assistance with Kingstream Project	1/1/97 - 31/3/98	$165,927
AlintaGas	Jackson McDonald Barristers and Solicitors	Legal advice during Alcoa Contract Re-negotiations	1/3/98 - 30/9/97	$60,000
AlintaGas	Brown McAllister (WA) Pty Ltd	Survey work	1/7/97 - 31/12/97	$5,655
AlintaGas	Price Waterhouse & Co	Professional Taxation Services	1/9/97 - 31/12/97	$4,080
AlintaGas	Price Waterhouse & Co	Reporting Outlining Valuation Methods for Infrastructure Assets	1/9/97 - 30/9/97	$3,920
AlintaGas	Price Waterhouse & Co	Advice/Assistance on Epic Arrangements	1/1/97 - 31/12/97	$79,450
AlintaGas	Price Waterhouse & Co	Assistance with sale completion	1/4/98 - ongoing	$210,000
				$10,006,177

ATTACHMENT 6

POLICY ON GAS QUALITY

It is the policy of the present government in Western Australia in respect of the gas quality specifications applicable to the Dampier to Bunbury natural Gas Pipeline (DBNGP) that, consistent with the government's objectives of reducing the cost and increasing the availability of energy for the needs of the Western Australian community,

- the gas specification acceptable at the inlet points of the DBNGP be made less stringent so that the costs of processing gas may be reduced and the number of gas fields that will be economic for supply of gas into the Western Australian market served by the DBNGP may be increased,

- the gas specification acceptable at the outlet points of the DBNGP be made less stringent to facilitate the general policy objective above, but delivered gas must always remain fit for purpose and meet relevant environmental standards, and the safety and reliability of the use of gas by the community should not be compromised,

- the gas specification acceptable at inlet points must not endanger the integrity and operational reliability of the pipeline,

- the privatisation of the DBNGP and the ringfencing of the DBNGP owner as a separate legal entity not having any related gas trading or similar businesses, should provide more favourable circumstances for commercial incentive to bring about less stringent specifications on the DBNGP,

- regulation of the DBNGP should allow greater scope for negotiability on prices and terms and conditions, including in relation to gas specification, to provide more appropriate pricing signals to gas producers and to shippers, and to not unduly constrain the commercial incentive of the DBNGP owner to adopt less stringent,specifications where that is economically and technically feasible,

- the existing contractual rights and obligations between any of the DBNGP owner, the distribution system owner, gas producers, shippers and users, in so far as those rights and obligations relate to gas specifications prescribed in the Gas Transmission Regulations 1994 (GTR) existing at the time the contract was made, should be honoured, and

- the changes recommended by the Office of Energy in its November 1995 report to the Minister for Energy entitled "Review of the Gas Quality Specification", which followed extensive consultation with the Standing Committee on Gas Quality and which have been accepted by the government, be implemented as soon as practical taking into account the technical, safety, environmental and commercial constraints recognised in the report.