17 March, 2000

Mr Robert Pullella
Office of Gas Access Regulation
Level 6
Governor Stirling Tower
197 St George's Terrace
PERTH WA 6000

Dear Mr Pullella

EPIC ENETGY'S PROPOSED ACCESS ARRANGEMENT FOR THE DAMPIER TO BUNBURY NATURAL GAS PIPELINE

Cockburn Cement Limited (Cockburn) submits the following comments on Epic Energy's proposed Access Arrangement for the Dampier to Bunbury Natural Gas Pipeline (DBNGP).

Initial Capital Base

Epic proposes that the Initial Capital Base (ICB) is the purchase price paid by Epic for the DBNGP plus acquisition costs less adjustments after purchase. The 'cost of service' method of determining the Total Revenue required includes a return on and depreciation of the Capital Base. The return on 'purchase price' rewards overpayment on purchase and transfers the business risk in the competitive bid process from the purchaser to the pipeline user.

Depreciation of an inflated ICB guarantees that pipeline charges remain higher than they ought to have been and discourages the efficient utilisation of gas resources.

Cockburn requests the Regulator to require Epic to include the DAC and DORC values in its submission. Without these values it is not possible to assess the reasonableness of the proposed Reference Tariff.

Determination of Reference Tariffs

The tariff structure does not provide an equitable sharing of costs across all users.

Cockburn contends that the Zone pricing method does not recognise the true nature of the pipeline and does not produce an equitable result across all users and requests the Regulator to consider an alternative and more equitable tariff structure.

Reference Service Balancing Provisions

Epic Energy's proposed Reference Service, the Firm Service stipulates a 2% balancing provision. Under the Gas Transmission Regulations that currently prevail the balancing provision is 8%.

In addition, the Firm Service's proposed penalty charges to be levied for daily imbalances, peaking and overrun usage are more severe than under the current system.

Cockburn requests that the Regulator ensures that the balancing provision is set at a level that is fair and reasonable and that the penalties incurred for failing to balance are not punitive in nature but a true reflection of the operational cost to Epic Energy of users failing to balance.

Cockburn also notes that a system has been proposed where the out of balance penalty payments are apportioned to Epic Energy, other users of the pipeline and to reducing the capital base. Cockburn requests that the Regulator investigate the rationale for establishing such a system and the associated proportions.

Rate of Return

Cockburn believe that the rate of return that Epic have suggested is too high. We request that the Regulator carry out benchmarking studies to validate what is a fair rate of return.

Other matters

Cockburn had "reasonable expectations" with respect to pipeline tariff from the Minister for Energy's second reading speech in connection with the 'Gas Pipelines Access (Western Australia) Act' in which he stated that "Firm full-haul tariff at 100 per cent load factor will fall from $1.19 per gigajoule to $1.00 per gigajoule by the year 2000.

The Australian Cement Industry is under threat from cheap cement imports and the Industry has recently lodged an anti-dumping application which is currently being examined. The price of energy is the most important factor in the industry's competitiveness and forecasts and recent investment in both cement and lime have been based on the expected price of $1/Gj. Any increase in the cost of gas transport could affect the on-going viability of clinker and lime production facilities.

Yours faithfully
for Cockburn Cement Limited

A O Dobbs
Commercial Manager