

Our Ref: dw/jw
Your Ref: 1046/99

16 February 2000

Dr Ken Michael
Western Australian Independent Gas Access Regulator
Office of Gas Access Regulation
GPO Box 8469
Perth Business Centre WA 6849

Dear Ken

PROPOSED ACCESS ARRANGEMENT FOR THE DAMPIER TO BUNBURY NATURAL GAS PIPELINE – WEIGHTED AVERAGE COST OF CAPITAL

Since Epic Energy's proposed Access Arrangement for the Dampier to Bunbury Natural Gas Pipeline (the "DBNGP") has been available on OffGAR's web site for public comment, a number of interested parties have questioned the value of the weighted average cost of capital used in developing the Reference Tariff.

In developing the Reference Tariff, Epic Energy used a pre-tax real weighted average cost of capital ("WACC") of 8.5%, and interested parties with whom we have held discussions on the Access Arrangement have been advised of this figure.

A WACC of 8.5% appears inconsistent with the figure of 8.6% reported in section 3.8 of the Access Arrangement Information supporting the DBNGP Access Arrangement.

The cost of capital used in developing the Reference Tariff was determined for Epic Energy by its expert regulatory adviser, The Brattle Group. Section 3.8 of the Access Arrangement Information accurately summarised The Brattle Group's cost of capital calculation, but omitted a qualification in the supporting text of the Brattle Group's October 1999 report, *The Cost of Capital for the Dampier to Bunbury Natural Gas Pipeline*, which appears as Appendix 2.

Being well aware of the uncertainty associated with each of the estimates required as an input to a WACC calculation, The Brattle Group has adopted the practice of rounding cost of capital determinations to the nearest quarter point.

Accordingly, although the outworking of its calculations was 8.6%, The Brattle Group recommended in its October 1999 report a pre-tax real WACC of 8.5% for use in developing the Reference Tariff of the proposed DBNGP Access Arrangement.

Unfortunately, we did not clearly indicate, either in the Access Arrangement itself or in the Access Arrangement Information, the outworking of the rounding of the calculation, and The Brattle Group's final recommendation of a pre-tax real WACC of 8.5%.

The Brattle Group's cost of capital determination is fully documented in the Group's October 1999 report which is publicly available on OffGAR's web site as Attachment 2 to the Access Arrangement Information. The rounding of the calculated WACC to 8.5% is noted on page 2 of that Report.

Epic Energy does not, at this time, intend resubmitting the Access Arrangement Information with The Brattle Group's recommendation of a WACC of 8.5% clearly indicated. That will be done as part of any general changes to occur resulting from the regulatory process. However, it may assist if this letter is placed on OffGAR's web site as an additional submission in the interests of informing interested parties about the cost of capital used in developing the DBNGP Reference Tariff.

Yours sincerely

David Williams
General Manager Corporate Services