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February 18, 2005

Goldfields Gas Transmission
Australia Place
Level 15, 17 William Street
PERTH WA 6000

Attention: Suzy Tasnady

Dear Suzy:

RE: Goldfields Gas Transmission Pipeline – Capital Cost Estimate

WMC Submission

This letter is written in response to your request that I comment on a submission made by Western Mining Resources Ltd to the access arrangement proposed by GGT. The Western Mining document is dated January 6, 2005.

This comment is directed to the points made in Section 3.4.1 of the Western Mining document which reflect in part on the quality of the work undertaken by Venton & Associates in preparing a replacement cost estimate for the goldfield Gas Pipeline.

This letter addresses the points made by Western Mining in the sequence that they occur. The first paragraph is a quotation from the Western Mining submission, and the text headed "**Venton Comment**" is Venton's comment on the Western Mining statement.

a) The Venton cost estimate is based on the Pipeline owners' view that the pipeline represents a technically optimal design for the actual and forecast loads in the pipeline.

Venton Comment The Venton report addressed only the capital cost. It did not address technical optimisation.

Notwithstanding this, Venton is familiar with the pipeline and its development, and considers that a robust optimisation of the design using forecast loads for the next 10-15 years would not substantially decrease the estimated replacement cost.

The Venton cost estimate did recognise changes in cost associated with replacing the existing reciprocating compressors with centrifugal units, together with management costs that were associated with the project implementation, and which probably would not recur if the pipeline was replaced.

b) The Venton cost estimate is based on a number of methods for allocating construction cost increases since 1995, the relevance of which to a Code based valuation exercise is not explained or justified.

Venton Comment The Venton cost estimate was based on an accurate record of the construction cost of the initial pipeline and of the actual capitalised cost of various rectification, capital improvements and capital additions to the pipeline undertaken since the time of construction. This work was undertaken by the estimator who prepared the original and several revisions to the capital cost estimate for CMPS, in a consultancy to Western Mining.

The original estimate was considered against actual costs, and scaling factors applied to labour, materials and equipment components of the original estimate, with adjustments to recognise material differences between the original and the actual costs.

The estimator is a professional estimator with detailed knowledge of movements in labour, materials and construction equipment with time, in both pipeline construction and in general heavy civil and mechanical construction. Escalation factors were developed from professional experience and records from various estimates and developed by him through the period since 1999.

The estimated replacement cost is considered to fairly represent the cost of that pipeline constructed at the date of the estimate, based on the knowledge of the project, and of movements in actual costs in the period.

The Venton report also reflects the Owners costs in developing the project, including interest during construction and Owners technical and commercial costs. These costs are generally not included in an engineering estimate or an inadequate allowance is made. These items represent a significant cost not included in other cost estimates that may have been made for the pipeline (example – the Soltyk optimised design report).

c) The Venton report includes the cost of Delivery Stations (which do not form part of the regulated assets).

Venton Comment The Venton cost estimate does include the Owners cost of providing offtake connections. It does not include the cost of metering and pressure regulating stations which are generally provided by the Shipper and / or the organisation receiving the gas.

d) The Venton report makes reference to lateral pipelines owned by Southern Cross Pipelines.

Venton Comment The Venton cost estimate does indeed mention the pipelines that were constructed as part of the original construction. Id also says (Section 2.2) that the SCP pipelines are excluded from the capital cost estimate.

e) The Venton report uses a rough and ready method of "guesstimating" the interest during construction.

Venton Comment The Venton cost estimate uses the same method of estimating interest during construction that Venton understands was used by the three partner companies who developed GGT (Western Mining, BHP and Normandy Poseidon).

f) The Venton report uses a best guess approach to estimating the escalation in pipeline development costs.

Venton Comment The Venton cost estimated was developed from a base of the known capital cost of the GGT to the year of the estimate (2004 and 1999). It is also true that the base cost was escalated to reflect the estimated cost at 2004.

However the escalation applied was not a guess, but a rigorous assessment of escalation based on historical information.

The escalation factors were developed by a professional estimator continuously involved in major project capital cost estimating for both consultancies and for design and construct contractors.

While the accuracy of capital cost estimation using escalation factors reduces with the increasing period over which the escalation is applied, it is considered that the values adopted provide a reasonable estimate of the capital cost on the basis that:

- The base cost was accurate
- The escalation was applied to labour, materials and construction equipment components of the cost, rather than a single lumped project factor
- A number of checks were made to assess the quality of the estimate against current pipeline construction costs
- The escalation factors were based on reliable data developed for major project estimates prepared between 1995 and 2004
- Allowances were made for costs incurred in the original project as a result of implementation specific factors that would not be expected to recur in a replacement pipeline implementation.

g) The Venton report refers to "financing costs" which do not form part of the interest during construction but are compensated for by the return on capital incorporated in the reference tariff

Venton Comment This statement misinterprets the use of the word "financing" in the Venton report.

A search through the Venton report identifies only one mention of "financing cost", and this is in Section 5 "Estimate Quality" of the report, subsection 5.9, Unit Project Cost. This subsection attempted to assess the estimated cost by comparing it with other recently constructed pipeline costs on a unit cost basis. It mentioned that the reported cost of the SEA Gas pipeline "presumably includes financing costs". This should have more correctly been called "interest during the project development and construction period", rather than "financing cost through the project development and construction period".

h) The Venton report appears to double count the establishment and initial costs of the Pipeline operator in the Pipeline capital cost…

Venton Comment The Venton cost estimate is based on the recorded cost of the project. The pipeline operator was appointed at approximately the date at which the pipeline licence was issued, and was involved through the detailed design, construction and commissioning of the pipeline.

It appears that the pipeline developers chose to capitalise these costs in the same way that consultant and other development costs were capitalised.

To our knowledge, there is no double counting.

The following items are raised by Western Mining in the second part of section 3.4.1

"In terms of the Code, the Venton and Associates Pipeline cost estimate:"

a) Does not purport to be an ORC estimate

Venton Comment The Venton report presents an estimate of the capital cost of the pipeline at the dates nominated in the report. The report does not include technical or economic optimisation.

b) Is not an actual or an historic cost estimate

Venton Comment The estimate basis is described in the report.

c) Is not, in accounting terms a current cost estimate (which Venton & Associates estimates to be 509 million in 1999 (which after adjusting for the impact of GST on the CPI is in the order of 496 million) compared to the quoted 1999 replacement cost estimate of 586 million.

Venton Comment It is unclear where the reference to $509 million comes from, while the adjustment to allow for GST is Western Mining's, not Venton's.

The Venton estimated cost at 1999 was $535.5 million plus $50.7 million interest during construction, making a total of $586 million.

A final comment by WMC that "further, the 1999 valuation prepared by Venton and associates is a plus 10% - minus 5% estimate…"

Venton Comment It must be appreciated that any estimate is simply that – an estimate. Each estimate has an associated accuracy.

The cost presented in the report represents a reliable estimate of the most probable cost of the project. The estimate of accuracy represents the estimator's best assessment of the combined effects of the factors that apply to each of the items of the estimate. The estimate was carefully reviewed by Venton and others, and compared against benchmarks to establish confidence in it.

The actual cost could lie anywhere within the bounds of the estimate accuracy, and possibly beyond those bounds.

Taking into account the assessed bounds of accuracy stated in the report the estimated project cost at 2004 of $739.2 million (including interest) could lie in the range of $644 million and $746 million. Applying the stated accuracy to the 1999 cost shows that the bounds of that estimate are $586 million and $645 million.

However the estimated cost stated represents the Venton's assessment of the most probable cost of the project.

I hope the foregoing provides a clarification of the maters raised by Western Mining, which could possibly have been better expressed in the Venton report to prevent Western Mining's apparent misunderstanding.

Sincerely,
Venton and Associates Pty Ltd

Philip Venton