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NOTICE

DRAFT DECISION – GOLDFIELDS GAS PIPELINE

This is to advise that I have today issued a Draft Decision on the Access Arrangement for the Goldfields Gas Pipeline (Pipeline Licence No WA: PL24) lodged on 15 December 1999 by Goldfields Gas Transmission Pty Ltd (GGT) on behalf of the owners of the pipeline.

My Draft Decision is to not approve the Access Arrangement in its current form and to require Goldfields Gas Transmission to make amendments to the proposed tariffs for gas transportation and the terms for access to the Goldfields Gas Pipeline as detailed in the decision.

A key factor in the Draft Decision relates to a requirement on Goldfields Gas Transmission to set access tariffs that provide total revenue consistent with a rate of return which is commensurate with prevailing conditions in the market for funds and the risks involved in delivering the Reference Service.

GGT proposed an Initial Capital Base of \$452.6 million. The Draft Decision concluded that a Depreciated Actual Cost valuation methodology is appropriate for the Goldfields Gas Pipeline and this gave an Initial Capital Base of \$438.0 million as at 31 December 1999.

The Depreciated Actual Cost value was based on an Actual Cost value of \$456.6 million depreciated using straight-line depreciation methodology. GGT proposed that the economic life of the Goldfields Gas Pipeline be set equal to the regulatory licensing period of 42 years and that the units of production depreciation methodology be used. This results in the majority of depreciation being recovered in the period to 2016 as the pipeline throughput assumed by GGT after 2016 is minimal.

I am of the view that there is no reason to presume that the licence for the Goldfields Gas Pipeline would not be renewed at the end of the licence period and therefore require that the proposed Access Arrangement be amended to reflect a weighted average asset life of 65 years.

GGT chose a Net Present Value (NPV) approach to determining Total Revenue and Reference Tariffs. The Weighted Average Cost of Capital (WACC) proposed by GGT is a pre-tax real WACC of 12.2 percent. Taking into consideration the circumstances of the Goldfields Gas Pipeline and an appropriate range of factors that comprise the rate of return, I consider that the pre-tax real WACC estimate for the



Goldfields Gas Pipeline should be 7.95 percent. This WACC equates to a nominal after tax return on equity of 13.3 percent.

The parameters adopted in the Draft Decision, particularly in the areas of depreciation methodology, asset life and WACC, indicate that the Reference Tariff proposed by GGT would need to be reduced by approximately 30 percent. On this basis, the tariff for transmission of gas to Kalgoorlie in dollars applicable as at 1 January 2000 and assuming a 100 percent load factor is estimated at \$1.85 per gigajoule for contracts of 16 to 20 years in duration.

In handing down this Draft Decision, I have set a period of time for responses from GGT and other interested parties. Submissions should be received by the Office of Gas Access Regulation by the close of business on Thursday 31 May 2001.

A copy of the Draft Decision can be obtained from the Office of Gas Access Regulation and is also available on the Internet at <http://www.offgar.wa.gov.au/>.

The Office of Gas Access Regulation proposes to hold a public forum on the issues raised in the Draft Decision. The forum is proposed to be held on Tuesday 15 May 2001. Details may be obtained from the Office of Gas Access Regulation (telephone +61 8 9213 1900) or from the *Off*GAR web site.

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