

NOTICE

FINAL DECISION – ACCESS ARRANGEMENT FOR THE GOLDFIELDS GAS PIPELINE

The Economic Regulation Authority (**Authority**) today issued its Final Decision on the proposed Access Arrangement for the Goldfields Gas Pipeline (**GGP**) proposed by Goldfields Gas Transmission Pty Ltd (**GGT**).

An Access Arrangement sets out the terms and conditions, including prices, for third party use of a gas pipeline. Third party access to such pipelines is provided for under the *National Third Party Access Code for Natural Gas Pipeline Systems (Code)*.

The Final Decision of the Authority is that it proposes not to approve the proposed Access Arrangement for the GGP. The reasons for the Authority's decision are based on information made available by GGT and other interested parties through submissions.

The decision by the Authority requires GGT to make amendments to its proposed tariffs and to the terms for access to the GGP.

BACKGROUND

The GGP comprises a gas transmission system consisting of a main pipeline which begins at Yarraloola in close proximity to the Dampier to Bunbury Natural Gas Pipeline (**DBNGP**) (but not connected to the DBNGP) and transports gas through 1,378 km of pipeline to Kalgoorlie.

On 29 July 2004 the Authority issued an Amended Draft Decision on the proposed Access Arrangement for the GGP and on 19 November 2004 GGT submitted a revised Access Arrangement.

KEY ASPECTS OF THE FINAL DECISION

Initial Capital Base

The Authority has determined a value for the initial capital base of \$500 million at 31 December 1999, including a value of linepack and working capital of \$2.58 million. This value has been determined taking into account past regulation of tariffs under the State Agreement, the DAC and DORC values determined by the Authority under sections 8.10(a) and (b) of the Code, and the other factors in sections 8.10, 8.11, 8.1 and 2.24 of the Code, including the public interest and the legitimate business interests of GGT. This regulatory decision was mindful of the need to not “undo” past benefits obtained through the charging of tariffs under the State Agreement.

Rate of Return

The Authority accepts that its task is to consider whether the Rate of Return used for derivation of the Reference Tariffs in GGT's revised Access Arrangement falls within the range of rates that complies with the requirements of the Code. However, the Authority was of the view that the Rate of Return proposed by GGT (of 13.5 percent pre-tax nominal) was outside the reasonable range of estimates that would comply with the Code.

Total Revenue

In its revised Access Arrangement, GGT proposed increased forecasts of New Facilities Investment and Non Capital Costs. In the absence of full justification for the revisions to forecasts and on the basis that the Authority was not satisfied that certain costs should properly be included as Non Capital Costs, the Authority was not satisfied that the proposed increased forecasts were consistent with the requirements of the Code.

GGT also proposed a revision to the Reference Tariff to reflect depreciation by an historical-cost, straight-line methodology over a longer assumed asset life of 64.5 years from 1 January 2000, corresponding to an assumed 70 year asset life from July 1994. The Authority has accepted this revision on the basis that an assumed asset life based on the expected useful life of the assets rather than their project life is not unreasonable in the circumstances of the GGP.

The Authority has determined that a value of Total Revenue based on this Depreciation methodology, the Authority's re-determined values of New Facilities Investment, Non Capital Costs and a Rate of Return of 10.2 percent pre-tax nominal would best achieve the objectives of sections 8.1 and 2.24 of the Code.

The Authority considers that the Total Revenue that should be applied in the determination of the Reference Tariff should be consistent with a net present value of \$456.82 million in dollar values at 1 January 2000. The regulatory period over which this is calculated is 2000 to 2009.

Reference Tariff

In its revised Access Arrangement, GGT abandoned its previous proposal for different tariffs for different contract durations and has determined a single Reference Tariff across contracts of all durations. The Authority took the view that, as almost all gas transmission in the GGP occurs under long-term contracts, the revised tariff structure does not materially prejudice the interests of any users relative to the tariff that would have been determined under the structure initially proposed.

The Reference Tariff determined by the Authority is the tariff that would have applied in the first quarter of 2000. This tariff and the inflation-escalated tariff that would apply at 1 January 2005 are as follows:

Reference Tariff determined by the Authority (excluding GST)

Toll Charge (\$/GJ MDQ)	Capacity Charge (\$/GJ MDQ/km)	Throughput Charge (\$/GJ throughput/km)	Indicative Tariff at Kalgoorlie (\$/GJ, 1,378 km, 85% load factor)
\$ nominal at 1 January 2000			
0.200143	0.001143	0.000298	2.50
\$ nominal at 1 January 2005			
0.229573	0.001311	0.000342	2.87

FURTHER REVISED ACCESS ARRANGEMENT

Pursuant to section 2.16 of the Code, the Authority requires GGT to submit a revised Access Arrangement by **4 pm on Tuesday 14 June 2005**.

FURTHER INFORMATION

A copy of the Final Decision is available on the Authority's website <http://www.era.wa.gov.au>. Printed copies of the Final Decision are available on request at a cost of \$25.00 by telephoning the Authority on (08) 9213 1900.

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**LYNDON ROWE
CHAIRMAN**

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