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NOTICE FINAL DECISION PARMELIA PIPELINE ACCESS ARRANGEMENT

This is to advise that the Regulator has today issued a Final Decision on the proposed Access Arrangement for the Parmelia Pipeline (WA Pipeline Licence numbers: 1-3, 5 and 23) lodged by CMS Gas Transmission of Australia (CMS) on 7 May 1999.

The Parmelia Pipeline transports gas from various gas fields in the northern Perth Basin to a number of major industrial customers in the south west of Western Australia.

The Final Decision of the Regulator is to not approve the proposed Access Arrangement in its current form.

The Regulator requires CMS to make amendments to the proposed tariffs for gas transportation and to other parts of the proposed Access Arrangement including to the terms and conditions of access to the Parmelia Pipeline.

Consistent with the Regulator's Draft Decision that was issued on 27 October 1999, a Reference Tariff of 60.5 cents per gigajoule inclusive of GST has been determined for the "Firm Service" for transmission of gas on the Parmelia Pipeline. This tariff compares with 83 cents per gigajoule (exclusive of GST) originally proposed by CMS.

In arriving at the decision in respect of tariffs, the Regulator is seeking revisions to proposals by CMS relating to the Initial Capital Base, Rate of Return, and projected gas throughput.

The Initial Capital Base has been revised to \$62.5 million as compared with \$114 million originally sought by CMS.

The Initial Capital Base of \$62.5 million was determined in conjunction with the requirement for a Capital Redundancy Policy to be incorporated into the Access Arrangement. This policy is required to accommodate uncertainty in the market growth of pipeline services for the Parmelia Pipeline. In the event that forecast growth is not achieved, the Capital Base of the Pipeline is to be reduced to reflect a partial redundancy of pipeline assets. The Capital Redundancy Policy will, however, provide for redundant capital, if any, to be added back into the Capital Base should market growth for pipeline services occur at some later time in the future.

On the basis of independent advice, the Regulator has determined that the appropriate rate of return on equity for the Parmelia Pipeline is 14.2 percent (nominal post-tax), which is equivalent to a real pre-tax weighted average cost of capital (WACC) of 8.1 percent.



In finalising the decision, the Regulator had regard to the requirements of the relevant legislation including the *National Third Party Access Code for Natural Gas Pipeline Systems* (the Code), the interests of users and prospective users of pipeline services and the legitimate business interests of CMS.

The decision has been developed to promote competition, encourage investment and provide value to users of the pipeline, while maintaining a reasonable rate of return to CMS, consistent with market expectations. The capital redundancy provisions of the Code have in this case been structured specifically to provide an incentive to the pipeline service provider to further develop the market for pipeline services.

CMS is required to re-submit its revised Access Arrangement by close of business Monday 20 November 2000, allowing a period of one month for amendments to be made as provided for by section 2.16(b) of the Code.

A copy of the Final Decision can be obtained from the Office of Gas Access Regulation at a cost of \$25.00 including GST or from the Office of Gas Access Regulation web site (<http://www.offgar.wa.gov.au/>) free of charge.

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