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5 April 2000

Dr Ken Michael
Gas Access Regulator
Level 6,
197 St George Terrace
Perth WA 6000

Dear Ken,

Re: Epic Pipeline

I'm now with SAMAG Limited, (www.pima.com.au) where we are developing a magnesium smelter in South Australia, which will use about 10 PJ / annum of natural gas. Whilst this is of no relevance to the Dampier Bunbury pipeline, general gas regulation matters are.

We thus commend you to apply the "depreciated optimised replacement cost" method to setting the tariffs on the line.

As we understand it this method is:

- Calculate the replacement cost of the pipeline using modern materials and methods of construction.

- Depreciate this to account for the remaining life of the pipeline – in Dampier Bunbury case say current value is 34 / 50 this of replacement value the line is 16 years old.

- Apply an EBITDA / Depreciated capital ratio to give the owner a reasonable after tax ungeared return.

- Add depreciation.

- Add realistic operating costs.

Divide this revenue by the forecast throughput in the regulatory period – say 5 years.

The upside for the pipeline owner is in generating additional business in the period, and in reducing operating costs (whilst maintaining the integrity of the line).

We would strongly argue that what Epic paid for the line is totally irrelevant in calculating the tariff.

Regards,

John M Clark
Director - Engineering

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