



GOLDFIELDS GAS PIPELINE PROPOSED REVISIONS TO ACCESS ARRANGEMENT

**AS SUBMITTED TO THE
ECONOMIC REGULATION AUTHORITY**

23 March 2009

GOLDFIELDS GAS PIPELINE CONTACT DETAILS

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INTRODUCTION

The Goldfields Gas Pipeline was constructed by the Goldfields Gas Transmission Joint Venture pursuant to the 23rd March 1994 Goldfields Gas Pipeline Agreement entered into with the State of Western Australia (**GGP Agreement**). This was ratified by the *Goldfields Gas Pipeline Agreement Act 1994* (WA).

Completed in 1996, the Pipeline is the sole conduit for delivery of natural gas from the vast offshore gas fields in the north west of Western Australia to the mineral rich, inland regions of the State. Gas is delivered to outlets along the length of the pipeline, primarily for use in electricity generation facilities associated with mining and minerals processing.

Its construction was underpinned by certain initial commitments to capacity reserved by each Joint Venturer for the requirements of each Joint Venturer and its "associates" (as defined in the GGP Agreement) and any commitments to purchase capacity procured from Third Parties (as defined in the GGP Agreement and which includes any Joint Venturer acting independently of the other Joint Venturers and outside of the joint venture). These commitments are referred to in the GGP Agreement as "**Initial Committed Capacity**".

The gas transportation service required by Users of the Goldfields Gas Pipeline is for transportation of gas on a firm basis from the Pipeline's two Inlet Points located Yarraloola. There are no other gas sources located along the route of the Pipeline. It is anticipated that this will continue to be the gas transportation service required by all or most of the Users of the Pipeline. Accordingly, the only Reference Service offered under this Access Arrangement is a Firm Service.

This Access Arrangement sets out terms and conditions for the access to the Covered Pipeline. Section 2.25 of the Code prohibits the approval of an Access Arrangement if any provision of it would deprive a person of a pre-existing contractual right (other than an exclusivity right, as defined in the Code, which arose on or after 30 March 1995).

Accordingly certain provisions of this Access Arrangement are made subject to those pre-existing contractual rights. Should a User or Prospective User of the Covered Pipeline have needs which cannot be accommodated through a Reference Service, GGT will discuss the provision of Negotiated Services.

Prospective Users are encouraged to discuss their gas transportation needs with GGT so that, if necessary, new or varied services may be developed to meet Prospective Users' requirements where these cannot be satisfied through a Reference Service.

1 ACCESS ARRANGEMENT

1.1 Access Arrangement

This Access Arrangement is lodged by Goldfields Gas Transmission Pty Ltd, ACN 004 273 241 (GGT).

1.2 Reference Service

This Access Arrangement sets out the policies required by the Code, including terms and conditions applying to provision of a Reference Service in the Covered Pipeline¹.

1.3 Ownership and Management of Pipeline

The Pipeline is owned by an unincorporated joint venture comprising:

- Southern Cross Pipelines Australia Pty Limited, ACN 084 521 997 whose Individual Share is 62.664%;
- Southern Cross Pipelines (NPL) Australia Pty Ltd, ACN 085 991 948 whose Individual Share is 25.493%; and
- Alinta DEWAP Pty Ltd Pty Ltd, ACN 058 070 689 whose Individual Share is 11.843%,

(collectively the **Owners**).

1.4 Service Provider

The Pipeline is operated by GGT for and on behalf of each of the Owners and GGT is the Service Provider under the Code.

1.5 Applies to Covered Pipeline

The Covered Pipeline has Capacity of approximately 108 TJ/day.

As at 23 March 2009, Spare Capacity in the Covered Pipeline is approximately 4.12 TJ/day and the Reference Service is offered for this Spare Capacity.

¹ Code, Section 3.6

2 INTERPRETATION

2.1 Definitions and Interpretation

The definitions and interpretation provisions set out in Appendix 1 apply where relevant to this Access Arrangement.

3 TERM AND REVIEW

3.1 Term

This Access Arrangement comes into effect on the Effective Date. The Access Arrangement Period or term of the Access Arrangement will expire on the Revisions Commencement Date.

3.2 Review of Access Arrangement

In accordance with Section 3.17 of the Code:

- (a) the Revisions Submission Date is 1 July 2014; and
 - (b) the Revisions Commencement Date is the later of 1 January 2015 and the date a revised Access Arrangement replacing this Access Arrangement approved by the Regulator takes effect.
-

4 SERVICES POLICY

4.1 Reference Service - Firm Service

- (a) The Reference Service that GGT will make available is a Firm Service for a period of 12 months or more as defined in clause 8 of this Access Arrangement.
- (b) Subject to there being sufficient Spare Capacity in the Covered Pipeline GGT will make available the Reference Service for the receipt of Gas at the Inlet Point, the transmission of Gas to, and the delivery of Gas at, the agreed Outlet Point(s) as more particularly described in clause 4 of the General Terms and Conditions.

4.2 Negotiated Services

- (a) Should any User or Prospective User have requirements which cannot be satisfied through a Reference Service, including for gas transportation from an inlet point other than the two Inlet Points at Yarraloola, GGT will consider the development of Negotiated Services to meet that person's specific requirements. Negotiated Services will
-

be provided on the terms and conditions negotiated between GGT and the User or Prospective User.

- (b) No provision of this Access Arrangement necessarily limits or circumscribes the terms and conditions which may be negotiated for the provision of one or more Negotiated Services in the Covered Pipeline.

4.3 Variation of General Terms and Conditions

- (a) A Prospective User may seek variations of the General Terms and Conditions applicable to the Reference Service.
- (b) Such variations constitute a request for a Service which differs from the Reference Service and hence will be treated as a request for a Negotiated Service for the purposes of this Access Arrangement. GGT will negotiate the tariffs and other terms and conditions for such a Negotiated Service with the Prospective User in good faith.

5 TARIFFS AND REFERENCE TARIFF POLICY

5.1 Transportation Tariff for Reference Service

GGT will make available the Reference Service at the Reference Tariff (also called the Transportation Tariff) as set out in clause 9 of the General Terms and Conditions, as varied in accordance with the provisions of this clause 5.

5.2 Reference Tariff Policy

(a) General Principles

The following principles apply to the development of the Reference Tariff (being the Transportation Tariff) under this Access Arrangement:

- (1) the Total Revenue is calculated according to the Cost of Service methodology²;
- (2) the Total Revenue is designed to permit GGT to recover the efficient costs of the Covered Pipeline over the expected life of the assets used in the provision of Services, including recovery of a rate of return commensurate with conditions in the market for funds for development and ownership of the Covered Pipeline and provision of Services; and

² Code, Section 8.4

- (3) the Reference Tariff is derived through a price path approach³ under which Reference Tariffs are determined for the whole Access Arrangement Period to follow a path forecast to deliver a Total Revenue, the Reference Service Revenue, being that portion of Total Revenue allocated to the Reference Service.

(b) Calculation of Total Revenue

Capital Base

- (1) The Initial Capital Base of the Covered Pipeline (at 31 December 1999) is \$513.7 million.
- (2) For each year after 2000, the Capital Base has been rolled forward using a nominal approach⁴, recognising depreciation allowed under the approved 2000-2009 Access Arrangement and actual capital expenditure during that period.

New Facilities Investment

- (3) Consistent with the Cost of Service methodology described in Section 8.4 of the Code, the Total Revenue for the Access Arrangement Period is determined on the basis of New Facilities Investment that is forecast to occur within the Access Arrangement Period, and which is expected to pass the requirements of the Code when the investment is forecast to occur.
- (4) GGT may undertake New Facilities Investment that does not satisfy the requirements of Section 8.16 of the Code and may include in the Capital Base that part of the New Facilities Investment which does satisfy Section 8.16 of the Code⁵.
- (5) An amount in respect of the balance after deducting the Recoverable Portion of New Facilities Investment may subsequently be added to the Capital Base if at any time the type and volume of Services attributable to the New Facility change such that any part of the Speculative Investment Fund would then satisfy the requirements of the Code for inclusion in the Capital Base⁶.

³ Permitted under Code, Section 8.3(b)

⁴ Code, Section 8.5A

⁵ Code, Section 8.18

⁶ Code, Section 8.19

Depreciation

- (6) The Capital Base of the Covered Pipeline is depreciated on a straight line basis over a remaining economic life of 54.5 years for pipeline assets, and shorter periods for other assets, in each case reflecting the forecast economic life of the asset.

Cost of capital

- (7) The Rate of Return is a pre-tax nominal weighted average of the returns applicable to debt and equity ("**Weighted Average Cost of Capital**"), in which:
- (i) The return on equity has been determined using the Capital Asset Pricing Model.
 - (ii) The return on debt has been determined as the sum of a risk free rate of return, an estimate of the corporate debt margin, and an estimate of the costs of raising debt.

Non capital costs

- (8) The Total Revenue is calculated to enable recovery of the non-capital costs attributable to the ownership and operation of the Covered Pipeline as would be incurred by a prudent Service Provider, acting efficiently, in accordance with accepted and good industry practice, and to achieve the lowest sustainable cost of delivering Services through the Covered Pipeline.

(c) Design of Reference Tariff

- (1) The Reference Tariff is designed to ensure that no User pays a tariff which is more than the stand alone cost of provision of the Reference Service and no User pays a tariff which is less than the marginal cost of the provision of the Reference Service.
- (2) Total Revenue is allocated between the Reference Service and other Services in a manner designed to ensure that the Reference Tariff reflects:
 - (i) costs incurred (including capital costs) that are directly attributable to the provision of the Reference Service; and
 - (ii) a share of the Total Revenue that reflects costs incurred (including capital costs) that are attributable to providing the Reference Service jointly with other Services.
- (3) The Reference Tariff is designed to recover the Reference Service Revenue from the Users of the Reference Service.
- (4) The Reference Tariff is structured in three parts:

Toll Charge (capacity based) as described in clause 9.4(a) of the General Terms and Conditions;

Capacity Reservation Charge (capacity and distance based) as described in clause 9.4(b) of the General Terms and Conditions; and

Throughput Charge (throughput and distance based) as described in clause 9.4(c) of the General Terms and Conditions.

(d) Incentive Mechanisms

The Incentive Mechanism adopted in calculation of the Reference Tariff is as follows:

- (1) the Reference Tariff will apply during each Year of the Access Arrangement Period regardless of whether the forecasts on which the Reference Tariff was determined are realised⁷;
- (2) the prospect of retaining improved returns for the period to 31 December 2014 provides an incentive to GGT to achieve the forecast volume of sales and to minimise the overall cost of providing Services⁸; and
- (3) in determining Reference Tariffs after 31 December 2014, Users will benefit from increased efficiencies achieved by GGT up to that date through the recovery through the subsequent Access Arrangement Period of non-capital costs reflecting the efficiencies gained during this Access Arrangement Period.

5.3 Adjustment to Reference Tariffs

The Reference Tariff and other charges applicable in respect of the Reference Service are not subject to variation or modification during the Access Arrangement Period other than for:

- (a) CPI adjustment in accordance with clause 9.8 of the General Terms and Conditions;
- (b) Reference Tariff Adjustment Mechanism as described in Schedule 1; and
- (c) Adjustment for a Change in Imposts in accordance with clause 5.4.

⁷ A mechanism of this type is recognised by Section 8.45(a) of the Code

⁸ Code Section 8.1(f) provides that one of the objectives that a Reference Tariff and Reference Tariff Policy should be designed to achieve is 'providing an incentive to the Service Provider to reduce costs and to develop the market for Reference and other Services'.

5.4 Adjustment for Change in Imposts

- (a) GGT has established the Reference Tariff for the Reference Service on the basis of Imposts applying at 31 December 2008. If a Change in Imposts occurs during the Term of the Agreement, GGT has a discretion to adjust the Reference Tariff to recover the financial impact of the Change in Imposts.
- (b) Before GGT adjusts the Transportation Tariff as provided for in clause 5.4(a) GGT must:
 - (1) provide a written notice to the Regulator specifying the impact of the Change in Imposts; the scope of the financial impact; explaining how the claim is consistent with clause 5.3(c); the proposed variations to the Transportation Tariff and an effective date for the changes (a "**Impost Notice**"); and
 - (2) use reasonable endeavours to provide the Regulator with documentary evidence (if available) which substantiates the financial impact set out in the Impost Notice.
- (c) GGT may submit one or more Impost Notices each Year. This notice may incorporate a number of claims relating to the changes. For the purposes of Section 8.3D(b)(i) of the Code the minimum notice period for a Impost Notice is 15 Business Days.
- (d) For the avoidance of doubt, any Reference Tariff variation relating to a Change in Imposts must be conducted in accordance with Sections 8.3B to 8.3H of the Code.

6 APPLICATION FOR SERVICE

- (a) A Prospective User that wishes to apply for a Service on the Covered Pipeline must observe the process outlined in the GGT Information Package.
- (b) If the Prospective User fails to follow the process outlined in the GGT Information Package then GGT is under no obligation to accept an application for a Service.

7 QUEUING POLICY

In this clause 7, an "**Application**" means an application for Service lodged in accordance with clause 6 of this Access Arrangement.

7.1 Queuing Policy for Provision of Service

- (a) As between Prospective Users, the priority for allocation of Spare Capacity and Developable Capacity will, be determined on a first come, first served basis when a completed and executed Order Form is received by GGT under clause 1.3 of the GGT Information Package on the basis that an Order Form having an earlier receipt date will have priority over an Order Form having a later receipt date.
- (b) GGT will ensure that, as between Prospective Users, Order Forms are processed and Spare Capacity will be allocated in the order which reflects their priority or deemed priority under clause 7.1(a).
- (c) A Prospective User will cease to maintain its priority for allocation of Spare Capacity or Developable Capacity if:
 - (1) its Order Form is rejected pursuant to clause 1.8(a) of the GGT Information Package; or
 - (2) its Order Form is rejected pursuant to clause 1.8(b)(2) of the GGT Information Package; or
 - (3) the Prospective User withdraws its Order Form; or
 - (4) the Prospective User fails to comply with the terms of the Service Agreement; or
 - (5) an Insolvency Event occurs in relation to the Prospective User.
- (d) If a Prospective User submits an amended application pursuant to clause 1.8 of the GGT Information Package, subject to clause 1.8(b) of the GGT Information Package, the amended application or notional supplementary application will have priority according to the date of receipt of the amendments by GGT.
- (e) If no later than 12 months prior to the expiry of the then Term of the Agreement:
 - (1) a User gives a notice of exercise of an option under the Service Agreement to extend the initial Termination Date; and
 - (2) the conditions precedent in clauses 1.5(e) and 1.5(f) of the GGT Information Package have been satisfied;

then the User will be deemed not to be a Prospective User and will be allocated its then Firm Service Reserved Capacity at the Reference Tariff for the duration of the extension, subject to continued

performance of the terms and conditions of the Service Agreement by the User as though these terms had been incorporated into the existing Service Agreement.

- (f) If a User:
 - (1) later than 12 months prior to the expiry of the then Term of the Agreement gives a notice of exercise of an option under the Service Agreement to extend the initial Termination Date; or
 - (2) makes under clause 1.10(a) of the GGT Information Package an Application for Service Contract Variation;then
 - (3) the exercise of the option or Application for Service Contract Variation (as applicable) will be deemed to be a new application for Spare Capacity and Developable Capacity and be in a position in the queue for Spare Capacity and Developable Capacity; and
 - (4) the User will be deemed to be a Prospective User and the date GGT receives notice of the exercise of the option or Application for Service Contract Variation will determine the priority accorded to the new application.
- (g) If Spare Capacity becomes available or Developable Capacity is provided, GGT will use all reasonable endeavours to notify Prospective Users of that Spare Capacity or Developable Capacity in an order and manner which has regard to the rights of Users under Existing Contracts.
- (h) The rights of any Prospective User under and the operation of this clause is subject to and conditional on GGT complying with and satisfying any legal or contractual obligations it has to provide additional Capacity under, or to extend the term of, an Existing Contract.

7.2 Investigations to Determine if Capacity is Available

- (a) In the event that investigations are required to determine if Capacity or Developable Capacity is available in the Covered Pipeline ("**Investigations**"), GGT will, upon request, provide the Prospective User with a general indication of the range of tariffs which may be applicable in relation to any capacity expansion ("**Indication**"). An Indication will be provided for the sole purpose of assisting Prospective Users to consider whether they share the costs of an Investigation, will be confidential and will not be binding on either party.

- (b) GGT will not be liable to the Prospective User for any cost, loss, expense or other matter arising from the provision of an Indication, or from the Prospective User's use of or reliance on an Indication, including where any tariff subsequently offered to the Prospective User or any other person is greater or less than the Indication.
- (c) Where GGT advises a Prospective User that Investigations are required, GGT will also advise the Prospective User of the nature, likely duration and estimated cost of the Investigations. Where there is more than one Prospective User considering participating in the Investigation, GGT will advise the Prospective User of its share of the estimated cost of the Investigations. This will be determined as the proportion that their requested capacity (TJ.km) bears to the total requested capacity (TJ.km) of all Prospective Users participating in the Investigation. The Prospective User may then determine whether it wants GGT to undertake the Investigations.
- (d) GGT is only obliged to undertake Investigations if one or more Prospective Users agree to bear the costs of the Investigation.
- (e) Where a Prospective User declines to meet the cost of Investigations, that Prospective User's Application will have lower priority than Applications where the Prospective Users have agreed to bear the costs of the Investigation, and will maintain relative priority with other Applications where the Prospective Users have not agreed to bear the costs of the Investigation.
- (f) Where the Investigation identifies that investment is required to make capacity available, clause 7.3 will apply.
- (g) A Prospective User who has paid for an Investigation under clause 7.2 will, on entering into appropriate confidentiality arrangements, receive a written report which describes:
 - (1) the options considered to provide the capacity; and
 - (2) GGT's preferred option to provide capacity or provides reasons why no recommendation is made.
- (h) Where a Prospective User bears the costs of an Investigation and the Prospective User decides not to proceed with the Application, that Prospective User may assign:
 - (1) the Application to which the Investigation relates, and
 - (2) information in the possession of that Prospective User relevant to the Investigation;to a bona fide assignee and that assignee may use the results of the Investigation provided that the assignment does not disclose

confidential information without the consent of persons to whom such information relates including GGT.

7.3 Procedure when Capacity is Available only with Investment in Developable Capacity

- (a) Where Investigations identify that investment is required to make Capacity available:
 - (1) GGT will advise each of the Prospective Users on the Queue of its plans to make capacity available, and the terms and conditions, and indicative price, on which the capacity will be available;
 - (2) prior to the development of capacity, the capacity will be progressively offered to each Prospective User in the Queue in order of priority (notwithstanding that such capacity is not sufficient to meet the needs of that Prospective User); and
 - (3) a Prospective User will have 30 days after an offer is made to enter into a Service Agreement (conditional if necessary on GGT entering into Service Agreements with other Prospective Users), failing which the Application will lapse or lose priority to those entering into such a Service Agreement (upon that Service Agreement becoming unconditional). GGT may at its discretion extend the period of 30 days on one or more occasions.
- (b) Where a Prospective User is offered part of the capacity in an Application:
 - (1) but declines it because the Prospective User wants all the capacity requested or nothing; or
 - (2) accepts the capacity offered but the Prospective User wants to remain in the Queue for the remainder of the requested capacity;

the Prospective User will not lose priority in respect of any capacity requested but not taken provided that it notifies GGT that it wishes to remain in the Queue(s).

8 TERMS AND CONDITIONS OF REFERENCE SERVICE

8.1 Terms of Reference Service

The terms and conditions on which the Reference Service will be provided by GGT to a Prospective User are those contained in the Service Agreement, which will be constituted by:

- (a) the Order Form executed by the Prospective User and accepted by GGT;
- (b) the General Terms and Conditions; and
- (c) any Conditions under clause 8.3 of this Access Arrangement.

8.2 Service Agreement

GGT and the Prospective User become bound to the Service Agreement and bound to satisfy or observe all Conditions from the date mutually agreed by GGT and the Prospective User.

8.3 Conditions

- (a) GGT may notify a Prospective User that GGT is prepared to make available a Service subject to specified Conditions being satisfied as conditions precedent.
- (b) The Conditions may relate to GGT's reasonable requirements in respect of:
 - (1) the occurrence of a defined event including installation and commissioning of equipment, processing facilities or infrastructure;
 - (2) a Surety being provided by the Prospective User, or any other person acceptable to GGT; and
 - (3) copies of insurance policies or other evidence reasonably required by GGT being provided, which provide a reasonable indication to GGT that the Prospective User has insurance policies sufficient to satisfy the indemnities which the Prospective User will be required to provide under the proposed Service Agreement.
- (c) Unless the Prospective User notifies GGT to the contrary within 7 Business Days of receiving notice of the Conditions, the Prospective User is deemed to have accepted and agreed to be bound by the Conditions notified by GGT, which will form part of the Service Agreement.

8.4 Toll and Capacity Reservation Tariff

The Toll Tariff and Capacity Reservation Tariff apply from the later of the Date of Service Agreement or satisfaction or waiver of any Conditions in the nature of conditions precedent.

9 TRADING POLICY

9.1 Rights to Transfer or Assign

Subject to any pre-existing contractual rights affecting the transfer or assignment by GGT or any other party of rights in relation to Capacity, including under the GGP Agreement and the GGTJV Agreement, any User of a Service may transfer or assign all or part of its rights to Capacity in the Covered Pipeline as contemplated by clause 20 of the General Terms and Conditions.

10 EXTENSIONS/EXPANSION POLICY

10.1 Extensions/Expansions

Other than as required under the Code or the GGP Agreement, GGT will not incur capital to expand the Capacity of the Covered Pipeline unless a User:

- (a) satisfies GGT of the existence of reserves and demand for the economic life of the expansion;
- (b) demonstrates to GGT that the User has the financial capability to pay the costs of the provision of Services provided through expanded Capacity; and
- (c) commits to a Negotiated Service agreement sufficient to ensure the payment to GGT all of costs incurred by GGT in expanding the capacity and providing of Services through that expanded capacity.

10.2 Application of Arrangement to Pipeline Extension/Expansion

If GGT expands the Capacity of the Covered Pipeline, GGT will elect:

- (a) that the expanded capacity will be treated as part of the Covered Pipeline for the purposes of this Access Arrangement and GGT will exercise its discretion to submit proposed revisions to the Access Arrangement under Section 2 of the Code; or
- (b) that the expanded capacity will not be treated as part of the Covered Pipeline for the purposes of this Access Arrangement and that GGT

will lodge a separate Access Arrangement for such expanded capacity;
or

- (c) that the expansion will not be covered, subject to GGT notifying the Regulator of this fact prior to the expansion coming into operation.

GGT may at any time, change an election made under clause 10.2(c) to an election made under clause 10.2(a).

10.3 Pipeline Extension/Expansion and Tariffs

- (a) Pipeline extension or expansions which GGT elects to cover under clause 10.2 will result in no change to the Reference Tariff applied to a User when those extensions or expansions have been fully funded by that User's capital contributions except to contribute to GGT's non-capital costs in connection with those extensions and expansions. Any change to Reference Tariffs may occur only pursuant to the process in Section 2 of the Code for revisions to Reference Tariffs.
- (b) Incremental Users as defined in the Code which have not made capital contributions towards Incremental Capacity as defined in the Code which they use and which has been funded by others will be liable to pay for surcharges as allowed for in Section 8 of the Code.
- (c) Pipeline extensions or expansions funded by GGT and which GGT elects to cover under clause 10.2 may result in the application of surcharges as allowed for in Section 8 of the Code subject to GGT providing written notice to the Regulator, and the Regulator approving the same, in accordance with Section 8.25 of the Code.

11 CAPACITY MANAGEMENT POLICY

11.1 Contract Carriage Pipeline

The Pipeline is a Contract Carriage pipeline as defined in Section 10.8 of the Code.

SCHEDULE 1 – Reference Tariff Adjustment Mechanism

Variation of Reference Tariffs

GGT has adopted a ‘tariff basket price cap’ approach as the manner in which ReferenceTariff Components (as described in Clause 5.2(c)(4)) ("**Tariff Components**") may vary within this Access Arrangement Period. For GGT, this formula applies as some tariffs are specified as a price per “TJkm”. In this case the tariff components would apply for a given number of TJ capacity reservation to an outlet that is a given number of km from the Inlet Facilities.

GGT will vary Tariff Components annually in accordance with the process described below. Subject to the limit on the varied Tariff Components described below, GGT may in its discretion vary any Tariff Component for each Variation Year.

Limit on varied Tariff Components

A Tariff Component variation must be in accordance with the following:

$$P_t \leq P_{t-1} * \frac{SepCPI_{t-1}}{SepCPI_{t-2}} * (1-x) * (1+R_t) * (1+Y)$$

where:

P_t	is the value of the Tariff Component for Year t ;
P_{t-1}	is the value of the Tariff Component for Year $t-1$;
x	is 0;
Y	is positive 0.02;
R_t	is the Regulatory Costs factor for calendar Year t and is calculated in accordance with the process described below;
$SepCPI_{t-1}$	is the September quarter CPI for Year $t-1$;
$SepCPI_{t-2}$	is the September quarter CPI for Year $t-2$; and
t	is the Variation Year.

The Regulatory Costs factor R_t is calculated as follows:

(a) for Variation Year 2011:

$$R_t = \frac{1 + \frac{Drc_{t-1} * (1 + WACC)}{Rrev_t}}{1} - 1$$

(b) for each Variation Year other than 2011:

$$R_t = \frac{1 + \frac{Drc_{t-1} * (1 + WACC)}{Rrev_t}}{1 + \frac{Drc_{t-2} * (1 + WACC)}{Rrev_{t-1}}} - 1$$

where:

Drc_{t-1} is the actual Regulatory Costs minus the forecast Regulatory Costs for Year $t-1$, and is calculated as follows:

$$Drc_{t-1} = \frac{CPI_b}{SepCPI_{t-1}} (Arc_{t-1} - Frc_{t-1})$$

where:

Arc_{t-1} is the actual Regulatory Costs for Year $t-1$;

Frc_{t-1} is the forecast Regulatory Costs for Year $t-1$;

CPI_b is the base CPI for the Quarter ended September 2009.

$SepCPI_{t-1}$ is the Consumer Price Index (All Groups, Eight Capital Cities) published by the Australian Bureau of Statistics for the September quarter of calendar Year $t-1$;

Drc_{t-2} is the actual Regulatory Costs minus the forecast Regulatory Costs for Year $t-2$ and is calculated as follows:

$$Drc_{t-2} = \frac{CPI_b}{SepCPI_{t-2}} (Arc_{t-2} - Frc_{t-2})$$

where:

Arc_{t-2}	is the actual Regulatory Costs for Year $t-2$;
Frc_{t-2}	is the forecast Regulatory Costs for Year $t-2$;
CPI_b	is the base CPI for the Quarter ended September 2009.
$SepCPI_{t-2}$	is the Consumer Price Index (All Groups, Eight Capital Cities) published by the Australian Bureau of Statistics for the September quarter of calendar Year $t-2$;
WACC	is the nominal pre-tax Weighted Average Cost of Capital used in the determination of the Total Revenue; and
$Rrev_t$	is the Total Revenue applicable to the Covered Pipeline for Year t ; and
$Rrev_{t-1}$	is the Total Revenue applicable to the Covered Pipeline for Year $t-1$.
$Rrev_{t-2}$	is the Total Revenue applicable to the Covered Pipeline for Year $t-2$.
Drc_{t-1}, Drc_{t-2}	are each subject to a “deadband” materiality threshold of plus or minus 0.5% of Total Revenue for the Covered Pipeline for the relevant year.

GGT’s Regulatory Costs are defined as:

For the purpose of this Tariff Adjustment Mechanism, **Regulatory Costs** means a cost connected to or associated with:

- (a) GGT’s compliance with new or revised requirements or procedures under the *Petroleum Pipelines Act 1969*, Pipeline Licence 24, the *Energy Coordination Act 1994* (WA), the *Gas Standards Act 1972* (WA), the *Energy Operators (Powers) Act 1979*, *Environmental Protection Act 1986* (WA) and all other applicable Laws which affect the operation of the Covered Pipeline or the provision of Services;
- (b) GGT’s participation in regulatory policy or regulatory reform consultation processes;
- (c) the pro rata portion of the Emissions Costs;
- (d) changes to the GGP Act, GGP Agreement, *Gas Pipelines Access (Western Australia) Act 1998* (WA), the Code or the *Economic Regulation Authority Act 2003* (WA); and
- (f) the introduction of new or revised requirements under the Code which are more complex or extensive than those applying at 31 December 2008 including the introduction of the *National Gas Access (Western Australia) Act 2008*.

In this Schedule 1, the following definitions apply:

Direct Costs – see definition of "Enterprise Costs";

Emissions Costs means the Enterprise Costs in respect of:

- (a) the services provided by GGT under the Service Agreement; and
- (b) GGT's business operations, to the extent they relate to those services;

Emissions Permit means a tradeable certificate, credit, permit or similar right or instrument (however described) required to be held, used or surrendered to satisfy a liability of GGT or the Owners under a Greenhouse Gas Law;

Enterprise Costs means

- (a) the value of Emissions Permits required to be held, used or surrendered (the **Direct Costs**); and
- (b) all other reasonable costs, charges and expenses (including, without limitation, taxes and internal and external compliance costs) incurred (the **Indirect Costs**), from time to time by GGT or the Owners or a related body corporate under or in respect of a Greenhouse Gas Law;

Greenhouse Gases means carbon dioxide (CO₂) and may also include any one or more of methane (CH₄), nitrous oxide (N₂O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), sulphur hexafluoride (SF₆) and other atmospheric gases recognised as being responsible for causing or contributing to global warming or climate change under the United Nations Framework Convention on Climate Change;

Greenhouse Gas Law means a law relating to any scheme designed to encourage, directly or indirectly, reductions in the emissions of Greenhouse Gases (including laws requiring the reporting as to Greenhouse Gas emissions in respect of or in anticipation of any such scheme) including the NGER Act and the Carbon Pollution Reduction Scheme Bill 2009;

Indirect Costs – see definition of "Enterprise Costs"; and

NGER Act means the *National Greenhouse and Energy Reporting Act 2007* (Cth) as amended.