

**Victorian Third Party Access Code
for Natural Gas Pipeline Systems:
Access Arrangement by Westar
Pty Ltd and Westar (Assets) Pty Ltd
for the Distribution System**

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ACCESS ARRANGEMENT BY WESTAR PTY LTD and WESTAR (ASSETS) PTY LTD FOR THE DISTRIBUTION SYSTEM

1. Introduction

1.1 Purpose of this document

This *Access Arrangement* (“Access Arrangement”) was submitted on 3 November 1997 by Energy Projects Division of the Department of Treasury and Finance, Government of Victoria (“EPD”), on behalf of Westar Pty Ltd ACN 079 089 008 and Westar (Assets) Pty Ltd ACN 079 089 062 (together “Westar” or the “Service Provider”), to the Office of the Regulator-General (the “Regulator”) in accordance with 2.2 of the Victorian Third Party Access Code for Natural Gas Pipelines (the “Victorian Access Code”).

The Regulator delivered a draft decision on this Access Arrangement on 28 May 1998 and a Final Decision 1 (in accordance with section 2.16(b) of the Victorian Access Code) on 5 October 1998. and an amended Access Arrangement was submitted by EPD on behalf of the Service Provider on 30 November 1998 and was approved by the Regulator in Final Decision 2 (in accordance with section 2.19 of the Victorian Access Code) on 17 December 1998.

This Access Arrangement describes the terms and conditions on which Westar Assets will grant access to the *Distribution System* to third parties.

The wording of each section of the Victorian Access Code is reproduced in italics and then followed by a statement explaining where the particular section is satisfied in this Access Arrangement.

1.2 Composition of Access Arrangement

This Access Arrangement comprises this document together with the plan of the *Distribution System* lodged with the Regulator.

In addition *Access Arrangement Information* (“Access Arrangement Information”) was submitted by the Service Provider in accordance with section 2.2 of the Victorian Access Code.

1.3 Effective Date

This Access Arrangement will come into effect on the date on which the Regulator’s decision to approve this Access Arrangement takes effect.

2. Interpretation

In this Access Arrangement, where a word or phrase is italicised it has:

- (a) the definition given to that word or phrase in the Victorian Access Code; or
- (b) the definition given to that word or phrase below,

unless the context otherwise requires.

“**Distribution System**” means that part of the *Gas Distribution System* which is more particularly described in the plan of the *Distribution System* lodged with the Regulator.

“**Distribution System Code**” means the code of that name referred to in the distribution licence issued to Westar by the Regulator.

“**Economic Feasibility Test**” means that the *Anticipated Incremental Revenue* generated by the *New Facility* exceeds the *New Facilities Investment*.

“**Gas Distribution System**” has the same meaning given to it pursuant to the Gas Industry Act 1994 (Vic).

“**System Wide Benefits Test**” means that the Regulator is satisfied that a *New Facility* has system wide benefits which justify the approval of a higher *Reference Tariff* for all *Users*.

“**tariffed distribution services**” means:

- (a) allowing injection of gas into *distribution injection points*;
- (b) conveyance of gas from *distribution injection points* to *distribution supply points*; and
- (c) allowing withdrawal of gas at *distribution supply points*;

which incorporate:

- (d) providing up to 20 metres of a *distribution mains extension* for servicing a *distribution supply point* assigned to *distribution tariff V*;
- (e) providing a *distribution connection* for a *distribution supply point* assigned to *distribution tariff V* within a *Customer’s* premises and less than 20 metres from the *service entry point* on the boundary of the *Customer’s* premises;
- (f) providing a *standard meter* at a *distribution supply point* assigned to *distribution tariff V*,

except to the extent that:

- (g) before the start of the *initial regulatory period*, *Gascor* and the *Customer* have agreed in writing that specific pricing applies to that service;
- (h) after the start of the *initial regulatory period* the *Tariffed Distributor* and the *Customer* agree in writing or in such other form as approved by the Regulator that the service is not to be a *tariffed distribution service*; or
- (i) the services are provided to a *distribution transfer point*.

“**Tariff Order**” means the Order in Council (Victorian Gas Industry Tariff Order 1998) made under section 48A of the Gas Industry Act 1994.

“**Customer**”, “**distribution connection**”, “**distribution injection points**”, “**distribution mains**”, “**distribution supply point**”, “**distribution tariff V**”, “**distribution transfer point**”, “**expansion**”, “**extension**”, “**Gascor**”, “**initial regulatory period**”, “**service entry point**”, “**standard meter**”, “**subsequent access arrangement period**”, “**tariff**” and “**Tariffed Distributor**” have the meaning given to those words or phrases in the *Tariff Order*.

3. Contact Details

The contact officer for further details on this Access Arrangement is:

Commercial Regulations and Tariffs Manager
Westar
740 Ballarat Road
ARDEER VIC 3022
Telephone: (03) 9361 7222
Facsimile: (03) 9361 7332

4. Prior contractual rights

No provision in this Access Arrangement deprives any person of a contractual right which was in existence prior to 3 November 1997 being the date on which this Access Arrangement was first submitted to the Regulator.

5. Elements set out Section 3 of the Victorian Access Code

This section, in compliance with section 2.5 of the Victorian Access Code, includes the elements set out in sections 3.1 to 3.22 of the Victorian Access Code which are applicable to the Service Provider.

5.1 Access Arrangement

Section 3.1 *An Access Arrangement submitted by a Service Provider to the Relevant Regulator must be in writing and may specify Relevant Regulatory Instruments or a class of Relevant Regulatory Instruments with which the Service Provider will comply. Except where the Relevant Regulatory Instrument or the Access Arrangement expressly provides otherwise, an amendment to, or a supplementation or replacement of, a Relevant Regulatory Instrument specified in an Access Arrangement by a Service Provider under section 3.1 is not a change to the Access Arrangement for the purposes of section 2.49.*

Section 3.2 *Without limiting the effect of section 3.1, a Service Provider must have sufficient rights in respect of the Covered Pipeline the subject of its Access Arrangement to enable the Service Provider to make available its Services in accordance with its Access Arrangement.*

5.1.1 The Service Provider will comply with the following *Relevant Regulatory Instruments* (where applicable):

- (a) the Victorian Access Code;
- (b) the *Distribution System Code*; and
- (c) the *Tariff Order*.

5.1.2 The Service Provider has sufficient rights in respect of the *Distribution System* (including under the Pipelines Act 1967 (Vic), Gas Industry Act 1994 (Vic) and (in relation to Westar Pty Ltd) the lease between it and Westar (Assets) Pty Ltd to enable it to make available its *Services* in accordance with this Access Arrangement.

5.2 Services Policy

Section 3.3 *An access arrangement must include a policy on the Service or Services to be offered (a **Services Policy**).*

Section 3.4 *The Service Policy must comply with the following principles:*

- (a) *The Access Arrangement must include a description of one or more Services that the Service Provider will make available to Users or Prospective Users, including:*
 - (i) *one or more Services that are likely to be sought by a significant part of the market; and*
 - (ii) *any Service or Services which, in the Regulator's opinion, should be included in the Services Policy.*

- (b) *To the extent practicable and reasonable, a User or Prospective User must be able to obtain a Service which includes only those elements that the User or Prospective User wishes to be included in the Service.*
- (c) *To the extent practicable and reasonable, a Service Provider must provide a separate Tariff for an element of a Service if this is requested by a User or Prospective User.*

5.2.1 Westar (Assets) Pty Ltd as owner of the *Distribution System* will lease the *Distribution System* under a short term operating lease to Westar Pty Ltd, thereby enabling Westar to offer the *Services*, being services provided from Westar's *Distribution Pipelines*, described in this Access Arrangement.

5.2.2 Westar will make *tariffed distribution services* available to *Users* or *Prospective Users* of the *Distribution System* at the *Reference Tariffs* and in accordance with the *Reference Tariff Policy* described in clause 5.3 below.

5.2.3 The *Reference Services* are likely to be sought by a significant part of the market.

5.3 Reference Tariffs and Reference Tariff Policy

Reference Tariffs

Section 3.5 *An Access Arrangement must include a Reference Tariff for:*

- (a) *at least one Service that is likely to be sought by a significant part of the market; and*
- (b) *each Service that is likely to be sought by a significant part of the market and for which the Regulator considers a Reference Tariff should be included.*

Section 3.6 *Unless a Reference Tariff has been determined through a competitive tender process as outlined in sections 3.23 and 3.39, an Access Arrangement and any Reference Tariff included in an Access Arrangement must, in the Regulator's opinion, comply with the Reference Tariff Principles described in section 8.*

5.3.1 The *Reference Tariffs* for the *tariffed distribution services* are:

- (a) the tariffs for *tariffed distribution services* set out in Schedule 1, paragraph 2 of the *Tariff Order*; and
- (b) the tariffs for *tariffed distribution services* that exist from time to time as a result of the application of the tariff control formulae prescribed in Part B of Schedule 5 of the *Tariff Order*, as administered according to the principles on alteration that are described in clause 6.1(a)(1), 6.1(b), 6.1(c), 6.1(e), 6.1(f), 6.1(g), 6.1(h), 6.1(j), 6.1(k), 6.1(l) and 6.1(m) of the *Tariff Order*.

The *Reference Tariff Policy* is set out below.

Reference Tariff Policy

Section 3.7 *An Access Arrangement must also include a policy describing the principles that are to be used to determine a Reference Tariff (a **Reference Tariff Policy**). A Reference Tariff Policy must, in the Regulator's opinion, comply with the Reference Tariff Principles described in section 8.*

5.3.2 *CPI-X Price Path*

The CPI - X price path approach is set out in clause 6.1 of the *Tariff Order* and in the formula in part B of schedule 5 of the *Tariff Order*. A CPI-X approach is consistent with section 8.3 of the Victorian Access Code.

5.3.3 *New Facilities Investment*

Westar may at its discretion undertake *New Facilities Investment* that does not satisfy the requirements of section 8.16 of the Victorian Access Code. The *Extensions/Expansions Policy* in clause 5.7 below explains how *New Facilities Investment* in relation to a *New Facility* which is to be treated as part of the *Covered Pipeline* will affect *Reference Tariffs*.

Clause 5.3.4 below sets out the principles of a *Speculative Investment Fund* which Westar may operate in relation to *New Facilities Investment* that does not satisfy the requirements of section 8.16 of the Victorian Access Code.

5.3.4 *Speculative Investment Fund*

(Refer also clause 5.7.2 below).

The amount of the *Speculative Investment Fund* at any time is equal to:

- (a) the difference between the *New Facilities Investment* and the amount which satisfies section 8.16 of the Victorian Access Code, less any amount the Service Provider notifies the Regulator (at the time the expenditure is incurred) that it has elected to recover through a *Surcharge* under section 8.25 of the Victorian Access Code; plus
- (b) an annual increase in that amount calculated on a compounded basis at a risk adjusted *Rate of Return* approved by the Regulator; less
- (c) any part of the *Speculative Investment Fund* previously added to the *Capital Base* due to the type and volume of services provided using the increase in *Capacity* attributable to the *New Facility* change such that any part of the *Speculative Investment Fund* would then satisfy the requirements of section 8.16 of the Victorian Access Code.

5.3.5 *Capital redundancy*

- (a) As set out in the *Fixed Principle* in clause 9.2(b)(3) of the *Tariff Order*, the Regulator may reduce the *Capital Base* (as at the start of the *subsequent access arrangement period*) in the following circumstances:
 - (1) where customer specific assets become unused and are reasonably likely to remain unused for a substantial part of the *subsequent access arrangement period*, the value attributable to those assets should be removed; and
 - (2) the value attributable to assets that are sold should be removed.
- (b) In its asset register Westar will allocate the *Capital Base* to particular assets or groups of assets consistent with the initial *Reference Tariffs*.

- (c) Shared assets will be retained in the *Capital Base* and may not be adjusted by the Regulator for *Redundant Capital*.

5.3.6 *Fixed Principles*

Section 8.47 of the Victorian Access Code provides for a *Reference Tariff Policy* to provide for certain *Fixed Principles*. A *Fixed Principle* is an element of the *Reference Tariff Policy* which cannot be changed when the *Service Provider* submits reviews to an Access Arrangement, without the agreement of the *Service Provider*. The *Fixed Principles* applying to this Access Arrangement are set out in clause 9.2(b) of the *Tariff Order*.

The *Fixed Principles* in clause 9.2(b) of the *Tariff Order* cannot be changed at the 1 January 2003 review of the Access Arrangement, and will apply for the duration of the *subsequent access arrangement period*, which is 5 years.

5.3.7 *Incentive Mechanism*

An incentive mechanism that permits Westar to retain a share of any returns from the sale of *Reference Services* during the *initial regulatory period* that exceed the level of returns expected at the beginning of the *initial regulatory period*, is set out in the *Tariff Order* in:

- (a) clause 6.1 and Part B of schedule 5 (the CPI-X formula for Westar), which provides that the “price path” for the *Reference Tariffs*, which is determined at the beginning of the *initial regulatory period* based on forecasts of all relevant variables, is not adjusted to account for subsequent events until the commencement of the *subsequent access arrangement period*;
- (b) clause 9.2(b)(5), which provides for a sharing of the benefits of efficiency gains between Westar and users if, in the *initial regulatory period*, Westar has achieved efficiencies greater than the values implied by the value of X in the CPI-X formula; and
- (c) clause 9.2(b)(6), which provides that the benefits of efficiency gains may be shared both in the *subsequent access arrangement period* and in *access arrangement periods* after the *subsequent access arrangement period*.

5.3.8 *Change in tax pass-through*

The *Reference Tariffs* may be varied as a result of a change in certain taxes (which are defined as relevant taxes in clause 10.1 of the *Tariff Order*). If an event occurs which is defined as a change in taxes event in clause 10.1 of the *Tariff Order*, the *Reference Tariffs* may be adjusted in accordance with the procedures set out in clause 7 of the *Tariff Order*.

5.4 Terms and Conditions

Terms and Conditions

Section 3.8 *An access arrangement must include the terms and conditions on which the Service Provider will supply each Reference Service. The terms and conditions included must, in the Relevant Regulator's opinion, be reasonable.*

Section 3.9 *To the extent permitted by the law of a jurisdiction outside Victoria, the terms and conditions of the Access Arrangement of a Service Provider who provides Services by means of a Covered Pipeline or system of Covered Pipelines which are situated both in Victoria and in another jurisdiction:*

- (a) must not differentiate between that part of the Covered Pipeline or Covered Pipelines situated in Victoria and that part of the Covered Pipeline or Covered Pipelines situated outside Victoria merely because they are situated in different jurisdictions; and*
- (b) must comply with the provisions of the Code.*

5.4.1 The terms and conditions on which Westar will supply each *Reference Service* are contained in the *Distribution System Code*, Chapters 10 to 15 and Schedules 1 and 3.

5.4.2 No part of the *Distribution System* is situated outside of Victoria.

5.5 Capacity Management Policy

Section 3.10 *An Access Arrangement must include a statement (a **Capacity Management Policy**) that the Covered Pipeline is either:*

- (a) a Contract Carriage Pipeline; or*
- (b) a Market Carriage Pipeline.*

5.5.1 The *Distribution System* is a *Market Carriage Pipeline*.

5.6 Queuing Policy

Section 3.14 *An Access Arrangement must include a policy for determining the priority that a Prospective User has, as against any other Prospective User, to obtain access to a Service provided by means of a Covered Pipeline and the Developable Capacity of a Covered Pipeline (and to seek dispute resolution under section 6) (a **Queuing Policy**).*

Section 3.15 *The Queuing Policy must:*

- (a) set out sufficient detail to enable Users and Prospective Users to understand in advance how the Queuing Policy will operate;*
- (b) accommodate, to the extent reasonably possible, the legitimate interests of the Service Provider and of Users and Prospective Users; and*
- (c) generate, to the extent reasonably possible, economically efficient outcomes.*

Section 3.16 *The Regulator may require the Queuing Policy to deal with any other matter the Regulator thinks fit, taking into account the matters listed in section 2.24.*

Section 3.17 *Notwithstanding anything else contained in this Code, the Service Provider must comply with a Queuing Policy specified in the Service Provider's Access Arrangement.*

5.6.1 Applicability

This *Queuing Policy* is applicable to requests for new connections or modifications to existing connections and is subject to Chapter 3 of the *Distribution System Code*.

5.6.2 Procedure

- (a) Westar will administer requests by *Prospective Users* for connection to the *Distribution System* or for a modification to an existing connection in the following manner:
- (1) Westar will administer requests in the order they are received, (on a “first come, first served” basis) including advising the *Prospective User* as to the charge for undertaking or modifying the connection; and
 - (2) Westar may amend the charge first specified pursuant to clause 5.6.2(a)(1) if additional requests for undertaking or modifying a connection are received, where those additional requests allow the recovery of the charge over a larger or different group of *Prospective Users* or *Users*.

5.7 Extensions/Expansions Policy

Section 3.18 *An Access Arrangement must include a policy (an **Extensions/Expansions Policy**) which sets out:*

- (a) *the method to be applied to determine whether any extension to, or expansion of the capacity of, the Covered Pipeline:*
- (i) *should be treated as part of the Covered Pipeline for all purposes under the Code; or*
 - (ii) *should not be treated as part of the Covered Pipeline for any purpose under the Code;*

(for example, the Extensions/Expansions Policy could provide that the Service Provider may, with the Relevant Regulator's consent, elect at some point in time whether or not an extension or expansion will be part of the Covered Pipeline or will not be part of the Covered Pipeline);

- (b) *specify how any extension or expansion which is to be treated as part of the Covered Pipeline will affect Reference Tariffs;*

(for example, the Extensions/Expansions Policy could provide:

- (i) *Reference Tariffs will remain unchanged but a Surcharge may be levied on Incremental Users where permitted by sections 8.25 and 8.26; or*
- (ii) *specify that a review will be triggered and that the Service Provider must submit revisions to the Access Arrangement pursuant to section 2.28);*

- (c) *if the Service Provider agrees to fund New Facilities if certain conditions are met, a description of those New Facilities and the conditions on which the Service Provider will fund the New Facilities.*

The Relevant Regulator may not require the Extensions/Expansions Policy to state that the Service Provider will fund New Facilities unless the Service Provider agrees.

5.7.1 Coverage

- (a) Subject to clauses 5.7.1(b) and 5.7.1(c), an *extension* or *expansion* to the *Distribution System* will be covered by this Access Arrangement where that *extension* or *expansion* is owned by Westar.
- (b) An *extension* considered by Westar to be a significant *extension* will not be covered by this Access Arrangement if Westar gives written notice to the Regulator before the *extension* comes in to service that the *extension* will not form part of this Access Arrangement.
- (c) Clause 5.7.1(b) does not apply where:
- (1) a party successfully seeks coverage of the *extension* under section 1 of the Victorian Access Code; or
 - (2) the *extension* was assumed and included in the calculation of the *Reference Tariffs*.
- (d) For the purposes of clause 5.7.1(b), a significant *extension* is an *extension* which will service a minimum of 5,000 customers.

5.7.2 Effect of Extension/Expansion on Reference Tariffs

- (a) This clause 5.7.2 describes how *Users* will be charged for a *Reference Service* where the provision of the *Reference Service* requires an *extension* or *expansion* (such *Users* are *Incremental Users*). Where *New Facilities Investment* is required to provide a *Service* other than a *Reference Service*, Westar will negotiate the charge in good faith with the relevant *Users* (subject to the relevant provisions of the Victorian Access Code and the Tariff Order).
- (b) Where *New Facilities Investment* passes the *Economic Feasibility Test*, *Incremental Users* will be charged at the prevailing *Reference Tariffs* and Westar will seek to include the *New Facilities Investment* in the *Capital Base* at the next review of the Access Arrangement. Westar may, at its discretion, seek the Regulator's agreement prior to the next review of the Access Arrangement that the *New Facilities Investment* passes the requirements of section 8.16 of the Victorian Access Code (as permitted by section 8.21 of the Victorian Access Code).
- (c) Where *New Facilities Investment* does not pass the *Economic Feasibility Test*:
- (1) Westar will seek to include the relevant part of the *New Facilities Investment* in the *Capital Base* at the next review of the Access Arrangement (Westar may, at its discretion, seek the Regulator's agreement prior to the next review of the Access Arrangement that the relevant part of the *New Facilities Investment* passes the requirements of section 8.16 of the Victorian Access Code (as permitted by section 8.21 of the Victorian Access Code));

- (2) the remaining *New Facilities Investment* may be (subject to the Victorian Access Code):
 - (A) recovered by charging *Incremental Users* according to the prevailing *Reference Tariffs* plus a *Surcharge* approved by the *Regulator* under section 8.25 of the Victorian Access Code;
 - (B) included in a *Speculative Investment Fund* under clause 5.3.3 of the *Reference Tariff Policy* (in which case *Incremental Users* would be charged according to the prevailing *Reference Tariffs*); or
 - (C) recovered by a combination of these approaches (in which case *Incremental Users* would be charged according to the prevailing *Reference Tariffs* plus a *Surcharge* approved by the *Regulator* under section 8.25 of the Victorian Access Code); and
- (3) Westar will notify the relevant *Users* of its choice between these approaches prior to the relevant *New Facility* entering in to service.
- (d) Westar may, at its discretion, negotiate a *Capital Contribution* with a specific *User* or *Users*, in which case, the charge for the *User* or *Users* shall be as agreed between the parties (for the purposes of determining *Reference Tariffs*, this *New Facilities Investment* shall be treated as if it were funded by Westar and the *User* or *Users* shall be assumed to be paying a *Surcharge* (if any) that would be approved by the *Regulator* under section 8.25 of the Victorian Access Code).
- (e) Notwithstanding clauses 5.7.2(c) to 5.7.2(d) above, where Westar considers that some or all of the *New Facilities Investment* that does not pass the *Economic Feasibility Test* may pass the *System Wide Benefits Test*, Westar may propose revisions to the Access Arrangement which have the effect of raising *Reference Tariffs* immediately (and thus permitting the part of the *New Facilities Investment* that would pass the *System Wide Benefits Test* to be included in the *Capital Base* and recovered through *Reference Tariffs* immediately). These revisions will be proposed and considered according to the process in section 2 of the Victorian Access Code and, if accepted, would amount to a change to this Access Arrangement.

5.8 Review and expiry of Access Arrangement

Section 3.19 *An Access Arrangement must include:*

- (a) *a date upon which the Service Provider must submit revisions to the Access Arrangement (a **Revisions Submission Date**); and*
- (b) *a date upon which the next revisions to the Access Arrangement are intended to commence (a **Revisions Commencement Date**).*

In approving the Revisions Submissions Date and Revisions Commencement Date, the Regulator must have regard to the objectives in section 8.1, and may:

- (a) *determine an earlier Revisions Submission Date and Revisions Commencement Date than proposed by the Service Provider in its proposed Access Arrangement;*
- (b) *define specific major events that trigger an obligation on the Service Provider to submit revisions prior to the Revisions Submission Date.*

Section 3.20 *An Access Arrangement Period accepted by the Relevant Regulator may be of any length. However, except in the case of an initial Access Arrangement which has a review date before 1 January 2003, if the Access Arrangement Period is more than five years, the Regulator must not approve the Access Arrangement without considering whether mechanisms should be included to address the risk of forecasts on which the terms of the Access Arrangement were based and approved proving incorrect. These mechanisms may include:*

- (a) *requiring the Service Provider to submit revisions to the Access Arrangement prior to the Revisions Submission Date if certain events occur, for example:*
 - (i) *if a Service Provider's profits derived from a Covered Pipeline exceed a certain amount or if the value of Services reserved in contracts with Users are outside a specified range;*
 - (ii) *if the type or mix of Services provided by means of a Covered Pipeline changes in a certain way; or*
- (b) *a Service Provider returning some or all revenue or profits in excess of a certain amount to Users whether in the form of lower charges or some other form.*

Where a mechanism is included in an Access Arrangement pursuant to this section 3.20(a), the Relevant Regulator must investigate no less frequently than once every five years whether a review event identified in the mechanism has occurred.

Section 3.21 *Nothing in section 3. 21 shall be taken to imply that the Relevant Regulator may not approve an Access Arrangement Period longer than 5 years if the Relevant Regulator considers this appropriate, having regard to the objectives of section 8.1.*

Section 3.22 *An Access Arrangement submitted under section 2.3 may include a date at which time the Access Arrangement will expire. If an Access Arrangement submitted under section 2.3 expires, the Covered Pipeline the subject of the Access Arrangement, shall cease to be Covered. The Service Provider must notify the Office of the Regulator-General if a Pipeline ceases to be covered under this section and the Office of the Regulator-General must update the Public Register accordingly.*

5.8.1 The *Revisions Submission Date* will be 29 March 2002.

5.8.2 The *Revisions Commencement Date* will be 1 January 2003.