

CRP Access Arrangement Information For Network

CENTRAL RANGES PIPELINE GAS NETWORK

Central Ranges Pipeline Pty Ltd
ACN 108 218 355

Access Arrangement Information
for the CRP Network
August 2005

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1. INTRODUCTION

On 3 January 2003 the Central Ranges Natural Gas and Telecommunications Association Incorporated (CRNG&TAI) applied for regulatory approval of a tender process in relation to the proposed supply of natural gas to the Central Ranges region of NSW pursuant to section 3.21 of the National Third Party Access Code for Natural Gas Pipeline Systems (Code). This application was made to the Australian Competition and Consumer Commission (ACCC) and the Independent Pricing and Regulatory Tribunal (IPART).

The CRNG&TAI subsequently carried out a competitive tender process ("Tender Process"). As part of the Tender Process CRNG&TAI advertised for expressions of interest and received six submissions prior to advertising the tender. The successful tenderer, Europacific Consortium, was announced on 19 November 2003. Europacific Consortium has been incorporated as Central Ranges Pipeline Pty Ltd (CRP). One other party, Agility provided a submission to the CRNG&TAI, but it was not a conforming tender.

As provided by the Code, on 27 April 2004 the CRNG&TAI submitted a final approval request (FAR) of the Tender Process (the Code does not require it to do so). The FAR was subsequently approved by the ACCC and IPART on 19 May 2004. ACCC and IPART have determined that the successful tender was selected in accordance with the previously approved tender approval request (TAR) and in accordance with the procedures and rules set out in the Code. Accordingly, the requirements of Section 3.33 of the Code have been satisfied and the pipeline is a Covered Pipeline under the Code.

ACCC and IPART concluded that the Reference Tariffs met the objectives of Section 8.1 of the Code and reflect a fair and reasonable cost allocation, the Revisions Commencement Date and the additional Revenue Policy incorporated into the Access Arrangement were appropriate for the Network.

Under the IPART approval a proposed Access Arrangement was to be lodged within 90 days, however the Licence was at that time owned by APT Pipelines Pty Limited and a number of extensions for the lodgment date were approved pending the completion of the purchase of Licence No 27 by CRP. The purchase of the Licence was completed on 6 May 2005.

The following items were determined by the Tender Process:

- Revisions Commencement Date;
- Reference Tariffs;
- Additional Revenue Policy, and
- Reference Tariff Policy.

Certain key elements of the Europacific Consortium business model, which needed to be confirmed, were:

- the timing for the establishment of the Ethanol plant at Gunnedah detailed in the request for tender;
- the successful negotiation with Contract Reference Service customers;

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- the successful negotiation with the Central West Pipeline (CWP) owner in relation to transmission costs, and the provision of gas in the required volumes and pressures to meet the CRP forecasts;
- the acceptability and successful negotiation of Pipeline Licence No. 27 from APT Pipelines Pty Limited; and
- the verification of the Consortium's construction costs.

The ethanol plant is still in the planning stage with no certainty of the project proceeding at this stage while the purchase of Pipeline Licence No. 27 was completed on 6 May 2004. All other matters have either been confirmed or are still in the course of negotiation.

CRP will incrementally construct the Network Sections for the Central Ranges Towns. The Network Section to Tamworth will be the first to be constructed. The rollout of the Network Sections for other Central Ranges Towns will be subject to a satisfactory economic model and commitments for the uptake of gas in each Town.

Terms used, but not defined in this Access Arrangement Information, have the same meaning given to them in the Access Arrangement.

Contact Details:

Mr David Adam
Managing Director
Central Ranges Pipeline Pty Ltd
16-20 Barrack Street
Sydney NSW 2000

Phone: 02 9279 2033
Mobile: 0412 428186
Facsimile: 02 9262 5666

2. SCOPE OF THIS ACCESS ARRANGEMENT INFORMATION

Where Reference Tariffs have been determined in accordance with a tender process approved by the Regulator under Section 3.32 of the Code, the Access Arrangement Information for a Covered Pipeline need not contain the information required by Sections 2.6 and 2.7 of the Code (refer to Section 3.35 of the Code).

Section 2.6 of the Code requires an Access Arrangement Information to contain such information as in the opinion of the Relevant Regulator would enable Users and Prospective Users to understand the derivation of the elements in the proposed Access Arrangement and to form an opinion as to the compliance of the Access Arrangement with the provisions of the Code. This Access Arrangement Information need not contain this information.

Section 2.7 of the Code requires an Access Arrangement Information to include at least the categories of information described in Attachment A of the Code. This Access Arrangement Information need not contain this information.

While not required, CRP is of the view that it would be useful to provide information which enables Users and Prospective Users to understand the derivation of Reference Tariffs. This Access Arrangement Information contains that information.

3. COMPETITIVE TENDER PROCESS

Reference Tariffs in this Access Arrangement were established through a competitive Tender Process.

The principle selection criterion for the awarding of the tender was that:

- the tenderer can provide for the supply of natural gas to consumers at the lowest sustainable combined distribution and transmission tariffs.

In assessing which tenderer offered the 'lowest sustainable' tariffs regard was had to:

- the average combined transmission and distribution Reference Tariff per GJ of gas proposed to be delivered over the initial Access Arrangement Period;
- the average combined transmission and distribution non-Reference Tariff per GJ of gas proposed to be delivered over the initial Access Arrangement Period; and
- the residual values of the proposed pipelines at the Revisions Commencement Date.

Secondary criteria included:

- the areas to which gas is to be made available;
- the number of customers which will have access to natural gas; and
- the proposed construction timetable.

In addition, it was expected that initially the townships of Gunnedah and Tamworth would be reticulated with the other Central Ranges Towns being reticulated in the future.

The tender was to, and did, determine:

- the Revisions Commencement Date;
- Reference Tariffs;
- the Additional Revenue Policy; and
- the Reference Tariff Policy (to the extent that it determines the manner in which Reference Tariffs will change over the period).

4. TARIFF DETERMINATION METHODOLOGY

Networks typically have high up-front construction costs. In addition, greenfield projects generally take many years for demand to grow sufficient for revenue to sustain the large capital investments and on-going operating costs. As a consequence there are under-recoveries of revenue in the earlier years of operation which must be offset by over-recoveries in later years.

In these circumstances commercial prudence suggests that tariffs for services be set high to limit the period of under-recovery. However, if tariffs are set too high customers will not convert to natural gas, and demand will never rise sufficient to underpin the investment in infrastructure.

Faced with these economics and with the tender criteria that would reward:

- the lowest sustainable combined distribution and transmission tariffs;
- the areas to which gas is to be made available;
- the number of customers which will have access to natural gas; and
- the proposed construction timetable;

Europacific (subsequently incorporated as Central Ranges Pipeline Pty Ltd) established Reference Tariffs for its successful tender by reference to the current delivered prices of competing fuels in the region (coal, LPG, light fuel oil and electricity) and the prices that different user classes may be able to bear. To set tariffs any higher would almost certainly result in market and economic failure, to set them any lower would increase the period of under-recovery and, as a consequence, the risk of the project.

These Reference Tariffs which are shown exclusive of GST are:

	\$/GJ (1 July 2003 \$'s) exclusive of GST
Special Contract Transportation Service	0.05
Contract Transportation Service	1.20
I&C Transportation Service	1.50
Domestic Transportation Service	3.50

and they will rise annually by movements in CPI over the duration of this Access Arrangement Period. CRP will publish a schedule each year including GST at the applicable rate.

| The Central Ranges Network is not expected to recover total costs during the initial Access Arrangement Period to 2019. To allow opportunity to recover total costs over the life of the assets, the Under-recoveries in the first Access Arrangement Period are to be capitalized into

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the Capital Base to be taken into account in the determination of Reference Tariffs in future Access Arrangements. Over-recoveries in the Initial Access Arrangement Period will be used to meet Under-recoveries in subsequent years, reduce the Capital Base or to meet Capital Expenditure required to fund the construction of the Network.

5. INCENTIVES

Actual capital costs and non-capital costs are to be used for the purposes of determining the Under-recoveries and the Capital Base. In such circumstances it might be argued that there is little incentive for CRP to contain these costs.

The reality is that CRP has strong incentives to reduce the period of Under-recovery and, hence, the risk of this greenfield project. Given that Reference Tariffs are fixed in real terms for the duration of this Access Arrangement (about 15 years), reducing capital costs and non-capital costs, and maximizing the uptake of gas in the Central Ranges Towns, are the only strategies available to CRP to reduce the period of Under-recovery.

In addition, the Access Arrangement provides for future incentives with the treatment of Over-recoveries. In each year Over-recoveries will be moved into an account. While the construction of the Network in all Central Ranges Towns is incomplete, the account is to be used for one or more of the following:

- to meet Under-recovery in subsequent years;
- to reduce the Capital Base;
- to meet capital expenditure required to fund the construction of Network Sections for other Central Ranges Towns not connected at the time.

Once the construction of the Network for all Central Ranges Towns has been completed then any Over-recoveries will be split 50/50 between the Users and CRP, in the form of reduced tariffs and additional profit distributions, respectively.

There are several incentives for CRP in this mechanism. Until the construction of the Network Sections for all Central Ranges Towns is complete, the incentives are primarily to reduce the risk of the project by reducing the period of Under-recovery (by promoting the uptake of gas, and ensuring the efficiency of the Capital Base). After the construction of the Network Sections for all Central Ranges Towns is complete, the incentives lie in the 50% of the Over-recoveries that CRP shares with Users.

6. NETWORK CAPITAL COSTS

The Network System costs to be included in the Capital Base are:-

- Land access costs including costs of obtaining land easement,
- Native Title and Cultural Heritage costs,
- Stamp Duty and other statutory charges,
- Network System Construction ,
- Project Management Fees,
- Promoter's Fee (Contingent on satisfactory completion),
- Legal, Accounting and Insurance,
- Due Diligence (Insurance, Accounting, legal and market),
- Financial Advisory Fee,
- Funding due diligence, establishment and legal fees,
- Interest on debt finance during construction,
- Other capital cost,
- Costs associated with the Conversion of customers to natural gas.

All the above costs will be incurred by CRP with third parties contracts. All costs are being monitored by the Project Manager Jasdell Pty Ltd, which has its Promoters Fee at risk for any costs overruns. GHD are reviewing the costs to date, the cost to complete, the quality of design and construction on a monthly basis on behalf of CRP. Accounts will be audited and a detailed report will be furnished to the Regulator with the Under-recovery and Over-recovery report.

7. ECONOMIC LIFE OF ASSETS FOR DEPRECIATION

Based on the best information currently available to CRP, the economic lives for the various assets making up the Network are set out in the table below:

Asset	Economic Asset Life (Years)
Network	60
Services	60
Pressure Reduction Stations	60
Meters	20

These economic lives are to be reviewed once the network design and construction has been completed. Depreciation of assets for regulatory purposes will not occur until the next Access Arrangement Period.

8. COMMITTED CAPITAL WORKS

The Network as expressed in the Tender is a Network System for all ten of the Central Ranges Towns. Any capital expenditure necessary to build this Network, needed to service the Central Ranges Towns and “stay in business” capital expenditure, constitutes part of the Network. All these costs will enter the Capital Base when incurred.

Any other capital expenditure associated with extending the network for locations other than the 10 Central Ranges Towns, or expanding any part of the network to increase capacity for service locations other than the ten Central Ranges Towns, is New Facilities Investment. The cost of any extensions nominated by CRP, and the cost of all expansions, will enter the Capital Base at the beginning of the second Access Arrangement Period subject to approval by the Regulator as meeting the requirements of the Code.

CRP has committed, in the first instance, to building the Network Section for Tamworth based on market demand. The decision to build a Network in any other Central Ranges Town will be at CRP’s sole discretion.

9. PLANNED CAPITAL INVESTMENT

Capital Works Program

As it is rolled out, the Network System will be designed and constructed to service the requirements of all known potential customers in the Central Ranges Region. Any additional capital required to increase Network System capacity is to be treated under the same investment return arrangements as detailed herein.

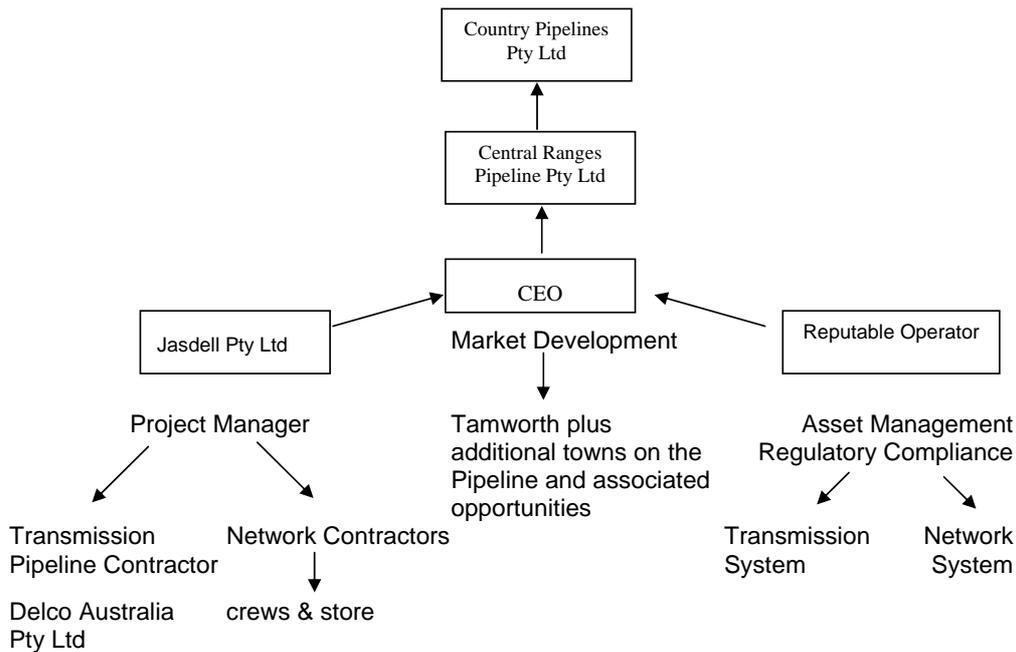
Construction Timetable

Initially the Network System will be laid in the Tamworth region only. Construction of the Transmission Pipeline to Tamworth is forecast to take 6 months including allowance for wet weather. The Network System for Tamworth will be rolled out with work starting at the same time as the Transmission Pipeline. The first connected will be the larger industrial and commercial customers. The Network System will be rolled out over two years, to service all developed streets where the housing density and demand makes network extension economically viable.

All other Central Ranges Towns requiring a lateral will be connected as they prove to be economically viable.

10. OVERHEADS AND MARKETING COSTS

CRP's corporate and organization structure has been shown diagrammatically as follows:



CRP's corporate structure will be kept to a minimum

The Central Ranges Pipeline Pty Ltd will establish a permanent office in Tamworth for the following purposes:

1. Oversee the construction of the Transmission and Network System
2. Co-ordinate the rollout and the connection of end-users
3. Marketing of CRP.
4. Provide customer liaison.
5. Regulatory reporting for the company and Network System.
6. Management of the investors interests in CRP.
7. Provide ongoing development of a plan for the rollout of all Central Ranges Towns.
8. Any other matters related to the Network System.

This office will be under the control of the Managing Director who will report to the Board of both Country Pipelines Pty Limited and CRP.

Overhead and marketing costs will include:

- Accounting and audit expenses

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- Bank charges, fees and interest including interest rate hedging
- Communication costs
- Computer software, hardware and consultants
- Consultant fees
- Directors Fees
- Employee costs
- Incentive payments
- Insurance costs
- Marketing and Promotional
- Motor vehicles
- Property rent and outgoings
- Statutory and other government charges associated with the companies and Network System construction and operation.
- Travel and accommodation costs

Marketing Costs

A significant portion of the cost of the Tamworth office will be directed towards the provision of the Reference Services. In addition CRP will provided incentives for end Users to convert to natural gas.

The exact form of the incentives is yet to be finalised and will be part of the ongoing negotiations with the various parties including conversion companies, Users and End-Users.

The format of assistance will be on a case by case basis to Contract and Industrial and Commercial Customers. For Domestic Customers a program will be introduced once the marketing to customers commences.

11. NETWORK DESIGN AND CONSTRUCTION

Networks will be constructed initially to connect large volume (Special Contract and Contract) customers. The pipes forming this part of the Network will be designed to operate at 1050 kPa.

These pipes will provide a dual function, to connect large volume customers, and to provide a high pressure backbone which will feed the remainder of the network pipes. These lower pressure pipes, which will provide access to I&C and domestic customers, will operate at 500 kPa.

CRP's construction strategy in relation to the Network System will be to contract with trade contractors on a linear meter basis.

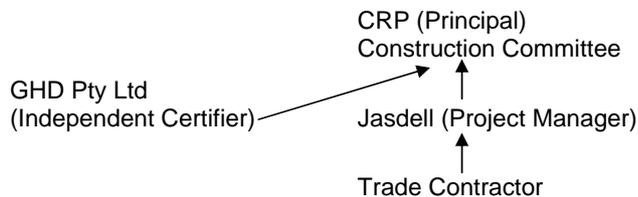
Jasdell has been retained to provide project management, design and procurement services for the Network System. Jasdell also have an incentive to deliver the Network System on budget because they have their promoters fee at risk if the initial backbone is not delivered on budget.

GHD have reviewed the Network System Costs and found them to be reasonable.

a) Reporting Structure

CRP will implement the same reporting structure in the Network System as in the Transmission Pipeline.

This structure may be shown diagrammatically as follows:



The same frequency of meetings and reports will be required in managing the construction of the Network System.

Jasdell will report directly to the CEO in this instance. The CEO will be charged with determining, in consultation with Jasdell, the specific route of the Network System as a result of his marketing efforts.

b) Authorisations

The project manager is responsible for the provision of all local authority approvals. The major authorisation required is a Gas Reticulation Authority, which is subject to approval by IPART and DEUS.

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c) Design

The project manager has sub-contracted Agility to develop and complete the design for the entire 250 kms Network System to the industry standards. GHD will review the design on behalf of CRP and Bank.

d) Procurement

The procurement service for the Network pipe will be provided for by Jasdell but the risk on the product price will be to CRPs account.

e) Trade Contractors

The trade contractors will be signed directly to CRP and be managed by Jasdell.

CRP and Jasdell have held discussions with a number of contractors who have expressed an interest but no final decision has been made. CRP intends to employ local trade contractors who have the appropriate technical and financial qualifications.

f) Network Timetable

A number of steps under the construction program will be carried out contemporaneously. The program may be summarised into the following steps:

2005	September	<ul style="list-style-type: none">• Complete Engineering Design of Backbone• Select Contractor• Negotiate Contract
	September	<ul style="list-style-type: none">• Commencement of Construction
2006	April	<ul style="list-style-type: none">• Pre-commissioning of the initial Backbone•
2007	September	<ul style="list-style-type: none">• Completion of the Tamworth Network System