



**Access Arrangement Information
for the Principal Transmission System
by
Victorian Energy Networks Corporation
(VENCorp)**

**submitted under the
National Third Party Access Code
for Natural Gas Pipeline Systems**

**submitted
28 March 2002**

VENCorp submits the following information in accordance with sections 2.6 and 2.7 of the Access Code:

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1 Purpose of this document

This Access Arrangement Information ("AAI") forming part of the Access Arrangement is submitted by VENCORP (the "Service Provider") to the Australian Consumer and Competition Commission (the "Regulator") in accordance with the National Third Party Access Code for Natural Gas Pipelines ("Access Code").

Note:

1. The financial forecasts for the 6 months to 30 June 2003, the four financial years ending 30 June 2004, 2005, 2006, 2007, and the 6 months to 31 December 2007 are in 2002 dollars;
2. Rounding errors may appear in some tables;
3. Unless otherwise indicated definitions used in VENCORP's Access Arrangement apply in this AAI; and
4. All financial forecasts contained in this document are exclusive of GST.

CATEGORY 1**2 Information Regarding Access and Pricing Principles****2.1 Background**

Charges for access to the Principal Transmission System are comprised of:

- a) GasNet tariffs that are charged for GasNet Transmission Services provided under GasNet's Access Arrangement; and
- b) VENCORP's Reference Tariffs that are charged for VENCORP's Reference Services.

Pursuant to the allocation of obligations between GasNet and VENCORP under section 10.2 of the Access Code, the GasNet Transmission Services and GasNet tariffs are described in GasNet's Access Arrangement and Access Arrangement Information.

VENCORP expenditure reflects the cost of delivering its statutory functions required under the Gas Industry Act and the MSO Rules. This AAI sets out the Access Code compliant information on the VENCORP Reference Tariffs to enable Users to form a view on the level of Reference Tariffs proposed.

The VENCORP Reference Services are as follows:

- Provision of Information Services;
- Market and System Operational Services;
- Meter Data Management Services; and
- System security service.

Both the system security service and a substantive part of the Meter Data Management Services are provided to VENCORP under contract by external agencies. The contract charges for these services are passed directly on to Participants by way of a rate per GJ and a daily charge per meter, respectively. A registration fee is charged to each Market Participant, with a cumulative total revenue of approximately \$140,000 for the financial year 2002/2003 across the industry, in return for which registered Market Participants obtain access to a range of Information Services related to the pipeline system and wholesale gas market. The balance of VENCORP's expenditure for the Market and System Operational Services is to be recovered by the Commodity Tariffs.

VENCORP's ability to provide the VENCORP Reference Services is dependent upon GasNet making the Principal Transmission System available to VENCORP to operate in accordance with the MSO Rules.

2.2 VENCorp costs

VENCorp costs are those costs associated with the services provided to deliver VENCorp's statutory functions under the Gas Industry Act and MSO Rules for the Principal Transmission System. These statutory functions include the obligations on VENCorp set out in Table 1.

Table 1 Statutory functions of VENCorp

<ul style="list-style-type: none"> ▪ Operate the transmission system; and ▪ Operate and administer the market; in accordance with MSO Rules and Gas Industry Act
Specify security standards for the gas transmission network
Control the security of the Gas Transmission System
Control the operation of the Gas Transmission System
Collect information about the Gas Transmission System
Monitor and review the capacity of the Gas Transmission System and the trends for demand for the injection of gas into, and the withdrawal of gas from, the system
Provide information and other services to facilitate decisions for economically efficient investment and use of resources in the gas industry
Co-ordinate the interaction of gas production, gas storage, transmission pipelines and gas distribution and supply facilities for the purpose of ensuring a secure and efficient Gas Transmission System
Operate and administer a market and facilitate trading arrangements for the operation of the Gas Transmission System
Collect information about delivery of gas by gas retailers and recommend to the Essential Services Commission (ESC) standards in relation to the reliability of the supply of gas to classes of customers
Carry out directions given by the Treasurer or the Minister to VENCorp under section 23 of the <i>Gas Industry (Residual Provisions) Act 1994</i>

VENCorp costs predominantly reflect non-capital costs (about 87% of VENCorp's total costs fall in this category) associated with providing services to meet its statutory functions. Further, in providing its services, VENCorp recoups the costs incurred on a cost recovery basis (i.e. does not seek a return for its services provided).

2.3 Summary of VENCorp Costs

Forecast VENCorp operating costs for providing these services over the Access Arrangement Period are set out in Table 2.

Table 2 Summary of VENCorp operating costs

Reference Service	Forecast Financials (in 2002 \$m) for					
	6 months to 30 June	Year ending 30 June				6 months to 31 Dec
	2003	2004	2005	2006	2007	2007
Market and System Operational Services ¹	6.5	12.5	12.6	13.0	12.6	6.1
Information Services ²	0.1	0.1	0.2	0.2	0.2	0.1
Meter Data Management Services	0.6	1.3	1.3	1.3	1.3	0.7
System Security Services	1.0	2.1	2.1	2.1	2.1	1.0
Total	8.2	16.0	16.2	16.6	16.2	7.9

2.4 Full retail competition

In addition to VENCorp's statutory functions set out under section 2.2 above, the Gas Industry Act also enables VENCorp to provide services to facilitate the implementation and operation of gas full retail competition (FRC) in Victoria. VENCorp's provision of these FRC services and its recovery of associated costs is subject to regulatory oversight by the Essential Services Commission under the Gas Industry Act, and does not form part of this Access Arrangement.

¹ Includes the cost of competitive services (i.e. telecommunications) and consultancy services, which in turn includes the reimbursement of the costs associated with conducting emergency exercises. Revenue associated with these services of approximately \$100,000 per annum has been offset against these costs

² Reflects revenue associated with provision of service given difficulty in isolating associated costs (see section 2.8).

2.5 VENCorp Tariffs

The Reference Tariffs that apply for each Reference Service are set out in Table 3 below.

Table 3 Summary of VENCorp Reference Service and Tariffs

Reference Service	Reference Tariff
Market and System Operational Services	Tariff D Commodity Tariff Tariff V Commodity Tariff
Information Services	Registration Tariff
Meter Data Management Services	Transmission Meter Data Management Tariff Distribution Meter Data Management Tariff
System Security Services	System Security Tariff

The summary of the initial VENCorp tariffs is set out in table 4 below.

Table 4 Initial VENCorp reference tariffs

Reference Tariff:	Forecast Financials (\$) for					
	6 months to 30 June	Year ending 30 June				6 months to 31 Dec
	2003	2004	2005	2006	2007	2007
Tariff D Commodity Tariff	\$0.03248/GJ					
Tariff V Commodity Tariff	\$0.08055/GJ					
Registration Tariff	\$30/day/participant					
Transmission Meter Data Management Tariff \$/day/meter	\$7.00	Yet to be determined				
Distribution Meter Data Management Tariff \$/day/meter	\$2.62965	Yet to be determined				
System Security Tariff per GJ	\$0.00751	Yet to be determined				

Note – VENCorp proposes to continue to set meter data management tariffs and system security tariffs on an annual (financial year) basis. Therefore, this AAI only includes information for the 6 months ending 30 June 2003 in relation to those services. Further, VENCorp's forecast expenditure for the period from 1 July 2002 to 30 June 2003 will be determined in accordance with the current mechanism with corresponding tariffs to be set for the period 1 July to 31 December 2002. The

resulting system security tariffs and metering data management tariffs will apply for the six months to 30 June 2003.

2.6 Principles for Cost Allocation of VENCORP Costs to Users

VENCORP's cost allocation methodology for each of its reference services encompasses a set of principles balancing cost reflectivity against complexity and the cost effectiveness of being able to identify, set and levy cost reflective tariffs to Users.

The separation of VENCORP costs for operation of the Principal Transmission System from GasNet's costs for provision and maintenance of the pipeline assets and infrastructure of itself ensures a significant element of cost reflectivity by a clear and distinct separation of the costs and charges for these two primary services.

With the overall VENCORP component amounting to about 15% of the total costs associated with transporting gas on the Principal Transmission System, industry has acknowledged that there are diminishing returns and efficiencies in seeking further cost reflectivity in charging for all of the sub-components that form VENCORP's services.

VENCORP allocates its costs based on the following set of guiding principles:

- a) Costs should be allocated to end-use customer segments on a commercially reasonable and economically efficient basis;
- b) The cost structure should be simple to understand and implement;
- c) Costs that are not easily allocated on a cost-reflective basis are included in the pool of "common" costs recovered through the commodity reference tariffs;
- d) Allocate costs so as not to distort potential investment decisions in pipeline and end-user facilities;
- e) The resulting tariffs should not create barriers to entry and should provide incentives for the gas market to grow;
- f) To achieve fair and equitable tariffs, VENCORP sets its commodity tariffs to be about 1% to 1.5% of total delivered energy costs for most customers. Given the range of customer types, and consequent differences in their delivered energy costs, this cannot be met exactly for all customers or customer segments. Therefore, the commodity tariffs have been structured such that where charges are required to materially exceed the guideline for a particular customer segment, then this occurs in segments with low price elasticity so as to result in minimal distortion in usage or investment. In general this means that high-use customers are levied a lower average \$/GJ rate than low-use customers.

VENCORP's resulting cost structure definition for its Reference Services is:

- a) For Market and System Operational Services, segmentation of customers between Tariff D and Tariff V to determine a unique commodity (\$/GJ) charge;
- b) For Information Services, allocation based on a per participant per day basis;

- c) For Meter Data Management Services, allocation based on a per meter per day basis; and
- d) For the system security service VENCorp initially proposes to allocate costs to Participants on the basis of GJ of gas consumed or withdrawn from the Principal Transmission System. This may change during the Access Arrangement Period (see section 2.9).

VENCorp's tariffs are discussed further below.

2.7 VENCorp Commodity Tariffs

VENCorp proposes to continue to recover all costs not allocated to VENCorp's registration, meter data management and System Security Services through commodity tariffs allocated between Tariff D and Tariff V withdrawals.

Table 5 sets out total forecast VENCorp common costs associated with Market and System Operational Services over the Access Arrangement Period.

Table 5 Forecast VENCorp common costs

Forecast Common Costs 2002\$	Forecast Financials (in 2002 \$m) for					
	6 months to 30 June	Year ending 30 June				6 months to 31 Dec
		2003	2004	2005	2006	
Forecast costs	6.5	12.5	12.6	13.0	12.6	6.1

The split of actual injected volumes between Tariff V and Tariff D consumption on the PTS for 2000/01, 2001/02 is set out in Table 6 below.

Table 6 Split of actual injected volumes

Tariff V and D split consumption	Actual year ended 30 June 2001	Forecast year ended 30 June 2002
Tariff D consumption - GJ	113.0	108.3
Tariff V consumption - GJ	100.0	105.0
Tariff D consumption - %	53.1	50.8
Tariff V consumption - %	46.9	49.2

Based on the historical demand, the assumed demand for Tariff D and for Tariff V customers over the Access Arrangement Period is set out in Table 7 below.

Table 7 Forecast demand

Forecast demand consumption	Forecast Financials for					
	6 months to 30 June	Year ending 30 June				6 months to 31 Dec
		2003	2004	2005	2006	
Forecast D consumption - PJ	52.7	112.6	119.7	124.3	127.1	67.9
Forecast V consumption - PJ	45.8	110.8	113.3	115.9	118.3	69.1
Forecast D consumption - %	53.5	50.4	51.4	51.7	51.8	49.5
Forecast V consumption - %	46.5	49.6	48.6	48.3	48.2	50.5

As discussed in section 2.6, VENCorp aims to achieve fair and equitable tariffs by setting its commodity tariffs to be about 1% to 1.5% of total delivered energy costs for most customers. For the Access Arrangement approved in 1998, this was achieved through allocation of approximately 70% of the common costs to Tariff V and 30% to Tariff D. The following table 8 illustrates the effect of different cost allocation splits on the proposed initial Tariff D and Tariff V Commodity Tariffs:

Table 8 Possible Tariff D and Tariff V Commodity Tariffs (\$/GJ)

Tariff V/D cost allocation (%)	51/49	60/40	70/30	75/25
Tariff V	\$0.05602/GJ	\$0.06864/GJ	\$0.08055/GJ	\$0.08580/GJ
Tariff D	\$0.05602/GJ	\$0.04391/GJ	\$0.03248/GJ	\$0.02744/GJ

Table 9 below includes worked examples of the impact on assumed customers of varying the cost allocation between Tariff D and Tariff V customers. Several examples are given which indicate that the commodity charge is the significant component of the overall VENCorp charge. Based on the analysis, an allocation split between 60:40 to 80:20 is required to achieve a VENCorp charge between 1% and 1.5% outcome for large industrial customers (and to achieve the other principles set out in section 2.6). Therefore, VENCorp is proposing to continue with the historical cost allocation of approximately 70:30 to Tariff V and Tariff D customers respectively.

Table 9 Analysis of the Table 8 possible Tariff D and V Commodity tariffs

Cost Allocation between Tariff D and V	Very large industrial 4PJ pa	Large industrial or commercial 0.2PJ pa	Large retailer 65PJ pa	Medium industrial or commercial 5,000GJ pa	Small industrial or commercial 200GJ pa	Domestic 60GJ pa
	Tariff D \$	Tariff D \$	Tariff D & V \$	Tariff V \$	Tariff V \$	Tariff V \$
Indicative total delivered cost of gas per GJ³	3.50	3.70	6.55	7.00	8.00	9.00
51%:49% V/D						
Commodity Tariff	224,080	11,204	3,647,602	280	11	3
Registration Tariff	10,950	-	10,950	-	-	-
Metering Tariff	2,555	2,555	265,098	-	-	-
System Security Tariff	30,040	1,502	488,995	38	2	-
Total annual VC charge	267,625	15,251	4,412,645	318	13	3
Del. VENCorp (\$/GJ)	0.0669	0.0763	0.0678	0.0635	0.0635	0.0638
% VC costs of indicative cost of gas	1.9%	2.1%	1.0%	0.9%	0.8%	0.7%
60%:40% V/D						
Commodity Tariff	175,640	8,782	3,724,640	343	14	4
Registration Tariff	10,950	-	10,950	-	-	-
Metering Tariff	2,555	2,555	265,098	-	-	-
System Security Tariff	30,040	1,502	488,995	38	2	-
Total annual VC charge	219,185	12,839	4,489,683	381	15	5
Del. VENCorp (\$/GJ)	0.0548	0.0642	0.0690	0.0762	0.0762	0.0764
% VC costs of indicative cost of gas	1.6%	1.7%	1.1%	1.1%	1.0%	0.8%
70%:30% V/D						
Commodity Tariff	129,920	6,496	3,797,304	403	16	5
Registration Tariff	10,950	-	10,950	-	-	-
Metering Tariff	2,555	2,555	265,098	-	-	-
System Security Tariff	30,040	1,502	488,995	38	2	-
Total annual VC charge	173,465	10,553	4,562,347	440	18	5
Del. VENCorp (\$/GJ)	0.0434	0.0528	0.0701	0.0881	0.0881	0.0833
% VC costs of indicative cost of gas	1.2%	1.4%	1.1%	1.3%	1.1%	1.0%
75%/25% V/D						
Commodity Tariff	109,760	5,488	3,829,287	429	17	5
Registration Tariff	10,950	-	10,950	-	-	-
Metering Tariff	2,555	2,555	265,098	-	-	-
System Security Tariff	30,040	1,502	488,995	38	2	-
Total annual VC charge	153,305	9,545	4,594,330	467	19	5
Del. VENCorp (\$/GJ)	0.0383	0.0477	0.0706	0.0933	0.0933	0.0936
% VC costs of indicative cost of gas	1.1%	1.3%	1.1%	1.3%	1.2%	1.0%

³ Sourced from NIEIR Natural gas consumption and peak day issue forecasts for Victoria December 2000 and other publicly available information

2.8 Registration Tariff

Registration of Market Participants carries with it administrative costs and costs associated with the provision of a range of Information Services. These services are desired by Market Participants and provided by VENCORP irrespective of a Market Participant's level of market activity. The costs of providing such services are largely fixed in nature, being associated with establishment of communications infrastructure, e.g. the electronic "market information bulletin board" and website and, hence, are largely independent of the numbers of Market Participants. Since much of this infrastructure is also used for communication of operational and market communications, it is also difficult to isolate a component of costs for the provision of the service independent of market activity.

Nevertheless, it is appropriate that, since all registered Market Participants obtain the benefits of these services irrespective of market activity, they are each allocated some portion of these fixed costs. The initial tariff (\$30/day/participant, or \$10,950/participant/year) prior to market commencement reflected a reasonable estimate of the costs incurred in providing the service. Further, it is comparable with NEMMCO's current fixed charges in the National Electricity Market⁴. To VENCORP's knowledge, there have been no issues raised by any party that this represents a material or inappropriate barrier to entry.

VENCORP believes that the current fee of \$30/day/participant is reasonable and therefore proposes to maintain the registration fee at this level for the next regulatory period. Based on an average of 15 registered Market Participants⁵ over the Access Arrangement Period, the expected average annual revenue recovered from Registration Fees is \$164,000.

2.9 Meter Data Management Tariffs

For financial year 2002/03 it is projected that there will be approximately 200 transmission supply point meters and over 900 distribution supply point meters from which VENCORP will be required to collect, process and store metering data. This data is used for a number of purposes including market settlements and billing.

While VENCORP itself collects and processes data from meters on the transmission pipeline system, it contracts out the distribution meter reading function to a specialist service provider.

The methodology proposed by VENCORP for recovery of costs for these Meter Data Management Services involves the direct recovery, on a per meter basis, of an allocation of VENCORP's meter data handling costs between transmission and distribution meters.

⁴ NEMMCO charges a fee of \$1700 per registration application and has a minimum fixed charge of \$9125/year per participant

⁵ That is Market Participants, as distinct from Participants who do not pay registration fees.

The proposed transmission and distribution meter data management tariffs are as follows:

Distribution meter data management tariff	\$2.62965/day (\$960/year)
Transmission meter data management tariff	\$7/day (\$2,555/year)

2.9.1 Distribution supply point meters

VENCorp contracts out the reading of the distribution supply point meters to a specialist meter data agent service provider, with the contract being awarded after a competitive tender process. Following a call for expressions of interest in November 2001, VENCORP called for tenders from a targeted shortlist of capable providers and entered into a contract with the successful tenderer for provision of the service from 1 September 2002 to 31 August 2005. The contract costs to be incurred by VENCORP for distribution meter reading services in financial year ending 30 June 2003 are \$0.8m.

The Distribution Meter Data Management tariff has been set on a per meter per day basis to reflect the actual costs to VENCORP of data collection and processing for these meters by the contracted meter data agent. Thus, these charges reflect efficient costs derived through a fully competitive tender process.

2.9.2 Transmission supply point meters

Because transmission system meter data is required operationally for System Security, Scheduling and Wholesale Market Settlement purposes, a larger data set is required than for distribution system meters which are only required for settlement purposes. VENCORP has therefore established systems to transmit information to meters, acquire and store data from meters and process data to meet the various operational needs.

Given the degree of overlap between market and transmission system operational requirements, it would be highly problematic to attempt any truly cost-reflective allocation of VENCORP's overall transmission system meter data handling costs to individual participant meters.

Nevertheless, it is considered appropriate to provide some pricing signal to Market Participants to reflect the increased costs incurred by VENCORP in managing metering data from each additional transmission system supply point. The Transmission Meter Data Management Tariff of \$7/meter/day was therefore set at the time of market commencement by benchmarking it against the metering fees then imposed in the Victorian wholesale electricity market.

VENCORP considers that \$7/meter/day still represents a reasonable allocation of meter data handling costs to the transmission supply point meters for wholesale market purposes. This is higher than the rate derived through the competitive tendering process for the distribution meters because:

1. There are about four times fewer transmission meters than distribution meters (with corresponding reduction in economies of scale);

2. Transmission meters require gas quality data downloads not needed for distribution meters;
3. Transmission meters supply larger quantities of data that must be processed and stored; and
4. Transmission meters are communicated with twice every hour rather than once daily for distribution meters.

Revenue collected by VENCORP through transmission meter data management is approximately \$0.5m per annum. In determining the commodity tariffs this amount has been reduced from the commodity common cost pool.

2.10 System Security Tariff

The System Security Service is the means by which VENCORP ensures the ultimate security of the Principal Transmission System and the public's safety in the event of major deficiency of supply or transportation capability, by providing a last resort means of maintaining pressures at or above security levels during an emergency and to allow for an orderly management of any curtailment program of customers in such an event.

In providing the System Security Service, VENCORP currently passes through to Users the external costs incurred through the contracted costs of reserving storage space of 3000 tonnes in GasNet's LNG facility. While VENCORP has a contract in place with GasNet for this storage capacity until May 2004, the amount chargeable by GasNet for this service has been regulated under the Government's Tariff Order at \$1.4m per annum until 31 December 2002. It is uncertain at this time what contract charge will be negotiated upon removal of this regulation. At this point, there are no other viable alternatives to LNG for the provision of this fundamental security service.

For the foreseeable future it is likely that VENCORP will continue to satisfy the requirements of the System Security Service through the reservation of LNG storage capacity⁶.

The level of reserve required has recently been the subject of an extensive review, involving all Victorian gas industry Participants and the Office of Gas Safety, which has confirmed that the current level of 3000 tonnes of LNG is appropriate given current system configuration and demand profile. However, this will continue to be monitored as part of VENCORP's planning review processes. Because of the current uncertainty with respect to potential future alternatives, VENCORP proposes that the tariff for this service is subject to the current annual review and ACCC approval process under the MSO Rules.

As stated above, the Tariff Order regulation of the GasNet charges for the LNG system security storage capacity expires on 31 December 2002. VENCORP has commenced negotiations with GasNet over the charges to apply from 1 January 2003 under the existing contract which runs to May 2004. Agreement on this has yet to be reached. Nevertheless, based on its current interpretation of the contract pricing provisions, VENCORP believes it is appropriate to make provision for an increase in the annual costs for LNG system security storage capacity from the regulated \$1.4m per annum to

⁶ Refer to *Victorian Gas Systems Security Cost Benefit Risk Analysis Report* prepared by Charles River Associates, March 2002.

approximately \$2m per annum, effective from 1 January 2003. VENCORP emphasises that the estimates for LNG services are made on a non-prejudicial basis with regard to its ongoing negotiations with GasNet on this matter.

VENCORP proposes to continue to pass through the costs for the System Security Service to all customers as a "postage stamped" commodity charge based on a customer's potential to receive equal benefit from the facility (i.e. recover the System Security Service costs from retailers/shippers as a common commodity charge on all gas withdrawals from the Principal Transmission System).

For the initial System Security Tariff, VENCORP proposes a tariff based on its contracted position over the period 1 January 2003 to 31 May 2004. Based on the forecast costs of \$1.7m and forecast consumption of 217,735 TJ for the period 1 July 2002 to 30 June 2003, the resulting tariff is:

\$0.00751/GJ	for 2002/03 financial year
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As mentioned in section 2.5, this tariff is in the process of being established through the current process imposed under clause 6.1 of the Tariff Order and section 2.6 of the MSO Rules⁷.

Subsequent System Security Tariffs beyond the expiry of the current contract will depend on:

- a) A reassessment at that time of the requirements and alternatives for provision of a system security reserve capability;
- b) Whether such services are provided to VENCORP as a regulated service by GasNet; and if not
- c) The outcome of contractual negotiations with GasNet.

Given that VENCORP is proposing that System Security Tariffs continue to be set annually, Users will be provided with the outcome of the above prior to the tariffs being set under the MSO Rules annual approval process.

2.11 Incentive structures

- (a) Cost effective and efficient delivery of services

Given that VENCORP has been established under the Gas Industry Act with statutory functions for which it is required to recover its costs on a "not for profit" basis, it is inappropriate to apply return-based incentive mechanisms on VENCORP.

Further, VENCORP's costs are predominantly fixed in nature and vary little with increased capacity. VENCORP believes that the intent of an efficiency mechanism under the Access Code is more suitable for a pipeline owner where the significant portion of the total costs incurred relates to the assets owned and whereby greater efficiencies are achieved through better asset utilisation.

⁷ This is a reference to clause 2.6 as in force at the time of submission of this access arrangement to the ACCC.

VENCorp firmly supports mechanisms that place strong incentives on it to ensure that it operates efficiently at minimal cost (including monitoring against meaningful performance benchmarks – see section 8). VENCORP is very conscious of its role as a statutory authority funded by industry and strives for cost effective and efficient delivery of services. This is reinforced by the following:

1. Industry is represented on VENCORP's Board – any industry concerns can be raised easily via the Board members;
2. Further, the VENCORP Board is independent and all directors are aware of their duties under Part 8 of the Gas Industry Act ;
3. VENCORP provides monthly financial reports to all Participants. These reports show in detail the month, year to date and full year forecast. The reports are provided to all Participants and are designed to keep the industry fully up to date on VENCORP's financial matters;
4. VENCORP also publishes each month the month and year-to-date key performance statistics compared to budget targets; and
5. Audit Victoria conducts the annual external audit, the scope of which is determined solely by the Auditor General – much wider powers than is typically the case with external auditors.

The financial performance of VENCORP over the period 1 July 1999 to 30 June 2001 shows that the above governance arrangements are having an impact on reducing VENCORP's costs. Refer to section 7 for VENCORP historical and forecast key performance indicators.

VENCORP will continue to provide an annual budget and report on actual results in its Corporate Plan (which is required by the Victorian Government for approval by the Minister).

(b) Commodity and Registration price path

Consultation with industry has highlighted the importance of maximising certainty with respect to VENCORP tariffs. Accordingly, VENCORP aims to maintain stability in its fees and charges to assist industry in its medium term planning.

The greater proportion of VENCORP's fees fall within the "commodity tariff", and although the \$ rate/GJ has not altered for the last 2 years, VENCORP's revenue varies with gas demand. The major reason for the variation in demand is the weather.

VENCORP sees no benefit to industry from short term rate charges due to demand changes and therefore VENCORP is proposing to carry a surplus or deficiency (i.e. the accumulated result) from one year to another in relation to revenue and costs incurred in providing its commodity and registration services. This will enable VENCORP to average out movements in net revenue associated with a cold or warm winter and not result in short term movements in the tariffs.

VENCORP is prepared to fund an accumulated net under-recovery of up to \$1.5 million on an annual basis which may result from the following factors:

1. Variation from the forecast demand due to weather effects, which with a standard deviation of 1 over the Access Arrangement Period (+/- 8% over the period) would amount to approximately +/- \$3.4 million;
2. Increase in unbudgeted projects and/or expenditure specifically requested by stakeholders, the Board or industry (potentially by up to \$0.5m in any one year).

VENCorp has the ability to fund an accumulated net shortfall in the order of \$1.5m. VENCORP is proposing that the tolerance level for any over-recovery also be set at the same level; that is, VENCORP will only decrease its tariffs if it has over-recovered an accumulated net surplus of \$1.5 million or more. Only when the accumulated surplus/deficiency exceeds the specified tolerance would VENCORP alter rates within the rebalancing constraints.

Based on past experience, VENCORP expects that throughout the Access Arrangement Period it will remain within the tolerance levels and therefore be able to keep the commodity and Registration Tariffs constant.

CATEGORY 2

3 Information Regarding Capital Costs

3.1 Asset values - Non-current assets plant and equipment

Table 10 Schedule of Assets

Forecast Asset Values ⁸	Forecast Financials (in 2002 \$'000) for					
	6 months to 30 June	Year ending 30 June				6 months to 31 Dec
		2003	2004	2005	2006	
Gas market systems at cost	7,309	7,309	7,309	7,309	7,309	7,309
Less accumulated amortisation	(3,323)	(4,652)	(5,981)	(7,309)	(7,309)	(7,309)
Net gas market systems	3,986	2,657	1,328	-	-	-
Other plant and equipment, at cost	5,489	5,862	6,751	7,413	7,489	7,564
Less accumulated depreciation	(4,705)	(4,877)	(5,039)	(5,386)	(5,843)	(6,086)
Net other plant and equipment	784	985	1,712	2,027	1,646	1,478
Total plant and equipment	4,770	3,642	3,040	2,027	1,646	1,478

Other plant and equipment

Other plant and equipment consists of SCADA, computing, communication and office equipment and motor vehicles.

Gas market systems amortisation

In late 2000, the Board of Directors endorsed management's recommendation that from 1 January 2001 the life of gas market systems should be extended by two years (from five to seven years) out to 30 June 2006. In making this decision, the Directors noted the outcome of the extensive and consultative review of the market arrangements conducted throughout 2000. The consultative review concluded that even if decisions were made to substantially change the market design (e.g. a move to hourly/locational pricing) within the period to 2004, it would be unlikely that a complete or substantial write off of existing systems would be required within that time frame.

⁸ It is assumed that proceeds will equal the written down value of disposals.

Asset valuation methodologies

The financial statements are prepared on the basis of historical costs and do not take into account changing money values or, except where stated, current valuations of non-current assets. Non-current assets are reviewed as considered appropriate by the Board and are not stated at amounts in excess of recoverable amounts.

3.2 Assumptions on economic life of asset for depreciation

Plant and equipment are brought to account at cost less, where applicable, any accumulated depreciation or amortisation. The carrying value of plant and equipment is reviewed annually by directors to ensure that it is not in excess of the recoverable amount from those assets. The recoverable amount is assessed in present value terms on the basis of the expected net cash flows that will be received from the assets employed and subsequent disposal.

Depreciation is charged on each fixed asset from the time the asset is held ready for use, calculated to write the cost of the asset off over the estimated useful life to the organisation using the straight-line method. The estimated useful lives for each class of assets are set out in Table 11 below.

Table 11 Asset lives

Asset Type	Economic life Years	Depreciation rate %
Furniture and Office Equipment	10 Years	10
Computer and Communication Equipment	3 – 5 Years	20 – 33
Motor Vehicles	7 Years	15

3.3 Depreciation and accumulated depreciation

VENCorp's forecast accumulated depreciation for its gas assets is set out in section 3.1 above. VENCorp's forecast depreciation for its assets is set out in Table 12 below.

Table 12 Forecast depreciation

	Forecast Financials (in 2002 \$'000) for					
Forecast Depreciation	6 months to 30 June	Year ending 30 June				6 months to 31 Dec
	2003	2004	2005	2006	2007	2007
Gas market systems at cost	664	1,329	1,329	1,328	-	-
Other plant and equipment	157	216	225	393	523	267
Written down value of disposals	71	103	149	108	156	57
Proceeds on disposals	(71)	(103)	(149)	(108)	(156)	(57)
Workstations (via Corporate)	154	329	373	394	305	106
Total depreciation	975	1,874	1,927	2,115	828	373

3.4 Committed capital works and capital investment

Table 13 Forecast capital expenditure

	Forecast Financials (in 2002 \$'000) for					
Forecast capital expenditure	6 months to 30 June	Year ending 30 June				6 months to 31 Dec
	2003	2004	2005	2006	2007	2007
SCADA	-	200	500	-	-	-
Other plant and equipment	168	320	601	816	298	156
Total expenditure	168	520	1,101	816	298	156

VENCorp is not proposing any significant capital expenditure on upgrading the market system prior to the statutory review in 2007. Following the statutory review, a decision can be made on the need for market systems upgrade in the subsequent Access Arrangement Period.

VENCorp's capital expenditure plan over the access period is for:

- a) The normal replacement of computer assets (reflected in other plant and equipment);
- b) Other plant and equipment includes the replacement of salary package vehicles. The written down value on disposal is assumed to equal the proceeds; and

- c) Upgrade of the SCADA system for \$0.7m over the period (an additional \$0.3m is forecast to be incurred in December 2002). The original system was purchased by VENCorp in 1997 and scheduled for major upgrade over a number of years.

3.5 Debt costs

VENCorp forecasts that its statutory gas function will be debt free over the Access Arrangement Period.

CATEGORY 3

4 Information Regarding Operations and Maintenance

4.1 Fixed versus variable costs

Table 14 Forecast fixed versus variable costs

Forecast fixed versus variable costs	Forecast Financials (in 2002 \$'000) for					
	6 months to 30 June	Year ending 30 June				6 months to 31 Dec
		2003	2004	2005	2006	
Fixed	7,806	15,164	15,398	15,790	15,453	7,469
Variable (contract meter service)	412	814	797	783	769	383
Total forecast expenditure	8,218	15,978	16,195	16,573	16,222	7,852

The forecast movement over the Access Arrangement Period in total expenditure reflects:

1. Increased use of consultancies in 2007 for the subsequent access arrangement and 2007 statutory review;
2. Approximately 5.5% annual increase in salaries,

offset by lower depreciation charges in 2007 and the six month period to 31 December 2007.

Charges arising under the Meter Service contract are variable due to the fact that these are on the basis of number of distribution meters. The remaining expenditure incurred by VENCorp is fixed.

4.2 Wages & salaries

Table 15 Forecast wages and salaries

Forecast wages and salaries	Forecast Financials for					
	6 months to 30 June	Year ending 30 June				6 months to 31 Dec
	2003	2004	2005	2006	2007	2007
Direct full time equivalent - #s	48.0	48.0	48.0	48.0	48.0	48.0
Corporate allocated full time equivalent - #s	5.0	5.0	5.0	5.0	5.0	5.0
Full time equivalent - #s	53.0	53.0	53.0	53.0	53.0	53.0
Direct labour expenses						
Labour – 2002 \$'000	1,832	3,847	3,976	4,110	4,247	2,221
Labour on-costs – 2002 \$'000	523	1,135	1,174	1,214	1,255	656
Training – 2002 \$'000	77	144	140	132	129	63
Total forecast wages and salaries 2002 \$'000	2,432	5,126	5,290	5,456	5,631	2,940

The labour on-costs are made up as set out in Table 16 below.

Table 16 Forecast labour on-costs

Component	%
Superannuation levy	11.5
Annual leave (based on historical experience VENCorp accrues annual leave at the rate of approximately 2 weeks per employee) ⁹	5.8
Payroll tax	5.0
Long service leave ¹⁰	5.6
Workers Compensation Insurance	2.0
Total on costs as percentage of labour	29.9

⁹ Includes the cost of salary increments in employee entitlements provisions

¹⁰ *ibid*

4.3 Cost of services by others

Table 17 Costs of contracted services

Forecast contracted services	Forecast Financials (in 2002 \$'000) for					
	6 months to 30 June	Year ending 30 June				6 months to 31 Dec
	2003	2004	2005	2006	2007	2007
Data management services	412	814	797	783	769	383
GasNet System Security	1,031	2,061	2,061	2,061	2,061	1,031
Office of Gas Safety	87	174	174	174	174	87
IT and other ¹¹	151	256	258	256	257	128
Total forecast contracted services	1,681	3,307	3,290	3,275	3,261	1,629

Details of contracted services for data management services are set out in section 2.9 and for GasNet System Security Services in section 2.10. Market clearing engine maintenance and support is provided by ICF Kaiser.

4.4 Gas used in operations

VENCorp has assumed that the cost of gas used in operations will continue to be incurred by GasNet and therefore the associated costs form part of GasNet's tariffs included in its access arrangement.

4.5 Materials and supply

VENCorp incurs less than \$2,000 per annum on materials, clothing and equipment.

4.6 Property taxes

VENCorp leases premises and does not directly pay Land Tax.

¹¹ Includes market clearing and other IT support.

CATEGORY 4

5 Information Regarding Overheads and Marketing Costs

VENCorp does not undertake any marketing activities nor incur any associated marketing costs.

5.1 Total service provider costs at corporate level

Table 18 Forecast corporate costs

Forecast corporate costs	Forecast Financials (in 2002 \$'000) for					
	6 months to 30 June	Year ending 30 June				6 months to 31 Dec
	2003	2004	2005	2006	2007	2007
General Corporate	1,305	2,672	2,676	2,717	2,693	1,402
Insurance	101	219	219	217	217	107
Computer licences	152	309	309	306	306	153
Occupancy	158	326	328	330	332	170
Depreciation	154	329	373	394	305	106
Total corporate expenses	1,870	3,855	3,905	3,964	3,853	1,938

Notes:

- a) General corporate expenses includes labour, corporate vehicles and travel, and administrative costs of general management and Board, Human resources, Corporate Secretary, legal and insurance management, finance, administration and reception, risk management and compliance, corporate IT management, and communications.
- b) Computer licences relate to the maintenance and network support agreements.
- c) Depreciation relates to provision by corporate to gas systems work stations, laptops, corporate systems (payroll, finance, human resources, document management) and the corporate network.

5.2 Allocation of costs between regulated and unregulated

All VENCorp personnel record their hours of work on a timesheet system. This data is reviewed regularly to ensure that total VENCorp (electricity and gas) costs incurred by VENCorp are correctly allocated between gas and electricity functions, and between costs regulated under the Access Code (i.e. gas statutory functions) and those either unregulated or regulated through other mechanisms (i.e. costs associated with full retail competition with oversight by the Essential Services Commission). The forecast

split of total VENCorp costs between regulated and non-regulated gas services under the Access Code is set out in table 19 below.

Table 19 Allocation of costs between regulated and unregulated

Allocation of costs	Forecast Financials for					
	6 months to 30 June	Year ending 30 June				6 months to 31 Dec
	2003	2004	2005	2006	2007	2007
Regulated under the Access Code						
Regulated - gas	60.7%	59.0%	59.0%	58.2%	58.2%	58.2%
Not regulated under the Access Code						
Regulated - electricity	29.2%	29.1%	29.1%	30.0%	30.0%	30.0%
Full retail contestability (oversight by ESC)	10.1%	11.9%	11.9%	11.8%	11.8%	11.8%

5.3 Allocation of costs between zones, services or categories of assets

Refer to section 2.3 for details of allocation of costs between services.

CATEGORY 5

6 Information Regarding Capacity and Volume Assumptions

6.1 Description of System Capabilities

Refer to Appendix 1 of VENCorp's Access Arrangement for details of the facilities provided by GasNet to VENCorp under the Service Envelope Agreement.

6.2 Map of piping system

A map of the facilities provided by GasNet to VENCorp under the Service Envelope Agreement is contained in Appendix 1 of VENCorp's Access Arrangement.

6.3 Average daily and peak demand at city gates defined by volume and pressure

The forecast average daily demand (TJ) by VENCorp system withdrawal zones is set out in Table 20 below.

Table 20 Forecast daily demand by withdrawal zone

Forecast Average Daily Demand TJ	6 months to 30 June	Forecast year ending 30 June					6 months to 31 Dec
		2003	2004	2005	2006	2007	
System Withdrawal Zone	2003	2004	2005	2006	2007	2007	
Ballarat	19.4	20.0	20.6	21.1	21.4	21.7	
Geelong	48.1	49.0	50.1	51.1	51.8	52.5	
Gippsland	38.8	41.1	44.7	47.2	47.9	48.5	
Melbourne	379.0	388.1	399.1	408.0	413.9	419.7	
Northern	54.6	57.1	59.5	61.0	61.9	62.8	
Western	10.5	11.0	11.5	12.0	12.4	12.9	
Power Gen	32.5	36.2	40.1	42.3	46.0	49.9	
UGS Withdrawals	12.3	8.0	11.4	13.9	15.9	17.0	
Exports	1.4	1.4	1.4	1.4	1.4	1.4	
System	596.5	610.3	638.5	658.0	672.5	684.7	

The forecast 1 in 2 peak day demand (TJ) by VENCorp system withdrawal zone (50% probability of exceeding in a given year) is set out in Table 21 below.

Table 21 Forecast 1 in 2 peak day demand by withdrawal zone

Peak day demand (TJ)	6 months to 30 June	Forecast year ending 30 June				6 months to 31 Dec
		2003	2004	2005	2006	
Ballarat	41	42	43	44	45	46
Geelong	79	80	82	84	86	88
Gippsland	51	52	56	61	62	63
Melbourne	776	793	813	835	851	867
Northern	91	93	97	100	102	104
Western	13	14	14	15	16	17
Power Gen	52.6	58.5	64.9	68.5	74.4	80.7
UGS Withdrawals	-	-	-	-	-	-
Exports	-	-	-	-	-	-
System	1,103.6	1,132.5	1,169.9	1,207.5	1,236.4	1265.7

The pipeline transportation capacity for 2002 (TJ) (based on winter peak load distribution) is as set out in Table 22 below.

Table 22 Pipeline transportation capacity for 2002

Injection Point	Pipeline Capacity (TJ)
Longford	990
Culcairn**	50
Iona	275

** Up 90TJ/d can be imported using compressors in NSW given suitable operating conditions.

6.4 Total annual volume delivered

The total annual demand including gas power generation, net of exports to NSW and net of withdrawals in underground storage, is set out in Table 23 below.

Table 23 Total annual demand

Period	System Demand (TJ)
6 months to 30 June 2003	98,539
Financial year 2004	223,364
Financial year 2005	233,049
Financial year 2006	240,176
Financial year 2007	245,474
6 months to 31 December 2007	137,008

6.5 Annual volume

The total annual demand including gas power generation, net of exports to NSW and net of withdrawals in underground storage, by withdrawal zone is set out in Table 24 below.

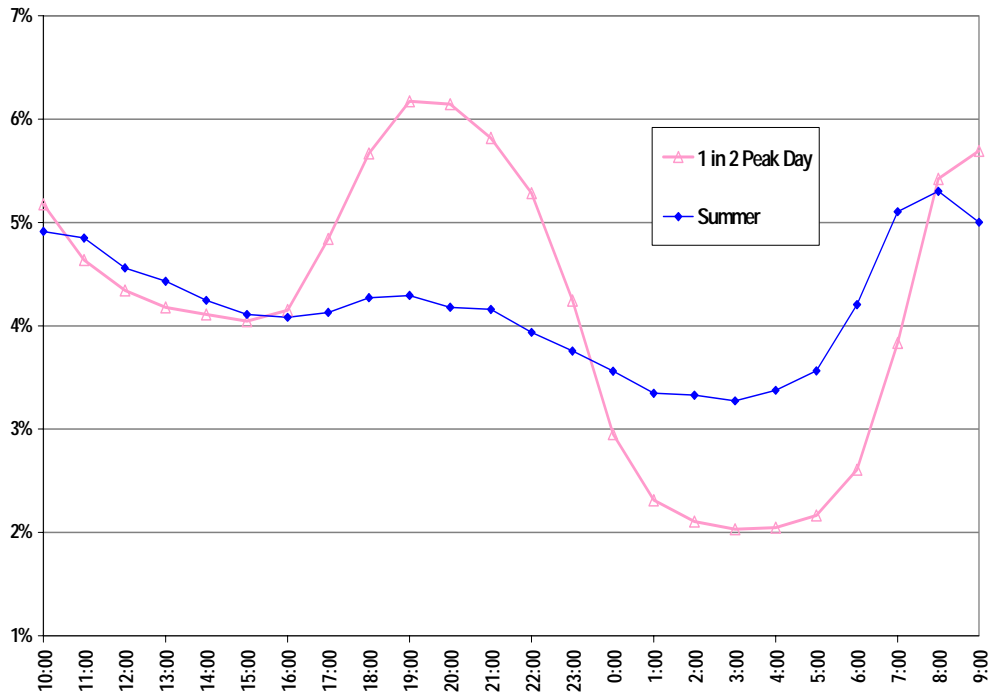
Table 24 Forecast annual volume

Forecast annual volume (TJ)	6 months to 30 June	Forecast year ending 30 June					6 months to 31 Dec
		2003	2004	2005	2006	2007	
Ballarat	3,132	7,302	7,534	7,704	7,814	4,423	
Geelong	8,157	17,872	18,302	18,647	18,914	10,261	
Gippsland	6,584	14,991	16,331	17,223	17,470	9,475	
Melbourne	61,875	141,668	145,667	148,925	151,061	84,673	
Northern	9,688	20,856	21,702	22,271	22,591	11,770	
Western	1,569	4,011	4,188	4,363	4,541	2,779	
Power Gen	5,785	13,241	14,646	15,455	16,774	9,435	
UGS Withdrawals	1,499	2,922	4,178	5,088	5,809	4,145	
Exports	250	500	500	500	500	250	
System	98,539	223,364	233,049	240,176	245,474	137,008	

6.6 System Load Profile

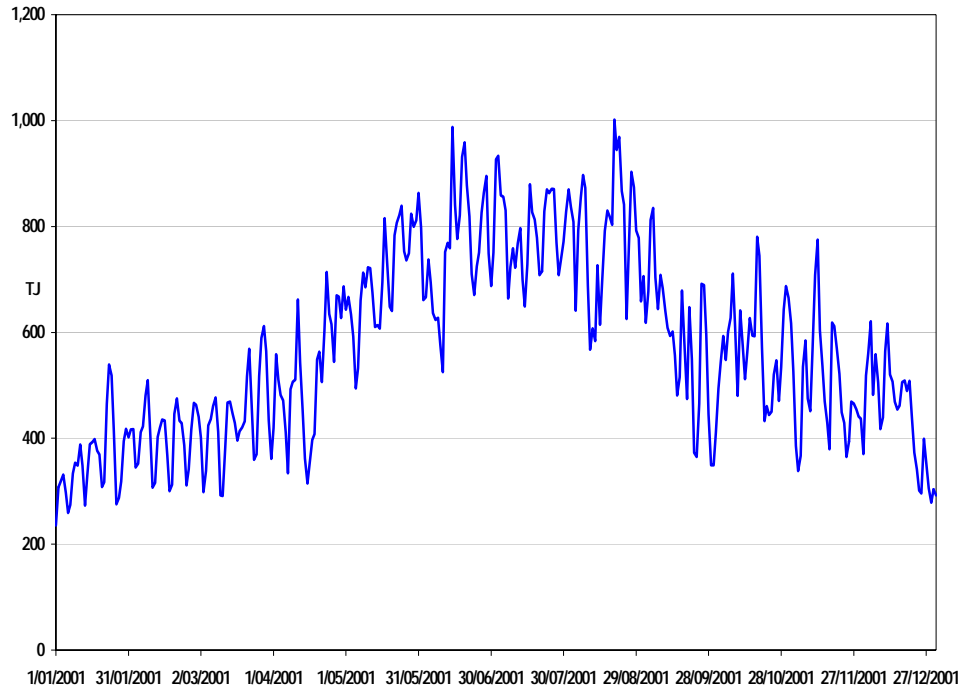
The system hourly profile based on calendar year 2001 (% of gas day demand versus time of day) is set out in Figure 1 below.

Figure 1 Hourly load profile



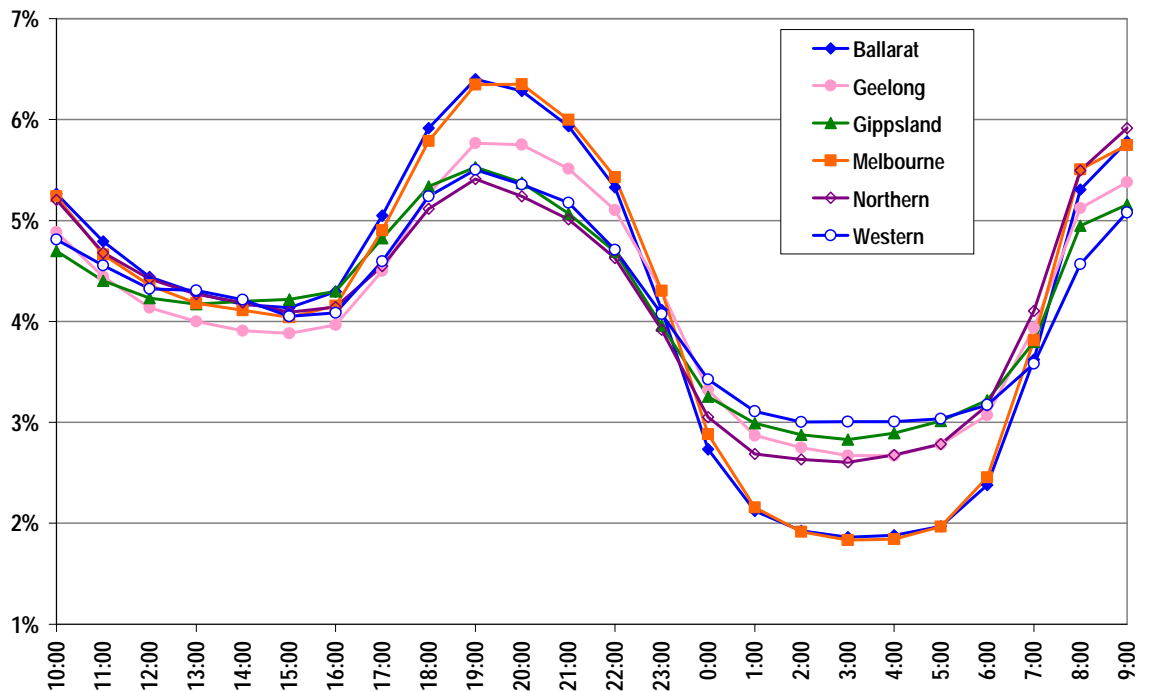
The daily system demand in TJ versus day of year for demand (including gas power generation) for calendar year 2001 is set out in Figure 2 below.

Figure 2 Daily system demand



The peak day hourly profile (% of daily demand versus time of day) by VENCorp system withdrawal zone is set out in Figure 3 below.

Figure 3 Peak day hourly profile



6.7 Number of customers

As of January 2002, the:

1. Total number of registered Participants in the Victorian Gas Market (including distributors, transmission system owners, storage providers, and Market Participants (retailers and others)) was 22;
2. Total number of registered Tariff D customers was 826 (Tariff D gas customers are daily metered (interval meters) and normally consume > 10,000GJ p.a.); and
3. Balance of customers are Tariff V who generally use < 10,000 GJ pa and are read (usually on an index meter) on monthly or bimonthly basis. These are mainly residential (approximately 1.43 million) and include about 37,000 medium and small industrial /commercial customers. The total number of customers is believed to be about 1.47 million.

CATEGORY 6**7 Information Regarding Key Performance Indicators****7.1 Background**

The need for providing mechanisms for demonstrating and testing performance of VENCORP is acknowledged¹². VENCORP is supportive of providing relevant external performance benchmarks that will assist in assessing its performance compared with comparable organizations. However, work completed to date by VENCORP of the possibility of benchmarking performance against other similar organizations has concluded that meaningful direct comparison with the statutory gas functions of VENCORP is highly problematic and ineffective. NEMMCO also recently reached this conclusion in a recent attempt to benchmark its fee structures to other electricity power pool operators around the world. To the extent that meaningful external benchmark data becomes available, VENCORP will consider it and where appropriate amend its performance monitoring regime.

Given VENCORP's desire to measure its operational performance, it has developed a series of internal corporate key performance indicators (KPIs) against which it reports to the Board and industry Participants on a monthly basis and publishes outcomes annually through its annual report and corporate plan.

In addition, during 2001 VENCORP commissioned consultants to undertake a survey of its key stakeholders to help measure current levels of satisfaction and to determine the value of the services VENCORP provides. Responses were sought in relation to 32 services provided by VENCORP across its gas and electricity functions. The range of ratings of VENCORP's performance in delivering the ten services ranked by stakeholders as being of highest importance varied from "satisfactory" to "highly satisfied". None of VENCORP's service offerings rated below satisfactory. The results of the stakeholder survey have been communicated back to those who participated and will be used by VENCORP to develop action plans for improving performance and optimising stakeholder value.

In order to comply with the Access Code requirements for inclusion of KPIs, VENCORP has set out below some internal KPIs split between:

- a) Cost efficiency KPIs – those KPIs that provide an insight to the efficient level of operating costs incurred by VENCORP in completing its statutory functions and roles; and
- b) Operational KPIs – those KPIs that monitor VENCORP's performance to ensure that it meets a minimum quality of service provision implicit in its cost structure.

It should be noted that VENCORP has not included cost efficiency KPIs for the half year period 1 July to 31 December 2007 due to seasonality of the load profile and fixed costs.

¹² Refer to VENCORP Review of access arrangement for Principal Transmission System Report on VENCORP Public Consultation dated 30 January 2002.

7.2 Cost efficiency KPIs

In assessing cost efficiency for VENCorp services, VENCorp has excluded costs associated with Meter Data Management Services and System Security Services. This is on the basis that a substantive proportion of the costs incurred in meter data handling are contract costs incurred by VENCorp resulting from a competitive tender process, providing an inherent benchmark. Similarly, costs for VENCorp's System Security Services are GasNet charges under contract for LNG storage capacity. There is currently no viable alternative to LNG for this service, with the contract price currently being regulated¹³. Therefore, VENCorp believes that such costs reflect efficient costs and little value is to be achieved from benchmarking. The remaining VENCorp costs (about 87% of total VENCorp costs) associated with Information Services and Market and System Operational Services are directly controlled by VENCorp.

Relevant KPIs measuring VENCorp's cost efficiency are:

- a) Costs incurred are set out in Table 25 below.

Table 25a Cost efficiency KPIs

		Actual year ended	Target year ending	
KPI	Measure	June 2001	June 2002	June 2003
Total costs (in 2002 \$m)	Total gas cost per GJ being statutory total gas costs inclusive of overheads excluding system security and metering services	\$12.6m	\$13.4m	\$13.5m
	Total GJ shipped	212.9 PJ	213.4 PJ	217.7 PJ
Total costs/GJ (in 2002 \$m)	Total costs above divided by total GJ shipped	\$0.0592	\$0.0630	\$0.0622
	Total km pipeline operated by VENCorp under market carriage ¹⁴	1,714 km	1,714 km	1,930 km
Total costs/km operated (in 2002 \$m)	Total costs above incurred divided by total km of pipeline operated by VENCorp under market carriage model	\$0.0074	\$0.0078	\$0.0070
Total direct costs (in 2002 \$m)	Total costs above less depreciation	\$9.3m	\$11.3m	\$11.6m

¹³ This position may need to be reviewed upon removal of the regulated cap on the price paid by VENCorp for LNG storage, or should the method of provision of the system security reserve change over time as new supply sources/options become available.

¹⁴ Sourced from GasNet Prospectus dated December 2001.

Table 25b Cost efficiency KPIs

KPI	Measure	Target year ending			
		June 2004	June 2005	June 2006	June 2007
Total costs (in 2002 \$m)	Total gas cost per GJ being statutory total gas costs inclusive of overheads excluding system security and metering services	\$13.1m	\$13.3m	\$13.7m	\$13.4m
	Total GJ shipped	223.4 PJ	233.0 PJ	240.2 PJ	245.5 PJ
Total costs/GJ (in 2002 \$m)	Total costs above divided by total GJ shipped	\$0.0587	\$0.0572	\$0.0572	\$0.0546
	Total km pipeline operated by VENCorp under market carriage	1, 930 km	1, 930 km	1, 930 km	1, 930 km
Total costs/km operated (in 2002 \$m)	Total costs above incurred divided by total km of pipeline operated by VENCorp under market carriage model	\$0.0068	\$0.0069	\$0.0071	\$0.0069
Total direct costs (in 2002 \$m)	Total costs above less depreciation	\$11.2m	\$11.4m	\$11.6m	\$12.6m

b) Tariffs for services – real price changes:

Measure of real price change (%) between consecutive years:

$$((\text{Price Yr 2})/[(\text{Price Yr 1}) \times (\text{CPI Yr 2}/\text{CPI Yr 1})] - 1) \times 100$$

Table 26a Real tariffs

Reference Tariff	Actual year ended	Target for year ending
	June 2001	June 2002
Tariff D commodity	\$0.03383	\$0.03383
Tariff V commodity	\$0.08391	\$0.08391
Registration	\$30.00000	\$30.00000

Table 26b Real tariffs over Access Arrangement Period

Reference Tariff	Target (in 2002\$) for year ending				
	June 2003	June 2004	June 2005	June 2006	June 2007
Tariff D commodity	\$0.03167	\$0.03076	\$0.03006	\$0.02937	\$0.02870
Tariff V commodity	\$0.07861	\$0.07631	\$0.07455	\$0.07287	\$0.07119
Registration	\$29.3100	\$28.6500	\$27.9900	\$27.3600	\$26.7300
Real estimated cumulative reduction	2.3%	4.5%	6.7%	8.8%	10.9%

This information demonstrates that VENCorp has:

1. Delivered real price reductions over the last two years;
2. Is expecting to continue to deliver real price reductions each year over the Access Arrangement Period estimated at 11% by 31 December 2007.

7.3 Operational KPIs

Relevant existing VENCorp operational KPIs against which VENCorp regularly reports are:

a) Personnel:

Table 27 Staff numbers

		Actual year ended	Target year ending	
KPI	Measure	June 2001	June 2002	AAI Period
Staff numbers	Full time equivalent inclusive of corporate allocated	55	53	53

b) Gas system:

Table 28 Operational KPIs for gas system

		Actual year ended	Target year ending	
KPI	Measure	June 2001	June 2002	AAI Period
Emergency exercises	Completed and programmed emergency exercises	3	2/yr	2/yr
System pressure	Number of system pressure breaches outside the specified limits	3	10/yr	10/yr
SCADA availability	Availability of the gas transmission monitoring and control facilities	99.8%	99%	99%
Daily demand forecasting	Accuracy of the daily demand forecasts day, within 10%	86.3%	90%	90%
Annual gas peak day forecast	Accuracy of temperature corrected winter 1 in 2 peak day as % of forecast 1 in 2 peak day	0.4%	+/-3%	+/-3%
Annual general gas load forecast	Accuracy of temperature corrected annual general demand (excludes	-2.5%	+/-2%	+/-2%

		Actual year ended	Target year ending	
KPI	Measure	June 2001	June 2002	AAI Period
	power generation and exports)			
Gas Scheduling	% of gas schedules issued on time	99%	99%	99%
Gas quality	% of notifications of off specification gas notified within 15 mons of variation	85.7%	100%	100%

c) Market systems:

Table 29 Operational KPIs for market systems

		Actual year ended	Target year ending	
KPI	Measure	June 2001	June 2002	AAI Period
Settlement statements	% of settlements issued on time	100%	100%	100%
Market IT systems	Availability of market IT system	99.4%	99%	99%

8 Compliance with Section 8.1 and 8.2 of the Access Code

8.1 Section 8.1

The following is VENCORP's assessment of how the proposed Reference Tariffs comply with the principles set out in section 8.1 of the Access Code:

a) Providing the Service Provider with the opportunity to earn a stream of revenue that recovers the efficient costs of delivering the Reference Service over the expected life of the assets used in delivering that Service

VENCORP recovers its expenditures on a cost recovery basis. VENCORP is a statutory authority funded by industry and therefore strives for cost effective and efficient delivery of services. This is reinforced by the following:

- VENCORP has committed significant effort over the last 3 years ensuring that it meets its statutory and stakeholder obligations as efficiently as possible and hence reduce its costs as much as possible. The VENCORP Board and all Market Participants closely monitor VENCORP's operations;
- The VENCORP Board is independent and all directors are very aware of their duties under the Gas Industry Act ;
- Industry is represented on VENCORP's Board –industry concerns can be easily raised via the Board members and more importantly industry represented Board members are best placed to closely scrutinise VENCORP operations and costs to ensure that the industry is not paying more than it should be;
- VENCORP publishes monthly financial reports which are provided to all Participants. These reports show in detail the month, year to date and full year forecast. The reports are provided to all Participants (including the CEOs of relevant organisations) and are designed to keep the industry fully up to date on VENCORP's financial matters;
- VENCORP also publishes each month the month and year to date key performance statistics compared to budget targets again provided to all Participants;
- VENCORP is to submit its budget and corporate plan each year to the Victorian Government for approval; and
- Audit Victoria conducts the annual external audit, the scope of which is determined solely by the Auditor General – much wider powers than typically the case with external auditors.

VENCORP develops its forecast expenditure through a zero-based review. This involves detailed organisational and expenditure reviews and analysis of the tasks that VENCORP is required to undertake in order to meet its statutory and stakeholder requirements. The forecasts are subject to Board scrutiny and then subjected to wide industry consultation.

In relation to the expected life of its assets, the VENCORP Board continually assesses the useful life of its assets and recently extended the useful life of its market IT systems from 5 to 7 years.

b) Replicating the outcome of a competitive market

The outcome of a competitive market for the provision of services is to minimise profit margins in efficiently providing the services and to provide cost reflective pricing. VENCORP aims to replicate the outcome of a competitive market by:

- Separation of VENCORP costs from GasNet costs provides very significant cost reflectivity in the transmission service tariffs by clearly delineating return on investment and marketing costs (GasNet) from those for operation of the assets and provision of competitive arrangements for operational balancing (VENCORP);
- Recovering its expenditures on a cost recovery basis (i.e. not for profit). VENCORP's costs are carefully scrutinised by the regulator, stakeholders and others in a very public and regular manner (i.e. through monthly management accounts made available to all Participants);
- Aiming to set the levels of Reference Tariffs that reflect the benefits associated with the Reference Services being provided. It should be noted that in setting the Reference Tariffs, VENCORP has deliberately chosen a pricing structure, which is not necessarily truly cost reflective; rather it has sought to design its Reference Tariffs such that to the maximum extent commercially possible the tariffs recover the costs associated with provision of the Reference Service.

For example, VENCORP costs are predominantly fixed in nature, but setting Reference Tariffs on this basis would create a high barrier to entry for smaller market players. Therefore, VENCORP has set the Reference Tariffs on a variable basis to minimise barriers to entry for smaller Participants. In addition, costs are allocated to VENCORP Reference Services at the maximum extent commercially possible. Costs (less than 17% of total VENCORP costs) not allocated to identifiable Reference Services are included in the common cost pool used to derive the commodity tariffs.

- Separation of responsibility for providing and maintaining the pipeline infrastructure (GasNet's Reference Services) from that of maintaining system security, system operation, and provision of a balancing service (VENCORP's Reference Services) of itself provides a very significant element of cost reflectivity in the overall charges faced by users for gas transportation services on the Principal Transmission System.

c) Ensuring the safe and reliable operation of the Pipeline

VENCORP has a statutory role under the MSO Rules and Gas Industry Act VENCORP to ensure the safe and reliable operation of the Gas Transmission System. As stated above, in developing its forecasts, VENCORP uses a zero-based approach to identify all efficient costs associated with the delivery of its statutory functions.

d) Not distorting investment decisions in Pipeline transportation systems or in upstream and downstream industries

The operational and balancing functions for which VENCORP's costs are incurred are an essential component of the overall gas transportation service for any open access pipeline. VENCORP's costs represent about 15% of the overall transportation cost and less than 2% of the overall total estimated cost of delivered gas cost to users of approximately \$1 billion. Therefore, VENCORP costs are unlikely to create distortions to investment decisions.

Nevertheless, to the extent that it is efficient and cost effective to do so, VENCORP aims to ensure that its tariffs (i.e. costs) associated with the Reference Services reflect the benefits expected by Users. In addition, VENCORP sets the tariffs so as to minimise any distortionary impacts of investment or participation in the market. For example:

- VENCORP sets the commodity charges (which recover about 85% of costs) by giving consideration to the impact on its charges on its end use customers. This results in Tariff D customers paying lower commodity charges than Tariff V customers. This tariff structure results in costs across all consumers being a consistent percentage (between 1% and 1.5%) of their total gas costs. This approach is also consistent with the Ramsay pricing principles in that higher levies are imposed on that part of the market which exhibits least "price elasticity" so as to not introduce distortionary market impacts;
- In response to industry requests, VENCORP is proposing to fix its Commodity and Registration Tariffs over the Access Arrangement Period to provide greater certainty to Users as to the level of costs associated with those services;
- The Registration Tariffs have been set so as to minimise barriers to entry.

e) Efficiency in the level and structure of the Reference Tariff

The tariffs have been set on the basis of the anticipated efficient level of costs to be incurred in providing VENCORP's statutory functions. VENCORP is proposing to fix its Commodity and Registration Tariffs over the Access Arrangement Period providing Users with a real reduction in the order of 11% (based on estimated CPI¹⁵ of 2.3% per annum). VENCORP has aimed to ensure that tariffs are as cost reflective as possible. However, as noted above, the tariff structure is by necessity a compromise of cost reflectivity, facilitation of new entry, increasing competition and ensuring simplicity. VENCORP believes that the combination of the Reference Tariffs achieves a reasonable balance and the resulting charges to users will not result in distortionary investment behaviour.

Further, the VENCORP functions generally do not have a relationship with distance of gas transported. Therefore, VENCORP allocates its costs predominantly on a per GJ basis, thus providing the most appropriate basis of cost reflectivity. This allocation methodology is entirely consistent with the market carriage model.

¹⁵ CPI forecasts sourced from National Institute of Economic and Industry Research

f) Providing an incentive to the Service Provider to reduce costs and to develop the market for Reference and other Services

VENCorp is proposing to keep its Commodity and Registration Tariffs below the rate of inflation over the Access Arrangement Period by reducing them at the beginning of the Access Arrangement Period and fixing them over the period. This will force VENCORP to ensure that its costs are efficiently managed. This will provide Users with a real reduction in the order of 11% (based on estimated CPI¹⁶ of 2.3% per annum) over the Access Arrangement Period.

Since VENCORP tariffs are set on a cost recovery basis, it is difficult to develop incentive mechanisms based on returns. However, as mentioned above, VENCORP strongly supports incentives for cost efficiency which currently include:

- Transparency in review and approval of VENCORP forecasts;
- Provision of monthly and yearly actual results to Market Participants;
- VENCORP's governance structure, particularly the mixture of independent and industry represented Board of Directors.

8.2 Section 8.2

The following is VENCORP's assessment as to how the proposed Reference Tariffs comply with the principles set out in section 8.2 of the Access Code:

a) The revenue to be generated from the sales (or forecast sales) of all Services over the Access Arrangement Period (The Total Revenue) should be established consistently with the principles and according to one of the methodologies contained in this section 8

Refer above for specific details of compliance with the Access Code principles.

It should be noted that VENCORP undertook public consultation in November/December 2001 on various matters associated with this Access Arrangement. In relation to provision of services and tariff design VENCORP asked industry whether:

- Within VENCORP's statutory constraints, any additional services were requested by Users such that they should be included in VENCORP's Reference Services. Generally respondents supported continuation of VENCORP Reference Services (questions raised regarding the basis of provision of system security and inclusion of full retail contestability services have since been clarified); and
- There are other methodologies for allocation of VENCORP costs that meet the Access Code requirements, and whether there is a better basis for allocating VENCORP costs given its Reference Services. Industry response was supportive of the current allocation methodology, but some suggested the need to revisit the split of revenue to be recovered by the Tariff D versus Tariff V Commodity Tariffs.

¹⁶ CPI forecasts sourced from National Institute of Economic and Industry Research

VENCorp's total revenue is calculated using the cost of service methodology. In applying the methodology VENCORP does not recover a return on the capital value of assets employed as allowed under the Access Code resulting in lower tariffs than they would otherwise be.

b) To the extent that the Covered Pipeline is used to provide a number of Services, that portion of Total Revenue that a Reference Tariff is designed to recover (which may be based upon the forecasts) is calculated consistently with the principles contained in this section 8

In setting Reference Tariffs VENCORP has aimed to comply with the Access Code. The proposed VENCORP tariff structure is by necessity a compromise of cost reflectivity, facilitation of new entry, increasing competition and ensuring simplicity. VENCORP believes that the combination of the Reference Tariffs achieves an equitable balance for Users.

c) A Reference Tariff (which may be based upon forecasts) is designed so that the portion of Total Revenue that a Reference Tariff is designed to be recovered from a Reference Service (referred to in paragraph (b)) is recovered from the Users of that Reference Service consistently with the principles contained in this section 8

VENCORP designed its Reference Tariffs such that to the maximum extent commercially and technically possible the tariffs recover the costs associated with provision of the Reference Service. Limitations on charging cost reflective tariffs include:

- VENCORP believes that cost reflective Registration Tariffs would result in barriers to entry for small players. Hence Registration Tariffs have been set at levels that will not create barriers for entry and are consistent with charges for other similar services (i.e. NEMMCO registration fees);
- Distribution Metering tariffs reflect the external costs associated with providing the reference service. However, VENCORP requires a range of metering data from transmission system meters for operational and monitoring purposes, as well as for market settlement. Therefore, VENCORP has its own in-house meter data agent function to manage collection, processing and storage of meter data from the transmission supply point meters (custody transfer meters or CTMs). It would be highly problematic to attempt any truly cost-reflective allocation of VENCORP's overall transmission system meter data handling costs to individual participant meters and therefore VENCORP charges are based on an estimation of the costs associated with the provision of the service;
- As discussed previously, given the materiality of the VENCORP component of the overall transportation costs, attempts to introduce more cost reflective tariffs would only introduce additional complexity in the tariff structure and additional administration costs without material benefits to Users.

d) Incentive Mechanisms are incorporated into the Reference Tariff Policy wherever the Relevant Regulator considers appropriate and such Incentive Mechanisms are consistent with the principles contained in this section 8

VENCorp recovers its expenditures on a cost recovery basis and does not therefore seek to retain any excess revenue above its actual costs. As mentioned above, VENCORP's governance structure and reporting and approval processes ensure that it operates efficiently in accordance with its statutory functions. VENCORP's budgeting process involves an open and transparent consultation process providing Users the opportunity for comment and input on planned expenditures and opportunities for efficiencies. VENCORP also reports its expenditures and performance against budget to Users on a regular basis and fosters a continuous improvement culture - continually assessing whether it is operating as efficiently as it could be and striving for an effective and efficient organization.

e) Any forecasts required in setting the Reference Tariff represent best estimates arrived at on a reasonable basis

VENCorp develops its forecast expenditure through a zero-based review. This involves detailed organisational and expenditure reviews and analysis of the tasks that VENCORP is required to undertake in order to meet its statutory and stakeholder requirements. The forecasts are subject to Board scrutiny prior to wide industry consultation.

In converting costs to tariff rates, forecasts of the volumes that are used to form the rate base (i.e. \$/participant, \$/meter, \$/GJ) are similarly assessed in an open and transparent manner. The gas demand forecasts are based on those figures arising out of the Annual Planning Report process, which includes econometric modelling/forecasting and scenario analysis by independent experts as a base. VENCORP prepares this report annually and publishes it. Shortly after the publication VENCORP holds a public forum to explain and discuss the forecasts.

Appendix 1. Financial Statements

VENCorp's budget set out below has been developed based on VENCORP's statutory obligations and functions under the Gas Industry Act and MSOR. The forecast build up of costs does not take into account an extension of VENCORP's current statutory obligations and functions.

The key assumptions underpinning the financial forecasts are:

- a) Commodity Tariff – there is no price change (including no allowance for CPI) to the Commodity Tariff “V” and “D” rates from the initial rates proposed for financial year 2002/03;
- b) The commodity tariff demand forecasts are as per the Annual Planning Review. The revenue has been calculated at the current “D and “V” tariff rates using the “median” demand forecasts assuming average demand forecasts;
- c) LNG System Security – The Tariff Order capped the LNG System Security charge at \$1.4m until 31/12/02 when the cap expires. VENCORP currently has a contract in place with GasNet until May 2004 and needs to renegotiate a contract for provision of LNG services beyond May 2004. An increase to \$2.06m per annum (in 2002\$) has been anticipated in line with VENCORP's current interpretation of the existing contractual agreement between VENCORP and GasNet;
- d) The risk management, records management and compliance function is included in Corporate costs;
- e) Salary costs assume Government approval of the recently negotiated EBA outcomes and this has been extended at similar levels at later years. Direct labour expenses includes risk management, document management and compliance which has been transferred to the corporate segment and reflects the company wide responsibilities of these functions. The labour on-cost increase reflects the end of the current superannuation holiday, and an expected increase in workcover premiums;
- f) Only one significant item of capital expenditure is forecast – the upgrade of the SCADA system during 2003/04 at a cost of \$0.7m (approximately \$0.3m is forecast to be spent in December 2002);
- g) The life of market systems is unchanged was recently reviewed and the Board extended it from 5 to 7 years;
- h) The number of Market Participants is forecast to increase by 1 each year from 13 to 18 over the Access Arrangement Period;
- i) Metering Revenues are based on the contract with Data and Measurement Solutions Pty Ltd. The Tariff D metering revenue offset these costs;
- j) Insurances and occupancy expenses shown separately (previously part of Corporate costs);
- k) Consultancies show a peak in 2002/03 and in 2006/07 reflecting legal and regulatory work associated with Access Arrangements and the 2007 statutory review.

STATEMENT of FINANCIAL PERFORMANCE

\$'000

	Plan Jan-Jun'03	Estimate 2003/04	Estimate 2004/05	Estimate 2005/06	Estimate 2006/07	Estimate Jul-Dec'07
Commodity Tariff Revenues	5,235	11,915	12,047	12,097	12,073	6,793
System Security	967	2,063	2,061	2,062	2,061	1,126
Metering Revenues	639	1,315	1,305	1,298	1,290	651
Registration Revenues	69	147	153	160	166	87
Competitive Services Revenues	15	29	29	29	29	15
Consultancy and Other Revenues	42	85	86	86	86	43
REVENUE	6,967	15,554	15,681	15,732	15,705	8,715
Direct Labour Expenses	1,832	3,847	3,976	4,110	4,247	2,221
Labour On-Costs & Provisions	523	1,135	1,174	1,214	1,255	656
Training & Seminars	77	144	140	132	129	63
LABOUR	2,432	5,126	5,290	5,456	5,631	2,940
Contracted Services	1,681	3,307	3,290	3,275	3,261	1,629
Insurance	101	219	219	217	217	107
Computing	666	1,326	1,332	1,324	1,335	663
Telecommunications	85	169	169	169	168	85
Consultancies	623	623	635	629	1,422	319
Contractors	75	100	90	100	90	45
Vehicles & Travel	102	205	205	205	205	103
Occupancy	158	326	328	330	332	170
Administration	12	23	23	23	28	11
EXPENSES	3,503	6,298	6,291	6,272	7,058	3,132

STATEMENT of FINANCIAL PERFORMANCE

\$'000

	Plan Jan-Jun'03	Estimate 2003/04	Estimate 2004/05	Estimate 2005/06	Estimate 2006/07	Estimate Jul-Dec'07
Depreciation & Amortisation	975	1,874	1,927	2,115	828	373
Service Allocations	1,305	2,672	2,676	2,717	2,693	1,402
NON-OPERATING ITEMS	2,280	4,546	4,603	4,832	3,521	1,775
TOTAL EXPENDITURE	8,215	15,970	16,184	16,560	16,210	7,847
OPERATING SURPLUS	(1,248)	(416)	(503)	(828)	(505)	868
Interest Income	65	165	215	255	235	100
Financing Costs	(3)	(8)	(11)	(13)	(12)	(5)
FINANCE INCOME	62	157	204	242	223	95
SURPLUS / (DEFICIT)	(1,186)	(259)	(299)	(586)	(282)	963
Prev period's surplus / (deficit)	1,766	580	321	22	(564)	(846)
SURPLUS / (DEFICIT) cf	580	321	22	(564)	(846)	117

STATEMENT of FINANCIAL POSITION

\$'000

	Plan Jan-Jun'03	Estimate 2003/04	Estimate 2004/05	Estimate 2005/06	Estimate 2006/07	Estimate Jul-Dec'07
Cash & Short Term Deposits	7,225	8,235	8,681	9,257	9,509	10,719
Receivables- Trade	2,148	2,150	2,149	2,149	2,147	2,148
Prepayments	135	135	135	135	135	135
Inventory	675	675	675	675	674	674
	10,183	11,195	11,640	12,216	12,465	13,676
Market Systems	7,309	7,309	7,309	7,309	7,309	7,309
Accumulated Amortisation	(3,323)	(4,652)	(5,981)	(7,309)	(7,309)	(7,309)
Plant and Equipment	5,489	5,862	6,751	7,413	7,489	7,564
Accumulated Depreciation	(4,705)	(4,877)	(5,039)	(5,386)	(5,843)	(6,086)
	4,770	3,642	3,040	2,027	1,646	1,478
TOTAL ASSETS	14,953	14,837	14,680	14,243	14,111	15,154
Overdraft/ ST Loans	-	-	-	-	-	-
Payables- Trade and Other	1,585	1,622	1,658	1,696	1,734	1,754
Employment Entitlements	1,575	1,624	1,675	1,727	1,780	1,809
Participant Monies	1,511	1,537	1,561	1,587	1,613	1,626
	4,671	4,783	4,894	5,010	5,127	5,189

**STATEMENT of
FINANCIAL POSITION**

\$'000

	Plan Jan-Jun'03	Estimate 2003/04	Estimate 2004/05	Estimate 2005/06	Estimate 2006/07	Estimate Jul-Dec'07
LT Employment Entitlements	998	1,029	1,060	1,093	1,126	1,144
	998	1,029	1,060	1,093	1,126	1,144
TOTAL LIABILITIES	5,669	5,812	5,954	6,103	6,253	6,333
NET ASSETS	9,284	9,025	8,726	8,140	7,858	8,821
Contributed Capital	8,704	8,704	8,704	8,704	8,704	8,704
Reserves	1,499	580	321	22	(564)	(846)
Retained Earnings	(919)	(259)	(299)	(586)	(282)	963
EQUITY	9,284	9,025	8,726	8,140	7,858	8,821

STATEMENT of CASH FLOWS

\$'000

	Plan Jan-Jun'03	Estimate 2003/04	Estimate 2004/05	Estimate 2005/06	Estimate 2006/07	Estimate Jul-Dec'07
Opening Cash Balance	7,621	7,225	8,235	8,681	9,257	9,509
Cash Flows from Operating Activities						
Receipts from Customers	6,971	15,552	15,682	15,732	15,707	8,714
Payments to Suppliers & Employees	(7,332)	(14,282)	(14,488)	(14,690)	(15,536)	(7,500)
Interest Received	65	165	215	255	235	100
Interest Paid	(3)	(8)	(11)	(13)	(12)	(5)
	(299)	1,427	1,398	1,284	394	1,309
Cash Flows from Investing Activities						
Capital Expenditure	(168)	(520)	(1,101)	(816)	(298)	(156)
Proceeds from Asset Sales	71	103	149	108	156	57
	(97)	(417)	(952)	(708)	(142)	(99)
Cash Surplus / (Shortfall)	(396)	1,010	446	576	252	1,210
CLOSING CASH BALANCE	7,225	8,235	8,681	9,257	9,509	10,719

**RECONCILIATION of OPERATING SURPLUS to
OPERATING CASH FLOWS**

\$'000

	Plan Jan-Jun'03	Estimate 2003/04	Estimate 2004/05	Estimate 2005/06	Estimate 2006/07	Estimate Jul-Dec'07
Operating Surplus	(1,186)	(259)	(299)	(586)	(282)	963
Depreciation	975	1,874	1,927	2,115	828	373
Increased Current Assets	4	(2)	1	-	3	(1)
Decreased Liabilities	(126)	(266)	(313)	(330)	(241)	(73)
Decreased Employee Entitlements	34	80	82	85	86	47
Net Cash Flows from Operating Activities	(299)	1,427	1,398	1,284	394	1,309

Appendix 2. Compliance with Schedule A of Access Code

Compliance of information required under the Access Code for inclusion in this Access Arrangement Information is as follows:

Schedule A requirements	AAI section reference
<i>Category 1: Information regarding Access and Pricing Principles</i>	2
Target determination methodology	2.6 to 2.10
Cost allocation approach	2.6 to 2.10
Incentive structures	2.11
<i>Category 2: Information Regarding Capital Costs</i>	3
Asset values	3.1
Asset valuation methodologies	3.1
Assumptions on economic life of asset for depreciation	3.2
Depreciation and accumulated depreciation	3.3
Committed capital works and capital investment	3.4
Description of nature and justification for planned capital investment	3.4
Rates or return	Not relevant as VENCORP recovers its costs on a cost recovery basis
Capital structure	Not relevant as VENCORP recovers its costs on a cost recovery basis
Equity returns assumed	Not relevant as VENCORP recovers its costs on a cost recovery basis
Debt costs	3.5
<i>Category 3: Information Regarding Operations and Maintenance</i>	4
Fixed versus variable costs	4.1
Cost allocation	2.6 to 2.10
Wages & salaries	4.2
Cost of services	4.3
Gas used in operations	4.4
Materials and supply	4.5
Property taxes	4.6
<i>Category 4: Information Regarding Overheads and Marketing Costs</i>	5
Total service provider costs at corporate level	5.1
Allocation of costs between regulated and unregulated	5.2
Allocation of costs between zones, services or categories of assets	2.3, 5.3
<i>Category 5: Information Regarding System Capacity and Volume Assumptions</i>	6

Description of system capabilities	6.1
Map of piping system	6.2
Average daily and peak demand at city gates defined by volume and pressure	6.3
Total annual volume delivered	6.4
Annual volume across each pricing zone	6.5
System load profile by month in each pricing zone	6.6
Total number of customers in each zone	6.7
<i>Category 6 : Information Regarding Key Performance Indicators</i>	7
Service Provider's KPIs for each pricing zone	7.1 to 7.3