APA Group

Response to the Commission's draft decision (Attachments)

on proposed access arrangement for the Principal Transmission System

Dated 20 December 2007

Attachment 1: Brooklyn to Lara Pipeline project - current status

1 Brooklyn-Lara gas transmission pipeline

1.1 PIPELINE DESCRIPTION

The pipeline will have a diameter of 500mm. It will commence from the GasNet Brooklyn Facility in Jones Road and run approximately 58 kilometres to connect into the South West Pipeline (SWP) T92 at GasNet's Lara SWP City Gate (Melway ref 423 B11). The pipeline will initially traverse within a combination of new easement, road reserve and the existing Brooklyn to Ballan Pipeline (T56) easement for approximately 17 kilometres after which it will pass through "greenfields" terrain in a generally south westerly direction and join the existing Brooklyn Corio Pipeline (BCP) T24 easement at Little River. The new pipeline will then generally follow this existing easement for 13 kilometres to the Lara SWP City Gate.

On current plans, the first 6 km of the pipeline route is subject to urban encroachment and environmental restrictions. The rest of the pipeline route traverses semi-rural land used predominantly for grazing and cropping.

1.2 DESIGN BASIS

The pipeline will be designed in accordance with AS 2885.1-2007. It will be built to ANSI Class 600, at a Maximum Allowable Operating Pressure (MAOP) of 10.2 MPag . The maximum allowable operating temperature will be 60 deg C and the minimum operating temperature will be no more than 10 deg C. It is envisaged that the pipe material will be API5LX70 (the highest grade with proven operational experience) with wall thicknesses as detailed in Table 1.

TABLE 1: Selected Wall Thicknesses in mm

Pipe OD Nominal DN500	**Selected Wall Thicknesses and (%Design Factor)**	**Length**
Light Wall	7.90 (68%)	38 KM
Heavy Wall 1	9.00 (60%)	5 KM
Heavy Wall 2	11.10 (48%)	14 KM
Extra Heavy Wall	12.70(42%)	1 Km

For corrosion protection the pipeline will be externally coated and internally lined.

The design provides for three mid-line valve stations with local bypass and venting facilities.

The pipeline will be designed for intelligent pigging. There is one new pig trap station which is required to be located at Brooklyn.

A new city gate and other facilities will be constructed on the existing Brooklyn Site, in Jones Road. This will control the pressure between the high pressure of the loop and the existing 7.4 MPa system. The facility will comprise of heaters, multiple regulator runs and required metering, together with the associated piping and civil works. Connections will be provided to allow flow from the existing compression facilities into the new loop.

An additional regulator run will also be installed at the existing Brooklyn City Gate to provide for the additional delivery capacity.

1.3 CONSTRUCTION BASIS

The pipeline will be constructed in a 20 metre wide easement with a 10 metre temporary working width abutting the easement, to be acquired for this purpose. However, due to environmental restrictions, there will be a number of locations where the construction work space will be limited to a width of less than 20 metres.

The pipeline will be constructed in accordance with AS 2885.1 and best construction practices. The minimum cover on the pipeline will be 0.9m (1.2m in the metropolitan area). A significant length (greater than 90%) is expected to be in rocky terrain. For the majority of this length, 150mm bedding and 250mm padding will be required to protect the pipe and its coating from long term damage from the rock. All welds will be examined by radiography in compliance with AS 2885.2. Further, the pipeline will be hydrostatically tested to meet or exceed the requirements of AS 2885.5.

The entire construction must comply with a project specific Environment Management Plan (EMP) to meet the expectations of the community and other stakeholders, and the APIA Environmental Code of Practice. It is anticipated that an Environmental Effects Statement under the Environment Effects Act 1978 will not be required. An Environment Effects Report (EER) will be prepared to comply with the requirements of the Pipelines Act 1967. The construction work must meet the requirements of OHSE Act, GasNet's Safety Case and Best Industry practices.

1.4 PROJECT COST

The estimated indicative cost of the project, excluding financing costs, is $68.9 Million in $ in the year expensed. The broad break-up is as follows:

		Estimated Cost $M
1	Major Pipeline Materials	$12.8
2	Pipeline EPC Costs (excluding pipeline materials)	$40.1
3	EPCM	$6.3
4	Licences, Easements etc	$2.9
5	Facilities	$6.8
6	Total Estimated Cost	$68.9

The materials cost is based on the current pipeline steel price, which is presently significantly higher than historical values.

Based on the preliminary design and review of the likely easement, the first 3.5 km of the total length of 58 km will be in difficult built-up street conditions and will require more expensive non-standard methods. The next 5 km of the pipeline could use standard mainline techniques but at a significantly slower production rate due to the likely environmental restrictions and constricted workspace within the Deer Park Bypass Freeway Reserve. There are also 4 waterway crossings and 2 freeway crossings. It is anticipated that the balance of the pipeline could be constructed using typical mainline construction techniques. The main restriction to the rate of pipe laying will be the extent of rock (expected to be greater than 90%) and the resulting requirements to excavate the rock, bed and pad the trenches and dispose of the surplus rock at approved locations.

Revision to Forecast Cost Brooklyn Lara (Corio) Pipeline

18 October 2007

On 6 June 2006 the ACCC released its Final Decision on the Major System Augmentation – Corio Loop. In that Decision, the ACCC agreed that pursuant to section 8.21 of the Code, the forecast construction costs of $61.7m ($2005) for the project met the requirements of section 8.16(a) of the Code. In addition, the ACCC approved a return on construction costs during the investment period.

Following this Decision, GasNet commenced detailed planning and design for the project. This led to some minor changes in the preferred route but otherwise no substantive changes to the length, diameter or capacity of the pipeline.

Construction of the pipeline has now commenced. As of mid-October 2007, the following milestones have been reached:

- All required land access has been acquired or agreed to,
- The pipeline licence and all environmental approvals have been granted,
- A tender has been conducted, and an EPC contract has been awarded to the successful party,
- The pipeline has been procured, and first deliveries to site have been made, and
- Site preparation has commenced.

There are no obstacles foreseen to completion of the project by the end of March 2008.

GasNet is now in a position to make a reliable estimate of the final cost of the project. This is because the pipeline has been procured, and a largely fixed price EPC contract for the pipeline has been entered into, covering the bulk of the uncertainties in the forecast final cost.

The current budget is $69.0 million. This compares to the original approved amount of $61.7 million ($2005). Applying forecast inflation to that original estimate (utilising the monthly profile) gives an equivalent nominal dollar amount of $65.3 million. Therefore the current forecast cost of $69.0 million is 5.7% higher than the approved amount.

A detailed breakdown of the current cost is shown below.

GasNet contends that the current estimate meets the requirements of section 8.16(a)(i) of the Code. GasNet has acted prudently and efficiently in

accordance with good industry practice, to achieve the lowest sustainable cost of providing services, by tendering out the engineering, procurement and construction of the pipeline.

GasNet also contends that the higher revised cost for the project continues to pass section 8.16(a)(ii)(B) of the Code. This is because the small cost increase of 6% is insignificant compared to the net market benefits (benefits in excess of costs) of $93.1m ($120m if competition benefits are included) identified by VENCorp for this project.

On this basis GasNet submits the revised cost of $69.0 million (plus return on investment costs during construction) for approval for the Brooklyn Lara Pipeline as part of the current Access Arrangement revision.

Cost Breakdown

Item	**Amount Approved $M ($2005 June)**	**Current Forecast $M (Nominal $)**
Pipeline Materials	15.8	13.0
Pipeline Construction	32.0	40.0
Project Management	3.7	5.8
Licences and Easements	3.4	2.9
Facilities	6.8	7.3
Total	61.7	69.0

Pipeline Materials

Pipeline costs are lower than originally forecast due to aggressive competition between pipeline suppliers.

Pipeline Construction

Costs are higher than originally budgeted due to higher labour rates and the high amount of construction activity in the pipeline industry, particularly in the area of water pipelines.

Licences and Easements

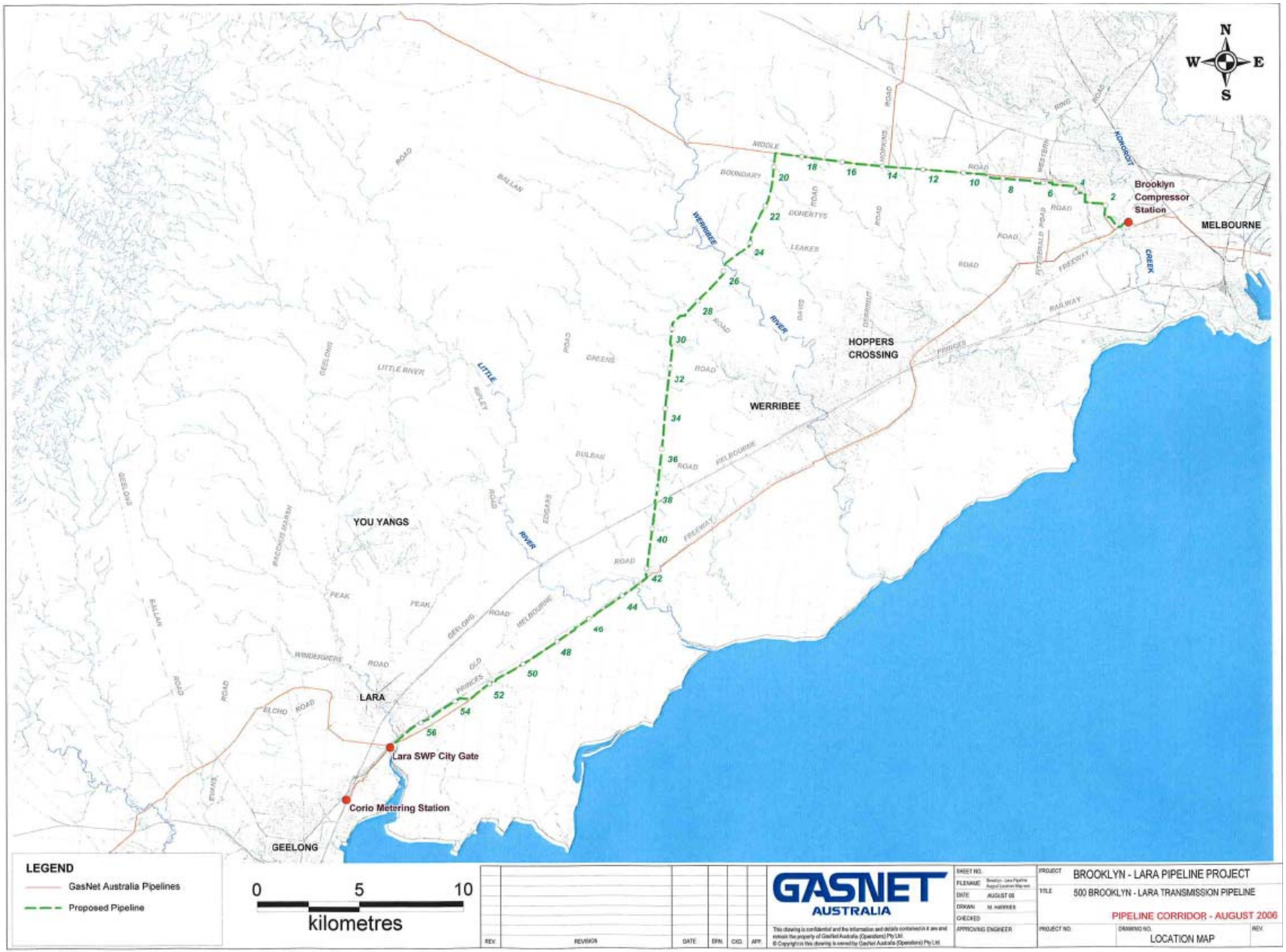
Costs are lower than originally anticipated due to a determination that no native title existed. However this saving has been partially offset by recently introduced 'net gain obligations' for native vegetation.

Project Management

Project management costs have increased due to higher labour rates for construction supervision staff, increases in insurance costs, and increased cultural heritage management costs.

Facilities

Facilities costs are only marginally higher due to general inflation.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W
E
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Brooklyn Compressor Station
MELBOURNE
HOPPERS CROSSING
WERRIBEE
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Corio Metering Station
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GasNet Australia Pipelines
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GASNET AUSTRALIA
BROOKLYN - LARA PIPELINE PROJECT
500 BROOKLYN - LARA TRANSMISSION PIPELINE
PIPELINE CORRIDOR - AUGUST 2006
LOCATION MAP

Attachment 2: Brooklyn to Wollert loop project

1 Brooklyn to Wollert Pipeline Design Description

The pipeline consists of 71 km of 600mm NB pipeline (wt 8.9mm Standard Wall and 10.7mm Heavy Wall) partially laid in existing easement and the rest in greenfield easement.

Three intermediate mainline valves are required, as well as pig traps and hot taps at Wollert and Brooklyn.

The topography is generally flat, however a number of very steep gullies exist at creek crossings (Deep Creek, Emu Creek and Jackson's Creek). It is estimated that 250 trench breakers are required. Surface ground conditions reveal basalt plains on part of the route. The remainder of the route is a combination of sedimentary/siltstone /gravel/sand with the odd section of basalt.

In total there are 6 waterway crossings. All creek crossings will need to be open cut due to basalt.

There will be 22 road bores, including extensive bores under Western Ring Road, Deer Park By-Pass, Western Freeway, Calder Highway and Hume Highway. In addition there will be 3 railway bore crossings and 5 road open cuts.

Construction within road pavement is expected for approximately 1900 metres. Roads affected are Fitzgerald Road, Fairbairn Road, Boundary Road and Westside Drive.

Environmental issues are likely to be the following:

- Native grassland – legless lizard, native flora etc.
- Crossings of the Merri Creek may be opposed by the friends of the Merri Creek given their opposition to a previous pipeline crossing of the creek in relation to protection of the Growling Grass Frog.
- Noise, dust and access near residential homes along proposed route.

There will be a requirement for net gain offsets in relation to native vegetation. An amount has been included for offsets however until environmental field studies are carried out there is no way of accurately determining the exposure.

There is likely to be Crown Land along the route that will be subject to Native Title. A full historical title search needs to be carried our followed by a referral to the Regional Native Title Coordinator to conclusively establish

whether or not native title exists. An allowance has been made on the assumption that it does exist.

There will be one local aboriginal group dealing with Cultural Heritage. An allowance has been made for the negotiation of a Cultural Heritage Management Agreement for construction monitors.

The chosen pipeline route will be a mix of existing pipeline easement and greenfields easement. As with the Brooklyn Lara project, the greenfields section (approximately 38 km) will affect Green Wedge zoned land that is currently experiencing a dramatic upwards movement in market sale prices as a result of land speculation. In addition, the land parcels vary greatly in size and land value per hectare. Until the final route is chosen and environmental studies completed an accurate estimate of the cost of easement acquisition cannot be made. The estimate provided has used an "average" amount for land value and also includes consideration for compulsory acquisition of a large number of easements.

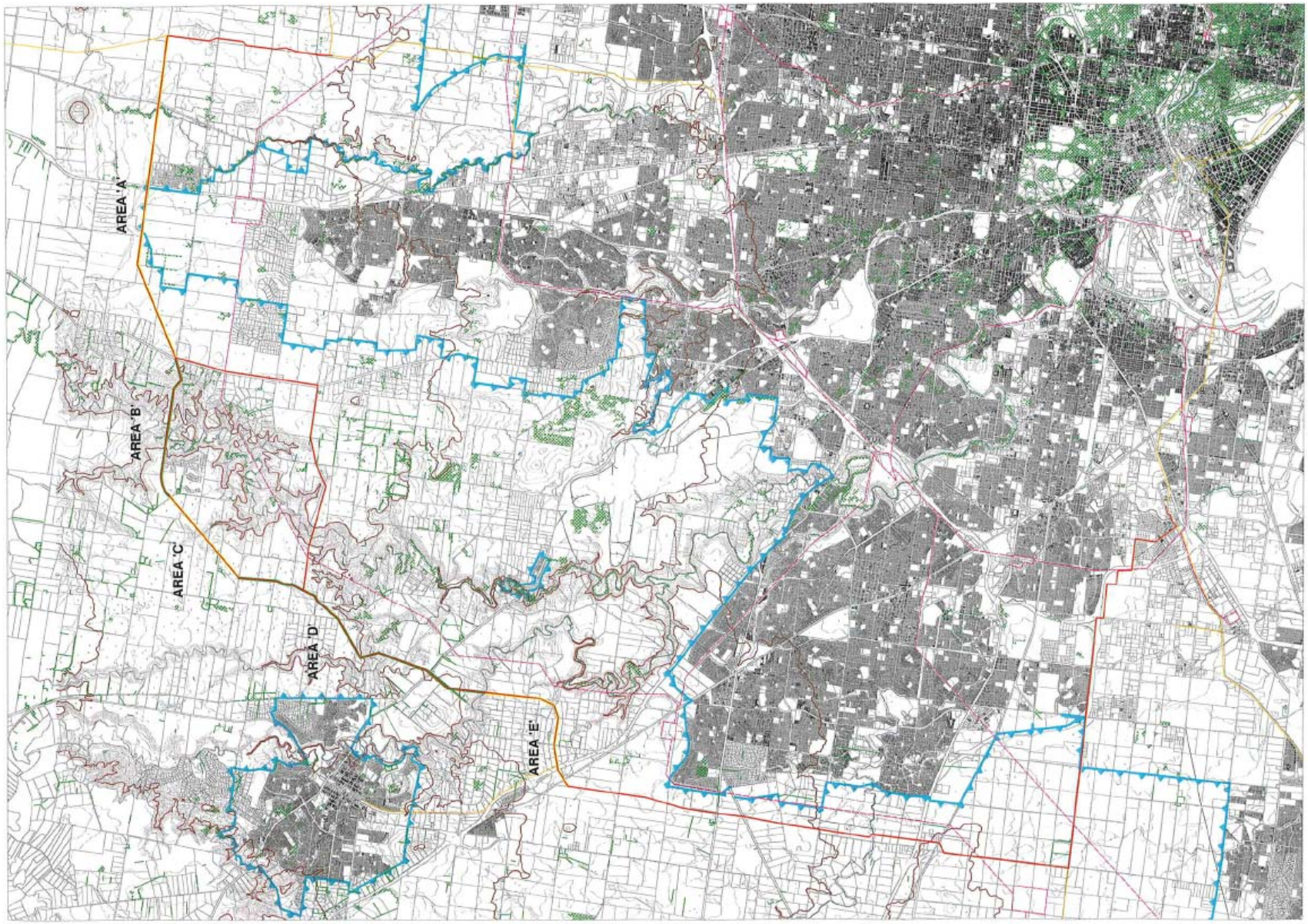
Temporary work space will be required for the existing pipeline section between Brooklyn and Hopkins Road and also for the Greenfields section. Temporary work space should not be required for the T74 section of the route (35 metre wide easement).

Access for pipe trucks, equipment and workers will be via existing roadways. Close to Melbourne there are adequate accommodation options for construction workers in northern Melbourne suburbs.

Cost estimate - current conditions

Cost Summary		
Total Owners Cost	$	5,371,235
Total EPCM	$	5,758,213
Total for Materials	$	29,458,741
Total for Construction	$	61,939,447
Total for Facilities	$	14,935,050
TOTAL CASH OUT FLOW	**$**	**117,462,686**

Main Cost	Major Cost Item	Total EC	
OWNERS COST			
	Advertise Permit	$	1,800
	Application fee for License	$	35,894
	License Fee	$	89,919
	Key Stakeholder consultation	$	35,280
	Title Searches	$	11,550
	Initial landholder contact	$	89,376
	EIA Project Management	$	240,000
	EIA Specialist Studies	$	240,000
	Vegetation offset obligations	$	360,000
	Prepare for License Application	$	7,056
	Resolve Objections to Pipeline	$	64,440
	Allow for Panel Hearings	$	129,600
	Acquisition of new easement	$	739,920
	Easement Compensation	$	2,280,000
	Temporary Work Space	$	212,400
	Landholder Damages Claims	$	234,000
	Native Title/Cultural Heritage	$	600,000
Total Owners Cost		**$**	**5,371,235**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Attachment 3 - Brooklyn to Wollert loop project - route selection options

1 Brooklyn Wollert Pipeline – Route Selection Options

The following report examines the cost of potential variations and necessary pipeline route changes that could be apply in the instance where construction of the Brooklyn – Wollert pipeline does not take place until beyond 2015 and the easement has not been previously acquired.

1.1 Overview

The proposed 600mm diameter pipeline from Wollert Compressor Station to Brooklyn utilises both existing pipeline easement as well as new (or "Greenfield") easement. The pipeline corridor is approximately 71 kms in length, comprising 33.5 kms within existing pipeline easement and 37.5 kms along a Greenfield route. The route has been selected so as to avoid land within the Melbourne 2030 plan. It is predominantly within Green Wedge zones.

The current proposed pipeline corridor commences from Wollert Compressor Station and heads north for approximately 5 kms within the existing 35 metre wide Wollert to Wodonga pipeline easement to a point near Donnybrook Road. It heads generally in a westerly direction before turning south-west to the existing Deer Park to Sunbury pipeline easement. The Deer Park to Sunbury pipeline easement is within Green Wedge land and is located approximately 700 metres to the west of the Melbourne 2030 Plan boundary. The 20 metre wide easement is relative free from any obstruction. It should be noted at this stage that, should a looping of the Deer Park to Sunbury pipeline be required, more easement will be required.

The pipeline route corridor has been selected as a feasible route for construction of a gas pipeline as of today. It is highly likely that the permitted land use of a large portion of this route will change over the next few years, making a project more costly and possibly impractical.

A detailed design and costing is provided in Attachment 2.

1.2 Urban Development

The Melbourne 2030 plan has been the subject of discussion between Government, developers and local government with regard to the amount of land available over the next 25 years for development. There is already political pressure to review the future development boundaries. The main areas where reviews of the development boundaries are likely to be targeted are to the north and west of Melbourne. Any change to the boundaries of the Melbourne 2030 plan to the north or north west will impact on the proposed pipeline corridor. Already there has been a future development proposed for the Donnybrook area outside of the current Melbourne 2030 plan boundary. It

is highly likely that changes will need to be made to the planning boundaries before the year 2015.

Had this pipeline been constructed 10 years ago, the pipeline route would already have been at least 10 kms shorter. Rezoning and the subsequent development of Craigieburn and surrounding areas has meant it is no longer possible to construct a high pressure pipeline along a shorter route.

The recent media announcement of a proposed new large residential development at Donnybrook (known as the Lockerbie Estate) may already result in the proposed pipeline route being relocated up to 3kms further north. While the land is currently outside of the Melbourne 2030 planning boundary, land speculation will have already pushed land prices a lot higher. APA Group are also likely to encounter opposition to the pipeline alignment from people involved in the proposed development.

1.3 Easement Acquisition and Pipeline construction beyond 2015

There is a general consensus that the boundaries of the Melbourne 2030 plan will change over the next few years. The extent of any changes is not known however APA Group have endeavoured to critically review the land and make a judgement of the most likely outcome.

While the greenfields route falls entirely within green wedge zones it can be divided into 3 sub categories:

- Open country where the land is likely to be rezoned to residential
- Land within Melbourne flight paths where it is likely to remain green Wedge
- Land in the escarpment areas where environmental issues the general ruggedness of the terrain are likely to restrict development.

The areas where residential development is likely to occur are marked on the attached map in yellow and are listed as follows:

Reference	Location	Distance	Comment
Area A	West from Donnybrook to Mickleham Road	10.7 kms	Adjoins current planning boundary
Area C	West of escarpment to approx. Feehans Rd (boundary of the airport flight path.	4 kms	Outside of the flight path and open pasture land. Good potential for development.
Area E	North east and South west of Calder Fwy	3.7 kms	Near planning boundary, close to rail and freeway. There are existing areas of RR development

A total of 18.4 kms of the 37.5 kms is likely to be developed as residential in the next 10 to 15 years. For this report it has been assumed that 75% of the 18.4 kms is developed as residential prior to the pipeline being constructed.

We consider the balance of the "greenfields" section of the proposed Wollert to Brooklyn route is likely to remain as Green Wedge beyond 2015. This area is marked in green on the attached map and summarised as follows:

Reference	Location	Distance	Comment
Area B	West of Mickleham Road to the west side of the escarpment	Approx. 5 kms	Escarpment land. Not suitable for development
Area D	From approximately Feehans Road to Jacksons Creek	Approx. 14.1 kms	Escarpment land and Melbourne airport flight path

Pipeline Route Alternatives

The following are alternative pipeline routes that were considered:

(a) The High Voltage Electricity Transmission Line

An electricity transmission line is located roughly parallel to the gas pipeline route for the majority of the route. Being an overhead lineal infrastructure however, its alignment follows land contours that are not possible to follow with a buried pipeline. For approximately 20.5 kms, the route runs within escarpments, with the towers located on high ground. There are also critical construction and operational safety issues to overcome when running a lineal steel pipeline parallel to high voltage transmission lines.

(b) Railway lines

The rail routes are not located in areas where they could be of practical benefit to the pipeline route. In addition, the rail authorities will generally not allow high pressure gas pipelines to run parallel within their land.

(c) The Hume Freeway or another Major Arterial Road.

Like railways, VicRoads will generally not allow infrastructure similar to gas transmission pipelines to run within freeways or major arterial roads. This option was explored during route selection of the Brooklyn Lara Pipeline (currently under construction).

(d) Other Cross Country Routes

A new pipeline route to the west of Melton and north and west of Sunbury.

This route would give reasonable certainty that there would not be any changes to planning zones or land use beyond the year 2015. The length of this pipeline would be 105 kms, with 63 kms of Greenfield easement.

(e) Utilising green wedge areas within Melbourne Airport flight paths.

There is reasonable certainty that development will continue to be restricted along the flight paths of Melbourne Airport. The pipeline route already crosses one of the flight paths. It is not practical to use the flight paths to a greater extent. To reach the flight path the pipeline alignment would need to cross the Organ Pipes National Park and encounter severe escarpments or pass through areas of Sydenham and neighbouring areas that are already under development. A route utilising flight paths to a greater extent would result in about the same length and would still encounter development.

The Existing Proposed Alignment

It may be possible to utilise the current proposed alignment even if a level of land development has occurred. This may still be the most cost effective option, using a mixture of easement within green wedge zones, easement within residential zones and construction within road reserves. We do not know the extent of future development, nor whether it is possible to construct within future road reserves. There are many variables, such as:

- If the land has been rezoned but not developed, it may be possible to acquire easement through the residential land. The cost would be high, however. Easement through residential land is approximately 10 times higher than through Green Wedge land.

- It is unrealistic to expect the roads will be located exactly in the directing in which the pipeline is heading. The distance along road reserves typically is expected to be 20% longer than across country.

- Approvals would need to be obtained from Local Government and possibly VicRoads (as well as DPI and ESV) to construct a large high pressure pipeline through residential areas and within road reserves.

An example of a modern high density residential development can be seen at Caroline Springs, with meandering roads and cluttered environment. Construction of a high pressure pipeline would be limited to main and secondary roads.

Whether easement through residential land, park land or road reserve is feasible, the most cost effective and safest option would be determined at the time.

Estimated Cost of Construction beyond 2015

For the estimate, it has been assumed that, in areas where development has occurred (i.e. the 18.4 kms where land is likely to be rezoned to residential), construction will need to be in road reserve as other land will already be

developed. The cost of constructing the pipeline in road reserve to the Snowy Hydro Power Station in Laverton has been used as a benchmark.

The cost of the construction activity for this 600mm pipeline along this route (owners EPCM, materials and facility costs are not included) has been estimated at approximately $890/ m in normal easements. In road reserve (assumed under bitumen), the cost of construction activity for a 600mm pipeline is approximately $2,200/m. Assuming that only 75 percent of the 18.4 km section actually develops as residential, the additional cost will be $18.1M in $2007. It is also likely the length of pipeline through the future developed area and associated cost will increase when following road alignments. At least an additional length of 20 percent could be assumed. This would increase the cost difference to approximately $22.8M (including the additional material cost). Cost estimates have been based on the APA Group's latest knowledge of material and construction costs.

Attachment 4: SAHA letter about asbestos related risks

SAHA INTERNATIONAL

19 December 2007

David Whitelaw
GasNet Australia
180 Greens Rd,
Dandenong VIC 3175

Dear David,

RE: Asbestos Related Risks

Background

On 30 April 2007, GasNet Australia submitted a revised access arrangement (AA) for the Victorian Principal Transmission System (PTS) for the AA period 2008–12 to the Australian Competition and Consumer Commission (ACCC) for approval under the National Third Party Access Code for Natural Gas Pipelines (the Code).

As part of its AA submission, GasNet proposed to include asbestos risk as a pass-through event, rather than as an allowance for self-insurance. Within its AA, GasNet defined an Asbestos Event as:

> *"any cost, expense or liability incurred by GasNet arising out of or in connection with a claim by a third party in respect to an asbestos related disease".*

In support of this position, GasNet presented the recommendations of an independent report undertaken by SAHA that identified and quantified the asymmetric risks that GasNet faced in this report. In relation to asbestos related risk, SAHA stated that:

> *"GasNet are potentially liable for claims related to the impact that asbestos, which was, or still is contained within its assets, has, or previously had, on the health of its employees and third parties".*

Furthermore, SAHA stated that:

> *"From our experience, asbestos is a significant legitimate business risk faced by Gas Transmission companies around the world, and GasNet is no exception. Any estimate of the expected cost of asbestos related risk is necessarily subjective and a wide range of possible values is feasible, therefore, we recommend that GasNet seeks a specific cost pass through provision related to asbestos related risk".*

In response to GasNet's AA, the ACCC stated that:

> *"The ACCC's Draft Decision proposes not to approve GasNet's proposed pass through of an asbestos event as this would act as a disincentive for GasNet to manage this risk. If GasNet is unable to insure against this risk, the ACCC will consider any substantiated proposal for self-insurance".*

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ABN 69 205 922 179, ARBN 105 670 095. Incorporated in New Zealand. **www.sahainternational.com**
MELBOURNE SYDNEY BRISBANE WELLINGTON JOHANNESBURG CAPE TOWN WINDHOEK

The ACCC provided further support to this conclusion by referring to TRUEnergy's submission, which, in relation to this matter, stated that:

> *"The risks of using Asbestos in products resulted in a court related action against James Hardie. It was required to compensate that had contracted asbestos related diseases as a result of its products. In this case, consumers did not underwrite this risk. The company was required to fund the exposure from its profits. Accordingly, we see no reason why GasNet should be afforded special treatment in this regard"*

SAHA is a specialist utilities and infrastructure advisory practice, with offices in Melbourne, Sydney, Brisbane, Wellington, Johannesburg, Cape Town and Windhoek. It is comprised of a group of senior utility and infrastructure advisors with considerable experience in assisting governments, regulatory agencies and corporate clients in the design and application of utility policy, pricing, and regulatory mechanisms.

Our company is recognised and prides itself on being able to provide for its clients:

- expert subject knowledge of regulatory and financial economics in utilities;
- demonstrated experience in risk management, statistical and actuarial analysis, pricing policies, market segmentation, tariff design and development and implementation of regulatory frameworks;
- extensive experience in the assessment and quantification of asymmetric risks for regulated electricity, gas and water businesses;
- deep operational and commercial experience gained in assisting many of Australia's premier infrastructure and utility clients; and
- coverage of all stages of infrastructure reform from corporatisation through to privatisation - in Australia and globally.

Objective

SAHA has been engaged by GasNet to provide an independent critique of the ACCC's justification for not allowing it to include a cost pass through provision for Asbestos related risks as part of its AA for the Victorian PTS.

Based on SAHA's analysis, there appears to be two key issues underpinning the ACCC's decision not to allow GasNet to include, as a pass through event, the risk of an Asbestos related incident. These two issues are that:

- It would provide a "disincentive" for GasNet to manage this risk; and
- The cost of the risk should be borne by the shareholders, and furthermore, that this is consistent with a competitive market outcome.

SAHA will discuss these and other issues in further detail below.

Disincentive to Manage Risk

SAHA believes that providing GasNet with a cost pass through provision in relation to this risk will not provide them with a 'disincentive' to manage this risk. In particular, SAHA notes that GasNet will still be required to comply with the extensive requirements of the Occupational Health and Safety Regulations 2007. These regulations, of which 70 pages are devoted to addressing asbestos risk, cover all aspects associated with dealing with asbestos, including, amongst other things, requiring them to[1]:

- So far as is reasonably practicable, identify all asbestos present, and where identified, determine:
  - the location of the asbestos; and
  - the likely source of asbestos that is not fixed or installed; and
  - in relation to asbestos-containing material—
    - the type of asbestos-containing material; and
    - whether the asbestos-containing material is friable or non-friable; and
    - the condition of the asbestos-containing material; and
    - whether the asbestos-containing material is likely to sustain damage or deterioration; and
  - so far as is possible, any activities likely to be carried out in the workplace that are, in view of their nature or design, likely to damage or disturb the asbestos.
- Maintain an up-to-date Asbestos register.
- Ensure that any risk associated with the presence of asbestos is eliminated, so far as is reasonably practicable, by removing the asbestos-containing material.
- If it is not reasonably practicable to remove the asbestos-containing material, enclose the material to reduce, so far as is reasonably practicable, any risk associated with the presence of asbestos.
- If the employer has enclosed the asbestos-containing material so far as is reasonably practicable and a risk remains, they must seal the material to reduce, so far as is reasonably practicable, any risk associated with the presence of asbestos.

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[1] http://www.legislation.vic.gov.au/Domino/Web_Notes/LDMS/PubLawToday.nsf/b12e276826f7c27fca256de50022686b/DA19E13CB92A0BECCA25730700205411/$FILE/07-54sr001.doc

More generally, the Victorian Workcover Authority[2] website states that employers are required to:

- "Eliminate any risk associated with the presence of asbestos by removing the asbestos. If it is not reasonably practicable to eliminate the risk, they must reduce the risk as far as reasonably practicable".

- "Review (and, where necessary, revise) their risk controls before any change at the workplace that is likely to disturb or damage any asbestos, or at the request of a health and safety representative"; and

- "Consult employees and health and safety representatives when identifying hazards and deciding *on control measures*".

In addition, and consistent with what SAHA noted in its previous report, GasNet has a number of existing and on going mitigation schemes in relation to asbestos. These include:

- Maintaining an up-to-date copy of each Asbestos Register on site;

- Implementing the Company's policy requiring an Asbestos Register is to be consulted before work is undertaken that may involve disturbance to Asbestos Containing Materials (ACM); and

- Labelling the ACM wherever possible.

SAHA believes that the extensive regulations underpinning how GasNet identifies, records and removes asbestos, along with GasNet's current mitigation strategies and the potential damage to GasNet's business reputation if any future exposure were to occur, will ensure that GasNet adopts efficient and effective risk mitigation strategies for this risk, even when provided with a cost pass through mechanism.

Consistent with competitive markets, this risk should be borne by shareholders

Contrary to the position of TRUEnergy, SAHA believes that the cost associated with bearing an asymmetric risk such as an 'asbestos event', as defined by GasNet in its AA, would actually be factored into the outcomes of a competitive market. More specifically, SAHA notes that no participant would enter the market for the supply of a particular product (eg: a regulated Gas Transmission business included) unless it reasonably expects to achieve a return on their investment, commensurate with the risks associated with operating in that industry. Moreover, when assessing this risk, it will look at not only the non-diversifiable risk associated with that investment, relative other possible investments (eg: the beta in the CAPM model), but also the individual asset and business related asymmetric risks and asymmetric non-diversifiable risks associated with that investment, as these are not accounted for in the CAPM parameters. The diversifiable risks and asymmetric non-diversifiable risks will be priced into the market outcomes – whether via the sale price of the asset, or through the sale price of the service to end customers. The latter decision will be a function of whether that risk is specific to the company or to the industry as a whole.

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[2] http://www.worksafe.vic.gov.au/wps/wcm/connect/WorkSafe/Home/Safety+and+Prevention/Health+And+Safety+Topics/Asbestos/Your+legal+duties/Employers/?zz=1&a=Asbestos&p=Popular

For example, if the risk is only borne by an individual participant (company) within an industry, and not the industry as a whole, that risk will be reflected in a lower asset value (or sale price) for that company, as the company will not be able to pass on the costs of bearing that risk to its consumers as other market participants do not bear the cost of that risk. However, if it is a risk that is faced by all participants within that industry (eg: security risks for airlines), then all participants will have to not only bear that risk, but they will pass the cost associated with bearing that risk onto customers through higher prices. The key factor in the latter scenario is that only the efficient cost associated with bearing that risk will be passed onto customers.

SAHA believe that asbestos is a risk that is faced by all gas transmission (and distribution) businesses. This view primarily stems from the fact that every gas business that SAHA is aware of has historically used, or has assets that still contain, asbestos. This means that the gas transport industry as a whole is exposed to this risk. Moreover, it is noted that this significant historical use of asbestos (which can still lead to liability claims today) was undertaken when the health effects were unknown to either the broader public or to end consumers of asbestos (including gas businesses).

Having regard to the above, SAHA firmly believes that it is appropriate for the efficient cost of bearing asbestos risk to be passed on to customers in the event that a successful asbestos related claim is made against GasNet, as this is a legitimate asymmetric risk that all gas businesses will face. Moreover, SAHA believes that the adoption of a cost pass through mechanism for the liability component of this risk represents the most efficient allocation of this risk, thus providing the community with the most efficient outcome as a whole. In particular, if this risk were allocated to GasNet, they may be incentivised to include an allowance for self insurance risk, which may be necessarily subjective and prone to a wide range of outcomes (due to the long term nature of this risk), and/ or undertake extremely expensive mitigation strategies within its business in order to reduce the probability of this risk occurring. It is noted that if any of these outcomes did occur, this cost would most likely be passed through to customers at each price review process. In addition, as asbestos risk is asymmetric by its nature (ie. all downside) and therefore is not adequately addressed by the CAPM, we believe a cost pass through mechanism is the preferred method.

Conclusion

Even with all of its existing and future risk mitigation strategies in place, including those required to comply with the extensive OH&S Regulations, and all the policies and procedures to support those strategies, GasNet still bears a residual risk in relation to the potential exposure of its past or present workforce (or third party) to asbestos.

Furthermore, it is very difficult to accurately quantify an asbestos self insurance premium due to:

- The long term nature of this risk, with any exposure potentially not being known for decades; and
- The unknown impact of (past) incurred but not reported claims.

Having regards to all this, SAHA is still of the belief that the most efficient and effective way of mitigating this asymmetric risk is for GasNet to be allowed to include a cost pass through mechanism for this risk, and furthermore, the cost of this industry wide risk should be passed through to end customers.

If you have any questions in relation to this analysis, please don't hesitate to contact either myself on +613 9934 0606 or Rohan Harris on +613 9934 0613.

Yours sincerely
SAHA INTERNATIONAL LIMITED

Kha Truong
Associate Director

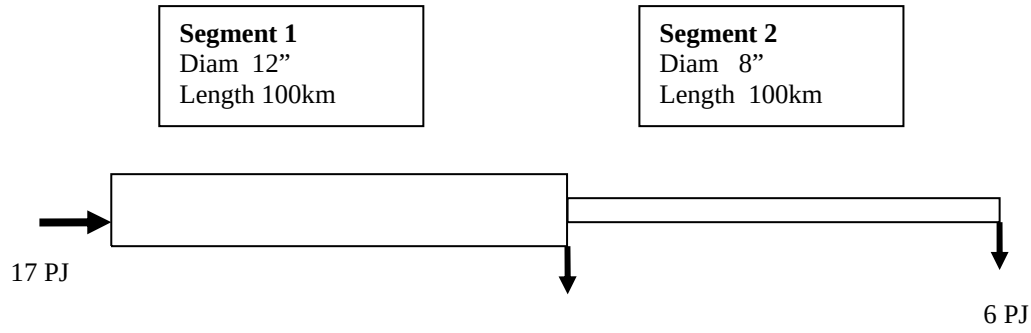
Rohan Harris
Senior Manager

Attachment 5: Alternative cost allocation method

This attachment explains the essential differences between the cost allocation procedures used in the current AA2 tariff model, and the alternative model proposed by GasNet for AA3.

The current cost allocation model is designated as the Zone-Gate model, whilst the alternative method is the Volume-Distance model.

For illustrative purposes the models will be applied to a simple system of an upstream and a downstream pipeline.



The volumes shown in the figure represent the maximum capacity of the pipeline.

For deriving indicative tariffs, we have assumed that pipeline capital cost is calculated from a unit rate of $55,000/in/km, and that the annual revenue requirement is 10% of the capital.

	1	**2**	**Total**
PJ out	11	6	17
Diam ”	12	8	
Length km	100	100	200
Cost $m	66	44	110
Annual revenue	**6.6**	**4.4**	**11**

Zone-Gate model

In the zone-gate model, a tariff is derived for each pipeline segment separately.

Segment 1 tariff = $6.6m/17 PJ = $0.388/GJ
Unit Rate = $0.00388/km/GJ

Segment 2 tariff = 4.4m/6 PJ = $0.733/GJ
Unit Rate = $0.00733/GJ

Therefore for withdrawals from:

Segment 1, tariff = $0.388/GJ

Segment 2, tariff = $0.388/GJ + $0.733/GJ = $1.122/GJ

Volume-Distance model

In this method, a single unit rate is calculated for the entire system, and this is applied to each withdrawal according to the distance travelled by each flow.

	1	**2**	**Total**
Revenue required			11
Distance	100	200	
Volume	11	6	
Vol-Dist	1100	1200	2300
Common Unit Rate			0.00478
Tariff $/GJ	**0.478**	**0.957**	

Therefore for withdrawals from:

Segment 1, tariff = $0.478/GJ

Segment 2, tariff = $0.957/GJ

As can be seen from this calculation, the unit rate under the volume-distance model is intermediate between the unit rates of segments 1 and 2 under the zone-gate model.

Attachment 6: Competitive export tariff

Confidential

Attachment 7: CRA Report

FINAL

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Treatment of GasNet Corporate Costs

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TABLE OF CONTENTS

1. INTRODUCTION

The APA Group has asked us to consider the appropriate treatment of corporate costs in GasNet's Access Arrangement for the period 2008-12 following the acquisition of GasNet by the APA Group in October 2006.

1.1. BACKGROUND

In its Draft Decision on GasNet's Access Arrangements for 2008-12,[1] the Australian Competition & Consumer Commission (ACCC) adjusted GasNet's operating expenditure allowance for the period 2008-12 by $2 million per annum to reflect the ACCC's view of the synergies that would arise from the incorporation of GasNet into the APA Group subsequent to the merger of October 2006.[2]

The ACCC states that it is required to adjust the operating expenditure allowance for expected merger synergies under section 8.2(e) of the Gas Code,[3] which requires that "any forecasts required in setting the Reference Tariff represent best estimates arrived at on a reasonable basis":[4]

> *The ACCC has considered the available information and is of the view that the method it has used provides the **best estimate arrived at on a reasonable basis** as required by the code. To the extent that GasNet is able to achieve greater reductions it will retain the difference during the AA3 period as part of its incentive mechanism [emphasis added].*

1.2. IMPLICATIONS

The ACCC's approach to adjusting operating expenditure implies that:

- A large proportion of expected efficiency gains arising from mergers should be passed on immediately to customers - that is, without a glide path or an efficiency carry-over mechanism - at the start of the subsequent regulatory period; and

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1 Australian Competition & Consumer Commission, "Revised access arrangement by GasNet Australia Ltd for the Principal Transmission System: Draft Decision", 14 November 2007.

2 The ACCC notes that its estimate of likely synergies is base on "confidential information of the APA Group's overheads which was provided to the ACCC during its assessment of the Roma to Brisbane Pipeline and the Moomba to Sydney Pipeline access arrangements." (Ibid, p.116) GasNet had earlier stated that the effect of the merger on corporate overheads "was problematic at this stage" (Ibid, p.115).

3 National Third Party Access Code for Natural Gas Pipeline Systems ("Gas Code").

4 Ibid, p.116.

- Expected benefits from a merger should be passed on to customers even if there is no evidence that efficiency gains have actually occurred.

The realised (ex-post) benefits of a merger may not be known for a number of years after the merger has taken place. Therefore, the ACCC's policy could theoretically result in the passing on of more than 100 per cent of the benefits of a merger, and before any benefits of the merger are realised.

The ACCC's approach also implies that efficiency gains arising from mergers should be treated differently to other operating efficiency gains, which are subject to a five-year efficiency carry-over mechanism.

1.3. ISSUES TO BE CONSIDERED

In evaluating whether efficiency gains arising from mergers should be passed through to customers at the earliest opportunity, and in advance of the size of the benefits being apparent, the following requirements under the Gas Code are particularly relevant:

- Section 8.1, which includes that a Reference Tariff and Reference Tariff Policy should be designed with a view to achieving the objectives of:
  - "Replicating the outcome of a competitive market" (8.1(b)); and
  - "Providing an incentive to the Service Provider to reduce costs and to develop the market for Reference and other Services" (8.1(e));
- Section 8.37, which states that "A Reference Tariff may provide for the recovery of all Non Capital Costs (or forecast Non Capital Costs, as relevant) except for any such costs that would not be incurred by a prudent Service Provider, acting efficiently, in accordance with accepted and good industry practice, and to achieve the lowest sustainable cost of delivering the Reference Service"; and
- The requirements of section 8.2(e) as relied upon by the ACCC.

In the remainder of this paper, we consider the appropriate treatment of benefits from mergers under the Gas Code as follows:

- Section 2 considers the appropriate definition of a competitive market under the Gas Code (as per section 8.1(b)) and the implications for efficiency gains from mergers;
- Section 3 assesses the implications for the forecasting of (and recovery of) non-capital costs as under the requirements of sections 8.37, 8.2(e) and 8.1(e) of the Code; and
- Section 4 sets out our conclusions.

2. ROLE OF MERGERS IN A COMPETITIVE MARKET

Section 8.1(b) of the Gas Code requires that a reference tariff and reference tariff policy be designed with a view of achieving the objectives of replicating the outcome of a "competitive market".

A competitive market could theoretically take many forms. One extreme characteristic of a competitive market could be perfect competition. To achieve perfect competition the market requires an infinite number of relatively small buyers and sellers or a homogeneous product where all players have complete and costless knowledge, access and mobility in the market. It is clear that markets cannot achieve this goal in a realistic manner.

A more plausible variant of a competitive market is that of workable competition. Unlike the case of perfect competition, value judgement is required in defining workable competition.[5] However, widely-accepted features include the ability for a firm to benefit from efficiency enhancing behaviour and retain a proportion of that benefit over time. For example, Sosnick[6] considered that the criteria for a workably competitive market include that:

- There be moderate price service quality differentials in the products offered;
- Opportunities for introducing technically superior new products and processes should be exploited; and
- Success accrues to sellers who best serve customer wants.

In the context of the Gas Code the Western Australian Supreme Court decision on the Dampier to Bunbury Natural Gas Pipeline provides important precedent. In its decision, the Court observed that the most appropriate benchmark under the Gas Code was workable competition and that under workable competition there need not be instantaneous market reaction as under perfect contestability:[7]

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5 For example, Markham states that "There have been several serious attempts made to define the term "workable competition." In no case, however, has an author set forth conditions so completely devoid of value judgements or so all-embracing that he feels free to acclaim the universal applicability of his definition" [Markham, Jesse, W., (1950) "An Alternative Approach to the Concept of Workable Competition", *The American Economic Review*, Vol. 40, Issue 3, page 354].

6 Sosnick, Stephan, H., (1958), "A Critique of Concepts of Workable Competition", *Quarterly Journal of Economics, Vol 72, No3*, page 380.

7 Re Dr Ken Michael AM; ex parte Epic Energy (WA) Nominees Pty Ltd & Anor [2002] WASCA 231, at para 128.

> *As such, a workably competitive market will react over time and according to the nature and degree of various forces that are happening within the market. There may well be a degree of tolerance of changing pressures or unusual circumstances before there is a market reaction. The expert evidence and writings tendered in evidence suggest that a workably competitive market may well tolerate a degree of market power, even over a prolonged period. The underlying theory and expectation of economists, however, is that with workable competition market forces will increase efficiency beyond that which could be achieved in a noncompetitive market, although not necessarily achieving theoretically ideal efficiency.*

For a reference tariff or reference tariff policy to be consistent with the concept of workable competition, there needs to be both incentives for the firm to undertake efficiency gains and benefits that can be realised from achieving efficiency gains. An efficiency carry over mechanism is a widely accepted regulatory mechanism that meets these aims by allowing the regulated firm to reap the benefits of efficiency gains for a specified period of time. An efficiency carry-over provision is included as a fixed principle in GasNet's Access Arrangement. The ACCC approved this fixed principle in 2003 and expressed its support for its continuation in the GasNet Draft Decision.

Furthermore, the ACCC has supported the use of efficiency carry-over mechanisms in other industries. In its Statement of Regulatory Principles for the electricity transmission sector the ACCC supported application of an efficiency carry-forward mechanism on the grounds that it provided consistent efficiency incentives:[8]

> *An efficiency carry-forward mechanism that allows TNSPs to retain the benefit of any savings (or exposes them to the detriment of any losses) for the same length of time regardless of when in the regulatory period the savings/losses are made, provides more consistent efficiency incentives. This avoids the cost shifting problem endemic to the glide-path approach and provides an ongoing incentive for least cost operation. Therefore, this is the form of the carry forward mechanism that the ACCC has decided to use.*

A feature of an efficiency carry-over scheme is that revenue is only adjusted for efficiency gains once the gains have become apparent, and then only in full after a period of five years. What is unclear is why the benefit sharing approach set out in GasNet's efficiency carry-over scheme is not applicable to efficiency gains arising subsequent to a merger. For a different approach to be warranted for efficiency gains arising subsequent to mergers there needs to be some difference in either the way efficiency gains arise or are captured by the firm following a merger.

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8 Australian Competition & Consumer Commission, "Statement of principles for the regulation of electricity transmission revenues: Background paper", December 2004, p.71.

Mergers can facilitate efficiency gains through a number of mechanisms. These mechanisms include scale economies (ability to spread fixed cost over a larger output), scope economies (ability to spread fixed costs over a broader suite of services), and learning (whereby new managers bring new techniques to a firm). However, it is not the merger per se that leads to efficiency gains: it is the ability for the merger to facilitate changes in operational practices that is relevant. But mergers are not the only way to facilitate changes in operational practices: economies of scale and scope and learning can all arise absent a merger. Therefore, there is nothing particular in the nature of efficiency gains that arise subsequent to a merger that warrants a different regulatory treatment.

One potential difference could arise if the nature of the product supplied changes post-merger. The ACCC claims that efficiency gains will arise by virtue of GasNet's share of common corporate costs for the whole APA Group being lower than GasNet's pre-merger corporate costs. The ACCC's view implies the ability to reap economies of scale through spreading similar costs across a greater number of pipelines. However, in the case of corporate services the same product (provision of corporate services) is being provided before and after the merger. The main difference is the entity supplying the product (APA Group compared with GasNet). Therefore, there are no grounds to suppose there is a change in service or other product dimension following the merger.

Mergers also result in a change in corporate control of a firm. However, the fact that there is a transaction between seller and buyer of an asset does not imply that efficiency gains subsequent to the change in corporate control should be treated differently. The sale price of an asset that is regulated under the Gas Code and subsequently sold is usually given little weight for the purpose of tariff setting. Similarly, the value placed by investors on future efficiency gains through a sale process should be irrelevant for the purposes of regulation.

In practice, the benefits of mergers only become apparent over a period of time and are often difficult to predict,[9] though significant costs have to be incurred ex-ante to appropriate these benefits.[10] Consistent with the costs incurred and uncertainty over the benefits, a firm operating in a workably competitive market would expect to retain any benefits that materialise from the merger over a period of time. However, cost and uncertainty is a feature of all forms of efficiency enhancement, including those that do not arise through a merger.

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9 For example, Hartman [Hartman, R.S, "Predicting the Efficiency Effect of Mergers", Journal of Forensic Economics 9(3), 1996 pp.295-323] notes that while the literature suggests that most ex-ante studies predict merger induced efficiency gains, mergers seem to fail 60-80% of the time. The authors attribute this finding to ex-ante studies generally being over-optimism on the scope for efficiencies and the costs and difficulties of integrating merged firms being greater than anticipated.

10 The APA Group notes that for the GasNet-APA Group merger, almost $20 million was spent by the combined entities on merger related costs that were directly attributable to the regulated business of GasNet.

Other regulators have not chosen to distinguish between different forms of efficiency gains. In its statement on the regulatory treatment of mergers Ofgem stated that it would seek to:[11]

> *pass back the efficiency savings that the merger is expected to generate as they arise through the price control review process* ***and not to differentiate between merger savings and any other types of savings*** *[emphasis added].*

Ofgem further stated that:[12]

> *"regulation should not seek to inhibit companies from adopting corporate solutions, such as mergers, that promote greater efficiency".*

In summary, it is accepted that the competitive market structure proposed under the Gas Code is best proxied by a workable competition model that provides incentives for efficiency gains, including through allowing firms to retain the benefits of efficiency gains for a period of time. There is nothing specific about the nature of mergers that warrants a different approach to providing incentives for efficiency than other (pre-existing) vehicles for enhancing efficiency in a workably competitive market.

11 Ofgem, "Mergers in the electricity distribution sector: Policy statement", May 2002.

12 Ibid.

3. IMPLICATIONS FOR FORECASTING NON CAPITAL COSTS

Section 8.37 and 8.2(e) of the Gas Code both relate to the forecasting or setting of a benchmark for non-capital costs in the subsequent access arrangement period. Section 8.37 states that:

> *"A Reference Tariff may provide for the recovery of all Non Capital Costs (or forecast Non Capital Costs, as relevant) except for any such costs that would not be incurred by a **prudent Service Provider, acting efficiently**, in accordance with accepted and good industry practice, and to **achieve the lowest sustainable cost** of delivering the Reference Service." [emphasis added].*

Of particular relevance from an economic standpoint are what constitutes "acting efficiently," and how the "lowest sustainable cost" should be defined.

Under a workably competitive market, the process of cost reduction is iterative and reflects the dynamic nature of competition: firms seek out efficiency gains, benefits are retained for a period of time, while over time other firms compete away super-normal profits.

The workings of the efficiency carry-over mechanism included as a fixed principle in GasNet's access arrangements reflects the above dynamics: a benchmark is set for operating expenditure based on historical expenditure; GasNet then has an incentive to seek out efficiency gains as any benefits are kept for 5 years; and subsequently the benchmark is altered reflecting the achieved efficiency gains.

As there is no difference in practice between efficiency gains that arise subsequent to a merger compared with operating efficiency gains that arise absent a merger, there is no reason to conclude that a different regulatory approach is warranted where a merger takes place. Applying a common approach means that the outturn (2006) expenditure for the stand-alone GasNet should be used as a benchmark for the future expenditure of GasNet as part of the APA Group. A policy of this nature should be consistent with the need to provide incentives to reduce cost as set out in section 8.1(e) of the Gas Code and to achieve the "lowest sustainable cost" of supply set out in section 8.37 of the Gas Code on the grounds that:

- The process of signalling what may be assumed efficient for a stand-alone entity may be necessary to drive the efficiency enhancing behaviour (including cost reduction) facilitated through mergers; and
- By providing a strong signal for cost-reduction the "lowest sustainable cost" can then be achieved over time.

A similar conclusion should be drawn from section 8.2(e) of the Gas Code, which states that "any forecasts required in setting the Reference Tariff represent best estimates arrived at on a reasonable basis". Any forecast that does not provide incentives for efficiency-enhancing behaviour cannot be consistent with a workably competitive market and therefore be considered as derived on a "reasonable basis".

The ACCC, by interpreting the term "reasonable basis" as requiring implementation of the best (ex-ante) estimate of the post-merger costs, necessarily misrepresents the workings of a workably competitive market. If benefits of mergers are to be appropriated even before they are observed then there will be much weaker incentives for firms to seek efficiency gains in the first place. In turn it is unclear how there can be either incentives for cost reduction or incentives to move towards the "lowest sustainable cost" of supply over time as required under section 8.1(e) and 8.37 of the Gas Code.

A further flaw with the ACCC's approach is that it appears to have no current means of accurately quantifying the benefits. Therefore, it is unclear how the quantification of benefits can be considered to have been developed on a "reasonable basis". As the efficiency gains arising from the merger cannot be known with any degree of certainty on an ex-ante basis, the proportion of gains passed on under the ACCC's approach could theoretically be greater than the benefits that ultimately arise from the merger.

4. CONCLUSION

The ACCC's approach to determining a cost benchmark for GasNet's corporate costs implies that operating efficiency gains from mergers should be treated differently to other operating efficiency gains. There is nothing specific to a merger that warrants a different approach, and that view is accepted by other regulators.

Furthermore, the ACCC's approach introduces an asymmetry for merger-induced gains and may have adverse impacts on future incentives for firms to merge. By assuming that all benefits from mergers must be passed on to customers immediately (and even before they can be demonstrated) there becomes a much greater incentive to undertake efficiency gains through merger at the start of the regulatory period (when the firm will be able to reap gains for at least 4 years) rather than at the end of a regulatory period (when benefits are recouped immediately).

The workably competitive benchmark in the Gas Code is well accepted, with other features of the regulatory framework – including the efficiency carry over mechanism – reflecting the need to provide incentives for efficiency gains. Removing the benefits from mergers can only reduce the incentives for such efficiency-enhancing behaviour associated with mergers to occur in the first place, a point noted by Gordon and Olson:[13]

> *Regulators that do not allow the utility to share in the benefits of a merger should not be surprised if utilities lose interest in pursuing mergers. This would be unfortunate given that mergers can be a uniquely effective way to achieve economies of scale, scope, and learning...*

Furthermore, if the benefits from mergers are to be unduly truncated, then it is unclear what the policy implication is for firms that do not seize opportunities for merger synergies. Symmetry in operation implies that the ACCC should then seek to punish companies that retain "inefficient" modes of operation. But how such behaviour can proxy a workably competitive market is unclear notwithstanding obvious difficulties of determining which stand-alone entity is operating in an "inefficient" manner.

13 Gordon, K and Wayne P. Olson, "Removing Disincentives: State Regulatory Treatment of Merger Savings", *The Electricity Journal, October 2006, Vol 19, Issue 8.*

Therefore, the most appropriate approach, and the approach that is consistent with the Gas Code is to provide incentives for merger-induced efficiencies comparable to other operating efficiencies. The ACCC should benchmark GasNet's corporate costs for the period 2008-12 starting from the 2006 (GasNet) actual value unless there is good ground to assume that this value is inefficient in the context of a stand-alone entity. The fact that GasNet's corporate overhead expenditure in 2006 was below the ACCC forecast for 2006 provides an a priori case that the value was efficient. If the ACCC is to be consistent in setting corporate overheads on a similar manner to other items of operating expenditure it should adopt the 2006 outturn as the starting point for determining a corporate overhead allowance for the period 2008-12, not a value $2 million lower.