

23 May 2003

FILE No:
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MARS/PRISM:

Mr Russell Phillips
Acting General Manager Regulatory Affairs - Gas
Australian Competition and Consumer Commission
PO Box 1199
Dickson ACT 2602

Dear Mr Phillips,

Moomba Sydney Pipeline Access Arrangement

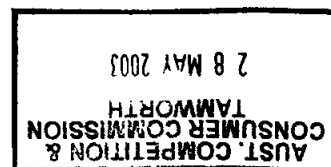
As a result of EAPL submitting revised volume forecasts on 7 March 2003, Commission staff have informally raised the issue of whether there should be a revision to the ORC estimate based on the revised forecasts.

We have considered whether a revision of the MSP ORC is appropriate under the Code. Because the Code anticipates an Access Arrangement review to take place over a period of not much more than six months, it does not contemplate the possibility of the ORC being revised as a consequence of changes in forecasts arising from the passage of time during a review. As a result we believe that the Code does not provide unequivocal guidance on this matter. However, on balance we are of the view that the Code does not provide for a change in the ORC for the MSP submitted in 1999 and accepted (except for the item called contingency) in the Draft Decision

Notwithstanding this view, EAPL commissioned Venton and Associates Pty Limited (Venton) to undertake a brief desktop study review of its previous estimate of the 1999 ORC to provide an assessment of the sensitivity of the ORC value to the change arising from the 7 March forecast.

While this review has only considered the major items in the ORC estimate and cannot be considered definitive, Venton concludes that the order of reduction in the ORC from that estimated in 1999 is small (3.6%) and well within the tolerance of the original estimate (+/- 10%). Consequently the original ORC estimate still represents the best basis for establishing the ORC of the pipeline. EAPL submits that should the Commission require the adoption of an ORC based on the recently revised forecasts (or any other forecast) which is different from the 1999 ORC, then a full detailed revision of the ORC should be undertaken to properly account for all changed circumstances.

A copy of the Venton desktop study review is attached.



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During the ORC review, the appropriateness of inclusion of the contingency component in Venton's revised ORC was discussed in the light of the removal of the contingency cost component in the Draft Decision on the MSP. As set out in the attached letter Venton states that:

The contingency allowance in the estimate was provided as an allowance for omissions based on an assessment by the pipeline estimator and myself, based on the knowledge of the limited detail behind the estimate.

It is not applied as an allowance to establish the maximum possible cost for project financing purposes, as if the estimate was being presented to a Board of Directors for budget authorisation.

and:

the removal of the contingency by the ACCC has resulted in the capital cost of the optimised system being understated by the amount of the contingency.

It must be concluded that the removal of the item called contingency in the 1999 ORC and any revised ORC is therefore incorrect.

Please contact Chris Harvey of Agility for any clarification in relation to this matter.

Yours sincerely,



Robert McMaster
Commercial Manager
Attach.