CENTRAL RANGES PIPELINE PTY LIMITED

ACN 108 218 355

Access Arrangement Information for

Central Ranges Pipeline

August 2005

1. INTRODUCTION

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

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

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

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

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

The following items were determined by the Tender Process:

- Revisions Commencement Date.
- Reference Tariffs.
- Additional Revenue Policy.
- Reference Tariff Policy.

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

- the timing for the establishment of the Ethanol plant at Gunnedah detailed in the request for tender;
- the successful negotiation with Contract Reference Service customers;
- the successful negotiation with the Central West Pipeline (CWP) owner in relation to transmission costs, and the provision of gas in the required volumes and pressures to meet the Service Provider forecasts;

- the acceptability and successful negotiation of Pipeline Licence No. 27 from APT Pipelines Pty Limited; and
- the verification of the Consortium's construction costs.

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

Central Ranges Pipelines Pty Limited has decided at this stage to complete the first stage of the Transmission Pipeline directly to Tamworth. The rollout of other Central Ranges Towns will be subject to a satisfactory economic model and commitments for the uptake of gas in each Town.

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

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2. SCOPE OF THIS ACCESS ARRANGEMENT INFORMATION

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

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

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

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

3. COMPETITIVE TENDER PROCESS

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

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

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

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

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

Secondary criteria included:

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

The tender was to, and did, determine:

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

4. TARIFF DETERMINATION METHODOLOGY

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

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

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

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

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

These Reference Tariffs which are shown exclusive of GST are:

	$/GJ (1 July 2003 $'s) exclusive of GST
Special Contract Transportation Service	1.75
Contract Transportation Service	2.50
I&C Transportation Service	5.00
Domestic Transportation Service	6.50

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

The Central Ranges Pipeline is not expected to recover total costs during the initial Access Arrangement Period to 2019. To allow opportunity to recover total costs over the life of the assets, the Under-recoveries in the first Access Arrangement period are to be capitalized into the Capital Base to be taken into account in the determination of Reference Tariffs in future Access Arrangements. Over-recoveries in the Initial Access Arrangement Period will be used to meet Under-recoveries in subsequent years, to reduce the Capital Base or to meet Capital Expenditure required to fund the construction of the Pipeline.

5. INCENTIVES

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

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

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

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

Once the construction of the Pipeline to all Central Ranges Towns has been completed, any future Over-recoveries will be split 50/50 between the Users and the Service Provider, in the form of reduced tariffs and additional profit distributions, respectively.

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

6. PIPELINE COSTS

The Transmission Pipeline costs to be included in the initial Capital Base are:-

- Purchase of the Licence No. 27 from APT Pipelines (NSW) Pty Ltd,
- Land access costs including costs of obtaining land easement,
- Native Title and Cultural Heritage costs,
- Stamp Duty and other statutory charges,
- Pipeline Construction – EPC contract (maximum fixed price contract),
- Project Management Fees,
- Promoter’s Fee (Contingent on satisfactory completion),
- Legal, Accounting and Insurance,
- Due Diligence (Insurance, Accounting, legal and market),
- Financial Advisory Fee,
- Funding due diligence, establishment and legal fees,
- Interest on debt finance during construction,
- Other capital cost, and
- Costs associated with the Conversion of customers to natural gas.

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

7. ASSUMPTIONS ON ECONOMIC LIFE OF ASSET FOR DEPRECIATION

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

Asset	**Economic Life (years)**
Transmission Pipelines (coated and CP protected):	80
Compressor Stations:	
Rotating Equipment	25
Station Facilities	35
Regulation and Metering Stations	50
Odorising Stations	35
SCADA	10
Plant and equipment	5-20

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

8. COMMITTED CAPITAL WORKS AND CAPITAL INVESTMENT

The Pipeline as expressed in the Tender is a transmission pipeline to all ten of the Central Ranges Towns. Any capital expenditure necessary to build this Pipeline, including compression (which may be on the Central West Pipeline) needed to service the Central Ranges Towns and "stay in business" capital expenditure, constitutes part of the Pipeline. All these costs will enter the Capital Base when incurred.

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

The Service Provider has committed, in the first stage, to the construction of the Pipeline from Dubbo to Tamworth. The construction of the Pipeline from Breeza to Gunnedah is subject to the Service Provider being satisfied with the projected economic evaluation on that part of the Pipeline. This decision, and the decision to build each of the other stages, will be at the Service Providers sole discretion.

8.1 Description of nature and justification for planned capital investment

Capital Works Program

The Pipeline will be designed and constructed as licensed to service the requirements of all known potential customers in the Central Ranges Region. Any additional capital required to increase the Pipeline capacity to service the Central Ranges Towns (which may include compression) is to be treated under the same investment return arrangements as detailed herein.

Construction Timetable

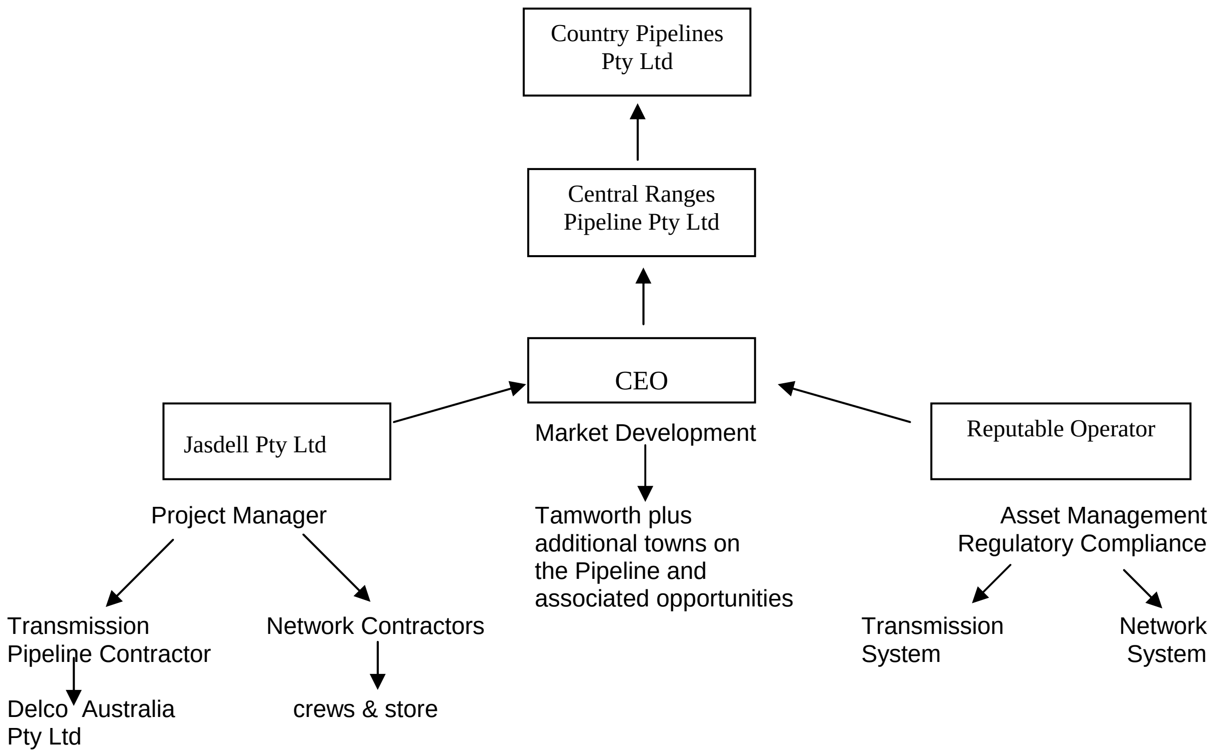
Initially the first stage of the Pipeline will be laid to Tamworth only. Construction of this first stage is forecast to take 6 months including allowance for wet weather. The Network System for Tamworth will be rolled out with work starting at the same time as the Transmission Pipeline. The first connected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

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

9. OVERHEADS & MARKETING COSTS

9.1 Total Service Provider Costs at Corporate Level

The Service Provider's corporate and organization structure has been shown diagrammatically as follows:



The Service Provider's corporate structure will be kept to a minimum

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

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

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

Overhead and marketing costs will include:

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

9.2 Marketing Costs

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

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

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

10. SYSTEM CAPACITY & VOLUME ASSUMPTIONS

10.1 Description of System Capabilities

The following Table provides a brief description of the pipeline capacity from Dubbo to Tamworth only.

Dubbo Inlet Pressure (kPa)	Delivered at Tamworth (TJ/d) Unlined Pipe*
3,000	6.85
5,000	12.9
10,000	27.73

*Based on licence pipeline diameters of:-

- Dubbo to Breeza DN200 and
- Breeza to Tamworth DN150.

10.2 Pipe sizes, Distances and Maximum Delivery Capability

The Pipeline will initially transport natural gas from APT's inlet station at Dubbo to Tamworth. The Pipeline from Dubbo to Breeza, approximately 242 kilometres, will be 219mm diameter, API 5LX46, 4.8mm wall thickness or API 5LX52 4.8mm wall thickness. The balance of the Pipeline from Breeza to Tamworth, approximately 50 kilometres, will be 168mm diameter. Heavy wall line pipe will be installed at crossings and other locations as required following appropriate risk assessment.

The pipeline route commences at the Dubbo inlet station at Troy Junction approximately 4 kilometres North East of Dubbo and heads in an East – North – East direction traversing flat farming land and the Central Western Slopes and North Western Slopes of NSW before reaching Tamworth approximately 292 kilometres from Dubbo.

The Pipeline will be externally coated with a high density polyethylene (HDPE) or Yellow Jacket as it is commonly known. It will be buried underground to a depth of 900mm cover in private properties and 1,200mm cover in road, rail, creek crossings, etc. On completion of installation of the pipeline, an impressed current cathodic protection system will be installed.

The Pipeline facilities include 4 scraper stations located at Dubbo, Coolah, Breeza and Tamworth and 6 main line valve stations. The Tamworth scraper station will include a pressure reduction skid to reduce the gas pressure to enable reticulation of gas via a network of HDPE pipelines to customers in the City of Tamworth.

The Pipeline will be controlled by a SCADA system with safety and reliability engineered in the pipeline and its facilities in accordance with AS2885 and it will comply with all applicable statutory and regulatory requirements. The SCADA interface will be installed in the O&M contractor's control room, and there will be provision for remote SCADA access to authorised personnel.

10.3 Construction

The Europacific Consortium approached the Project Manager, Jasdell to assist in choosing a construction partner. Negotiations were conducted with a number of construction companies and Delco was accepted as the preferred contractor.

The Service Provider has accepted Delco Australia Pty Ltd as the contractor after an independent review of the costs and terms of the EPC contract by their independent advisors, GHD (Engineering) and Minter Ellison (Legal).

The Service Provider has entered into a fixed price, turnkey EPC contract for the construction of the transmission pipeline from Dubbo to Tamworth with Delco who have assumed most of the cost and the risks for the provision of the following services:

- (i) Engineering and Design
- (ii) Procurement
- (iii) Construction
- (iv) Pipeline Route
- (v) Cultural Heritage
- (vi) Native Title
- (vii) Environment

The Independent Certifier, GHD Pty Ltd, has reviewed the timing and cost of the construction programme and considers it to be satisfactory and within normal industry standard costs.

The Service Provider has contracted with Jasdell to provide the project management services. Jasdell has a vested interest in ensuring that the EPC is delivered at or below the EPC Contract Sum because they have fees at risk . The Service Provider, its shareholders and bankers and their independent consultant GHD have reviewed the project management agreement and commented that the scope of work was appropriate and the fees are considered to be within industry standards.

10.4 Construction Timetable

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

2005
May

Exchange the EPC Contract
Ordering of Pipes

4 months

September

Complete Engineering Design
Confirm Pipeline route
Negotiate a Cultural Heritage Management Plan
Prepare any new or revised Construction Safety Management Plan
Prepare any new or revised Environmental Management Plan
Delivery of Pipe to the pipeline route
Commencement of Construction

2006 7 months

March

Pre-commissioning of the Pipeline
Mechanical Completion

1 month

April

Practical Completion
Delivery of Reports / Studies / Plans / Manuals
All Statutory and Government Approvals Obtained

Minimum 6 months

September

Final Completion as defined in the EPC Contract
Conduct a Coating Defects Survey
Deeds of Release from each Landowner

2007

April

Expiry of defects Liability period
Release of guarantee to Delco

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