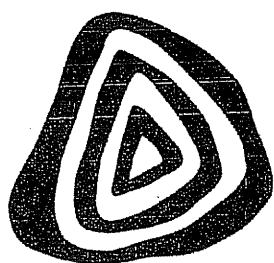


CONFIDENTIAL



**ANGLO
COAL**



Mitsui Moura

INVESTMENT PTY LTD
A.B.N. 92 088 091 356

**CONFIDENTIAL SUPPORTING
INFORMATION**

Provided to the Australian Competition and
Consumer Commission in accordance with its
Access Arrangement Process Guideline dated
December 2005

1. Introduction

- 1.1 This document is provided in accordance with 2.2.4 of the Access Arrangement Process Guideline issued by the ACCC in December 2005.
- 1.2 It includes information provided to assist the ACCC in analysing the data and methodologies behind Anglo Coal (Dawson) Limited, Mitsui Moura Investment Pty Ltd (jointly **Anglo-Mitsui**) and Anglo Coal (Dawson Management) Pty Ltd's proposed Access Arrangement and Access Arrangement Information for the Dawson Valley Pipeline (**DVP**).
- 1.3 **Attached are:**
- (a) an electronic copy of the financial model used to calculate the Reference Tariff;
 - (b) a copy of the GHD Report;
 - (c) a Schedule reflecting the purchase price allocation for the DVP as paid by Anglo-Mitsui under the Sale and Purchase Agreements;
 - (d) a graph of historical production;
 - (e) a spreadsheet detailing the breakdown of operating costs; and
 - (f) the Operations and Maintenance Manual for the DVP.
- 1.4 Anglo-Mitsui consider that the information contained in this document and in the various attachments is confidential and commercially sensitive and request that it be kept confidential pursuant to sections 7.11 and 7.12 of the National Third Party Code for Natural Gas Pipeline Systems.
- 1.5 If the ACCC has any queries, the appropriate contact person is:
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2. Access Arrangement

2.1 Section 4

- (a) In relation to the note on the relationship between the initial reference tariff of \$0.408/GJ of MDQ/day (GST exclusive) and that being charged including notionally to Anglo-Mitsui comment, we make the following comments:

(i)

- (ii) the tariff notionally charged to Anglo-Mitsui for the transportation of its own gas will adjust to the Reference Tariff once the Access Arrangement comes into force.

2.2 Section 5

- (a) In relation to the query of how incentive mechanisms work and their appropriateness, we make the following comments:
- (i) there is an Incentive Mechanism in the Access Arrangement as the Reference Tariff is designed upon the basis of forecast variables regardless of the realised values of those variables;
 - (ii) the Incentive Mechanism permits Anglo-Mitsui to retain any returns that exceed the expected level of returns and consequently provides an incentive to Anglo-Mitsui to increase the volume of sales of the services and to minimise the costs of providing the services; and
 - (iii) our clients consider that this is an appropriate mechanism given current and expected throughput and the limited actual and potential customers of the DVP.

2.3 Section 10

- (a) In relation to the query in relation to Anglo's preferred approach to the inclusion of trigger mechanism, our clients' preference is that no triggers are included. Given the limited number of actual and potential customers, it is, in Anglo's opinion, unnecessary for any trigger to be included.

3. Access Arrangement Information

3.1 Section 1

- (a) In relation to your comment on the major users, we make the following comments:
- (i) from 1 January 2007 the only user of the DVP is Anglo-Mitsui;
 - (ii) there are no third party users as the gas transportation arrangements with the Lowell-Helm Joint Venture ended on 31 December 2006. The Lowell-Helm Joint Venture now sells its gas to Anglo-Mitsui and
 - (iii) Anglo remains of the expectation that there will not be any additional users of the DVP in the near or distant future. However, it is aware that a third party has announced plans for exploration of ATP769, to the west of the DVP.

3.2 Section 2

- (a) In relation to the comments on the allocation of total revenue, our clients consider the allocation of all total revenue to the Reference Service is reasonable as they do not expect any revenue from services other than the firm forward haul service. Unlike other transmission pipelines, there is no possibility of backhaul services; the DVP's capacity is too low for park and lend type services and overruns and imbalances have historically not been an issue.
- (b) In relation to the appropriateness of the proposed tariff structure and cost allocation method, our clients consider that the proposed firm forward haul service based on a single capacity charge (expressed in \$ per GJ of MDQ/day) is appropriate because:
- (i) the DVP is a short pipeline with no alternative off-takes prior to connection with the Queensland Gas Pipeline. Consequently a distance based tariff has no benefits;

- (ii) there are no third party users and it is unlikely that more than one third party user will emerge, as such a simple tariff structure is appropriate; and
- (iii) all costs have been allocated to the firm forward haul service as this is the only service that is currently provided and there is no indication that any alternative service is likely to be sought over the Access Arrangement Period.

3.3 Section 3

- (a) In relation to the comment on the statement 'Anglo Coal has used a simplified DORC approach' and the query 'does simplified DORC mean the traditional DORC approach', we make the following comments:
 - (i) that the approach used by DVP differs from a conventional DORC only in that the replacement cost is arrived at by identification of assets in use from the original project documentation and application of adjustment factors applied to the historic unit costs to bring those costs into line with estimated current replacement costs; and
 - (ii) this approach was adopted as it was considered that the cost of a full independent ORC review could not be justified given the assets involved and the limited revenue stream generated by the DVP.
- (b) In relation to the comment on 'the current configuration of the DVP is considered the minimum design for a transmission pipeline and as such optimisation has been undertaken' and the query as to why the current configuration is optimal, we make the following comments:
 - (i) it would not be sensible or prudent to have constructed a transmission pipeline with a diameter of less than 6" (the actual diameter of the DVP) given the rapid decrease in volumetric capacity with decreasing diameter and the need for the pipeline to be constructed to a standard suitable for high pressure gas transmission. A variation from a 6" pipeline to a 4" pipeline is estimated to reduce pipeline capacity by approximately two-thirds. As the DVP has a maximum capacity at 14.6MPa of 30 TJ/day, this would see the pipeline capacity reduced to around 10 TJ assuming maximum allowable operating pressure was maintained. That is, a diameter decrease of 33% would decrease capacity by 66%;
 - (ii) further, as noted in the attached GHD Report, the DVP as currently configured has a limit on injection pressure of 10.2MPa due to metering station limitations while actual inlet pressure is approximately 9.5MPa.
- (c) In relation to the statement that 'the regulator must consider all the s 8.10 factors when establishing the ICB', we make the following comments:
 - (i) ~~Anglo has considered the factors outlined in section 8.10 of the Code and it considers that there are significant limitations with the use of any approach other than DORC for establishing the ICB of the DVP;~~
 - (ii) there is limited historic information available as the DVP only became a covered pipeline with effect from 10 May 2006 and prior to this date there was no legal requirement to separately account for its operations; and
 - (iii) the DVP was acquired as part of a portfolio of gas assets purchased from Oil Company of Australia (Moura) Pty Limited and Oil Company of Australia (Moura) Transmissions Pty Ltd on 31 March 2006 for a single price. Attached is an extract from the Sale and Purchase Agreement which records the purchase price allocation to the DVP as We

note that the purchase price allocation is only an allocation not an accurate representation of value and should be weighted accordingly.

- (d) In relation to the comments on the economic life of the DVP, we make the following comments:
- (i) the economic life of the DVP is likely to be consistent with the engineering life of 60 years. The construction standard of the pipeline is considered to be consistent with a 60 year engineering life, and this has been reflected in the ICB calculation; and
 - (ii) the DVP services a relatively small coal seam methane producing area. The uncertainty associated with the long term coal seam methane reserves in the area and the likely limit to such reserves mean any future increase in gas extraction will simply exhaust the reserves more quickly. Consequently, the economic life of the pipeline is likely to be relatively limited compared to other transmission pipelines that are part of an interconnected network and not subject to the limitations of a single gas field.
- (e) In relation to the comment on 'no capital expenditure is proposed over the life of the Access Arrangement', we confirm that the model is limited to 10 years and that it does not include any capital expenditure.
- (f) In relation to the query as to why are there no non-system assets included in the capital base, our clients confirm that non-system assets are captured in the operating cost charge out from the operating and management entities.

3.4 Section 6

- (a) In relation to the comments on KPIs and the provision of information specified in Category 6 of Attachment A to the Code, we make the following comments:
- (i) it is difficult to draw meaningful comparisons between transmission pipelines given the variance in characteristics of the pipelines including in size, length, capacity and usage;
 - (ii) the DVP is a short pipeline with limited capacity and throughput in comparison to other Covered Pipelines; and
 - (iii) Anglo does not have industry benchmarking of KPIs due to the fact that the operation of a gas transmission pipeline is an extremely minor part of its business and the high cost associated with developing an appropriate KPI regime.

3.5 GHD Report

- (a) ~~There are no compressors or other facilities to be included in the Access Arrangement.~~
- (b) The configuration of the DVP at the date of coverage is as attached to the GHD report at Appendix B of that report.
- (c) The configuration of the DVP provided on PPL 26 is the same as that attached to the GHD report.