



Economic Regulation Authority

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# PUBLICATION

## Revised Access Arrangement for the Dampier to Bunbury Natural Gas Pipeline

### FINAL DECISION

The Economic Regulation Authority today issued its final decision on DBNGP (WA) Transmission Pty Limited's (DBP) revised access arrangement proposal for the Dampier to Bunbury Natural Gas Pipeline (DBNGP).

The Authority's final decision is to not approve the revised access arrangement proposal. The reasons for the Authority's decision are set out in the final decision available on the Authority's [website](#). A summary of key aspects of the final decision is attached to this notice.

The public version of the final decision has been redacted to exclude confidential information, including elements of a report by the Authority's technical advisor.

### BACKGROUND

The DBNGP is one of Western Australia's key gas transmission pipelines stretching almost 1600 kilometres and linking the gas fields located in the Carnarvon Basin off the Pilbara coast with population centres and industry in the south-west of the State.

DBP, as the service provider of the DBNGP, submitted an access arrangement proposal to the Authority on 1 April 2010, comprising a proposed revised access arrangement, access arrangement information and supporting information. The access arrangement sets out the terms and conditions, including tariffs, under which DBP is required to provide pipeline services to third party users, seeking access to the DBNGP. DBP submitted the proposed revised access arrangement under the *National Gas Access (Western Australia) Act 2009*.

The Authority issued its draft decision not to approve the access arrangement proposal on 14 March 2011. The draft decision contained 109 required amendments. In response to the draft decision DBP submitted a revised access arrangement proposal on 18 April 2011.

Under the new National Gas Law (rule 64 of the National Gas Rules) where the Authority decides not to approve a revised access arrangement of a service provider then the Authority must, within two months of making a final decision, deliver a revised access arrangement for the pipeline. Accordingly, the Authority will publish an approved revised access arrangement for the DBNGP on or before the end of December 2011.

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LYNDON ROWE  
**CHAIRMAN**  
31 October 2011

## KEY ASPECTS OF THE FINAL DECISION

### Reference services

The current access arrangement includes provision for three reference services: the full haul T1 Service, part haul P1 Service and back haul B1 Service. DBP proposed removing the current reference services and including a single, full haul reference service: the R1 Service.

The draft decision required the proposed R1 Service to be removed from the proposed access arrangement revisions and for the current reference services to be reinstated. DBP has opposed the requirements of the draft decision. This is a contrary position to users of the DBNGP that support maintaining the T1, P1, and B1 Services as reference services.

The Authority maintains its determination that the proposed R1 Service does not satisfy the requirements of rule 101 of the National Gas Rules for a reference service, and that these requirements are best satisfied by the T1 Service, P1 Service and B1 Service as described in the current access arrangement. The Authority accordingly has maintained the requirement that the proposed revised access arrangement be amended to remove the proposed R1 Service as a reference service and that the proposed revised access arrangement be amended to include, as reference services, the T1 Service, P1 Service and B1 Service as described in the current access arrangement.

### Reference tariffs

The Authority has determined reference tariffs for the T1, P1 and B1 reference services with a commodity tariff set to recover costs of fuel gas and a capacity tariff set to recover all other costs.

**Table 1** Final decision reference tariff charges for the T1 reference services (real dollar values at 31 December 2010)<sup>1</sup>

Reference tariff charge	Units	Current (2010 and 2011) value	DBP Proposed value	Authority amended value
<b>T1 reference service</b>				
Capacity reservation charge	\$/GJ MDQ	1.040491	1.569233	1.087228
Commodity charge	\$/GJ	0.119233	0.079831	0.066059
Total charge at 100% load factor	\$/GJ	1.159725	1.649065	1.153287

For gas transportation at 100 per cent load factor, this reference tariff represents a 0.6 per cent decrease over the reference tariff for the T1 Service that applied under the current access arrangement in 2010, and is 30 per cent less than the reference tariff that would have been determined for the T1 Service with the costs and total revenue proposed by DBP for the R1 reference service.

<sup>1</sup> DBP did not propose reference tariffs for the T1, B1 and P1 Services. Tariffs indicated as "DBP Proposed" are as calculated from DBP's proposed total revenue.

## **Capital base**

In the revised access arrangement proposal DBP has substantially revised the determination of the capital base from its original proposal, but other than in accordance with the draft decision.

In the revised access arrangement proposal, DBP proposed an opening capital base of \$3,386.511 million (dollar values of 31 December 2010), compared with \$3,441.158 million in the original access arrangement proposal and \$3,413.839 million determined by the Authority in the draft decision (dollar values of 31 December 2010). The revised opening capital base incorporates changes in values of capital expenditure for the 2005 to 2010 period, substantial changes in the timing of this expenditure and an introduction of provisions for asset disposals.

The Authority has recalculated the value of the opening capital base taking into account DBP's revised proposal. The Authority's revised opening capital base in the final decision is \$3,375.114 million at 1 January 2011. The Authority has allowed all stated capital expenditure to be added to the capital base with the exception of an amount of \$6.765 million in respect of a project management retainer fee paid by DBP to a service provider of operational and capital works. The Authority has also made corrections to the calculation of the capital base.

DBP's revised proposal for the projected capital base for the 2011 to 2015 access arrangement period incorporates substantial changes from the original proposal to the values of forecast capital expenditure, timing of stated expenditure and capital contributions. DBP's revised proposed closing capital base for the 2011 to 2015 period is \$3,152.467 million, compared with \$3,098.810 million in its original access arrangement proposal and \$3,069.409 million determined by the Authority in the draft decision (dollar values of 31 December 2010).

The Authority has recalculated the value of the projected capital base for the 2011 to 2015 access arrangement period taking into account corrections to calculations, required amendments to forecast conforming capital expenditure, treatment of asset disposals and depreciation allowances. The Authority's revised forecast of the closing capital base in the final decision is \$3,136.539 million at 31 December 2015.

## **Rate of return**

In its proposed access arrangement revisions DBP proposed a real pre-tax rate of return of 10.76 per cent. The draft decision required a real pre-tax rate of return of 7.16 per cent. In its response to the draft decision DBP proposed a revised real pre-tax rate of return of 10.03 per cent. The final decision requires that the real pre-tax rate of return for the DBNGP access arrangement be 5.74 per cent.

## **Incentive mechanism**

The current access arrangement includes an incentive mechanism that provides for an amount to be added to total revenue in each of the years of the 2011 to 2015 access arrangement period where DBP outperforms forecasts of operating expenditure in years of the 2005 to 2010 access arrangement period.

In the draft decision the Authority did not allow an amount in respect of the incentive mechanism to be added to total revenue for the 2011 to 2015 period for reason that actual operating expenditure in the 2005 to 2010 period had not been verified.

In the revised access arrangement proposal DBP has made significant revisions to the stated values of actual operating expenditure and has provided verification of the stated values. The Authority consequently accepts the inclusion of an increment to total revenue under the incentive mechanism applying in the current access arrangement. The Authority has corrected the calculation of values proposed by DBP and approves an addition to total revenue of \$11.938 million in each of 2011 and 2012, compared with the values proposed by DBP of \$12.341 million in 2011 and \$12.032 million in 2012 (in dollar values of 2010).

The Authority maintains its position in the draft decision not to require the access arrangement to include an incentive mechanism for the 2011 to 2015 access arrangement period.

### **Operating expenditure**

The Authority is required to approve a forecast of operating expenditure for the 2011 to 2015 access arrangement period that is applied in the determination of reference tariffs. The Authority has determined the value of forecast operating expenditure to be \$485.117 million in total over the 2011 to 2015 access arrangement period.

This is less than the value of forecast operating expenditure of \$523.548 million proposed by DBP. The difference is due to the Authority not being satisfied that the values of forecast operating expenditure proposed by DBP meet the prudence and efficiency requirements of the National Gas Rules.

### **Tariff variation mechanism**

The Authority required a number of amendments to the tariff variation mechanism in the draft decision with regard to the definition of CPI, tax changes and new costs variations. DBP made submissions addressing the required amendments to provisions for pass through of the costs of tax changes and pass through of "new costs".

The Authority has given further consideration to the reference tariff variation mechanism and made amendments in the final decision which include:

- CPI should be amended to "consumer price index, all groups, eight capital cities";
- pass through of changes in costs are subject to the Authority's approval;
- pass through of changes in costs of "system use gas" is to be removed; and
- provision for pass through of both increases and decreases in costs as a result of defined events.