

Proposed Revisions DBNGP Access Arrangement

2016 – 2020 Access Arrangement Period

Forecast Operating Expenditure

Supporting Submission: 10



PUBLIC

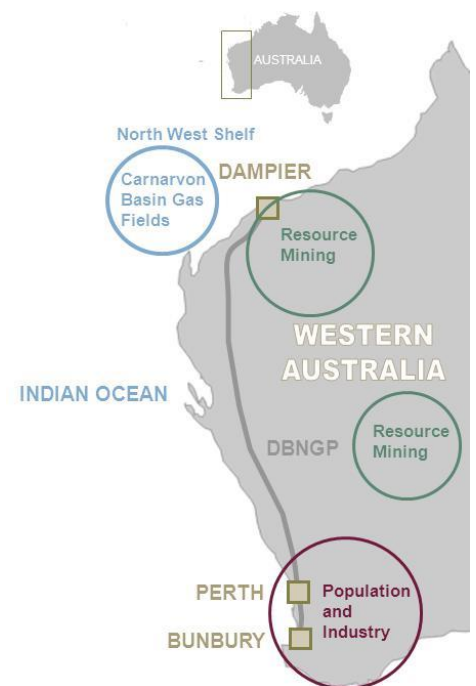
Date Submitted: 31/12/2014

CONFIDENTIALITY

- 1.1 This submission is provided to the ERA to assist it in its assessment of the proposed revisions to the DBNGP Access Arrangement.
- 1.2 Some information contained in the submission is confidential and commercially sensitive. The reasons for DBP's claim of confidentiality are outlined in Appendix A: to this submission.
- 1.3 A public *version* of this submission will be provided separately.
- 1.4 Accordingly, this version of the submission is provided to the ERA on the following conditions:
 - (a) it is to be used by the ERA solely for the purposes of assessing the proposed revisions to the DBNGP Access Arrangement;
 - (b) it is not to be disclosed to any person other than the following without DBP's prior written approval:
 - (i) those staff of the ERA who are involved in assisting the ERA in its assessment process; and
 - (ii) those of the ERA's consultants who are involved in assisting the ERA in its assessment process and who have appropriate confidentiality undertakings in place.

DBP Transmission (DBP) is the owner and operator of the Dampier to Bunbury Natural Gas Pipeline (DBNGP), Western Australia's most important piece of energy infrastructure.

The DBNGP is WA's key gas transmission pipeline 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



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1. INTRODUCTION

- 1.1 On 31 December 2014, DBNGP (WA) Transmission Pty Ltd (DBP) filed the following documents with the Economic Regulation Authority of Western Australia (ERA):
 - (a) proposed revised Access Arrangement (**Proposed Revised AA**); and
 - (b) proposed revised Access Arrangement Information (**Proposed Revised AAI**).
- 1.2 These documents are proposed to cover the access arrangement period commencing on 1 January 2016 and ending on 31 December 2020 (**AA Period**)
- 1.3 These documents contain the information that the National Gas Access (WA) Act 2009 (**NGA**) (which includes the Western Australian National Gas Access Law text (**NGL**) and the National Gas Rules (**NGR**)) requires to be included in order to enable them to be approved by the ERA.
- 1.4 In addition to the Proposed Revised AA and Proposed Revised AAI, a number of additional supporting submissions were filed to assist the ERA in assessing the Proposed Revised AA. These included the following:
 - (a) Submission 1: Proposal
 - (b) Submission 2: Cost Controls and Governance
 - (c) Submission 3: Proposed Reference Service
 - (d) Submission 4: Terms and Conditions
 - (e) Submission 5: Non-tariff related issues
 - (f) Submission 6: Cost Verification and Allocation
 - (g) Submission 7: Actual Capital Expenditure (Expansion)
 - (h) Submission 8 Actual Capital Expenditure (Stay-in-Business) (Part 1 & 2)
 - (i) Submission 9: Forecast Capital Expenditure
 - (j) Submission 10: Forecast Operating Expenditure
 - (k) Submission 11: Capacity and throughput forecast
 - (l) Submission 12: Rate of Return
 - (m) Submission 13: Total Revenue
 - (n) Submission 14: Tariff model and tariff calculation
- 1.5 This submission is aimed at supplementing the information in the Proposed Revised AA and Proposed Revised AAI in order to enable the aspects of the Proposed Revised AAI relating to the forecast operating expenditure to be approved by the ERA.
- 1.6 Section 2 outlines the relevant provisions of the NGR.

2. RELEVANT PROVISIONS

- 2.1 This section outlines the relevant provisions in the NGA that relate to the determination of forecast operating expenditure.
- 2.2 NGR 91 requires that, for forecast operating expenditure to be included in the Total Revenue for each regulatory year of the access arrangement period, operating expenditure must meet the following criteria. It must be expenditure:
 - (a) which is within the definition of “operating expenditure” under NGR 69; and
 - (b) that would be incurred by a prudent service provider acting efficiently, in accordance with accepted good industry practice, to achieve the lowest sustainable cost of delivering pipeline services (NGR 91).
- 2.3 NGR 69 defines operating expenditure to mean operating, maintenance and other costs and expenditure of a non-capital nature incurred in providing pipeline services and includes expenditure incurred in increasing long term demand for pipeline services and otherwise developing the market for pipeline services.
- 2.4 As this is information in the nature of a forecast or estimate, in accordance with NGR 74, it must be:
 - (a) supported by a statement of the basis of the forecast or estimate (NGR 74(1)); and
 - (b) arrived at on a reasonable basis and represents the best forecast possible in the circumstances (NGR 74(2)).
- 2.5 Finally, the ERA must ensure, as is required by NGR 100, that the operating expenditure must be consistent with the National Gas Objective. It must also be consistent with and the Revenue and Pricing Principles.
- 2.6 In accordance with NGR 71(1), in determining whether operating expenditure is efficient and complies with the above criteria, the ERA may, without embarking on a detailed investigation, infer compliance from the operation of an incentive mechanism or on any other basis the ERA considers appropriate.
- 2.7 In assessing the forecast operating expenditure against these criteria, the ERA's discretion is limited (NGR 91).

3. STATEMENT OF BASIS

- 3.1 DBP's forecast of operating expenditure for each regulatory year of the AA Period is based on the internal budget developed by management and approved by DBP's Board and unitholders for 2014-15 financial year.
- 3.2 While DBP's business planning and budgeting process is outlined in more detail in Section 4 of Submission 3 (Cost Controls and Governance), in summary:
- (a) DBP undertakes a detailed budgeting process on an annual basis within a framework of a longer term financial and corporate policies and projections. Budgets are prepared on a 'bottom up' basis for around 40 function based cost centres within DBP that reflect the organisational structure of the business; and
 - (b) DBP also conducts a top down review of costs before finalising the overall budget for the coming financial period.

Base year

- 3.3 With the exception of the following expenditure line items, DBP has applied six months of CPI (All Groups National) to each item in the budget approved for the financial year 2014/15 arrive at a 'Base Year' of forecast expenditure for calendar year 2015:
- (a) Regulatory - the Regulatory Expenses reporting category includes expenditure for ERA Standing Charges and ERA Specific Charges and is outlined in further detail from paragraph 5.181 of this Submission;
 - (b) GEA/Turbine Overhauls - the GEA/Turbine overhaul reporting category includes expenditure for overhauling gas engine alternators and turbine on the DBNGP and is outlined in further detail from paragraph 5.170.
 - (c) Fuel Gas - the Fuel Gas reporting category includes expenditure for purchasing system use gas (SUG) required in the operation of compressors used to deliver gas on the DBNGP and is outlined in further detail from paragraph 5.135.
 - (d) Insurance - the Insurance reporting category includes expenditure incurred for a number of insurance products and is outlined in further detail from paragraph 5.79

Escalation

- 3.4 To arrive at the forecast for each regulatory year of the AA Period, cost categories contained in the Base Year have been escalated in each regulatory year by the expected inflation provided in Table 2 of the Access Arrangement Information with the following exceptions:
- (a) Salaries - the forecast expenditure in this cost category is escalated by expected inflation and 2% determined to be the average Real increase in Average Weekly Earnings (AWE) (discussed in Section 5 of this submission);
 - (b) Salaries - Contractors - the forecast expenditure in this category is escalated by expected inflation and 2% determined to be the average Real increase in AWE;
 - (c) Consulting is also escalated by expected inflation and 2% determined to be the average Real increase in AWE;
 - (d) Fuel gas - The assumed gas price has been forecast to be escalated based on the methodology explained in paragraphs 5.158 to 5.166 of this submission; and
 - (e) Insurance, Regulatory Expenses and GEA and Turbine Overhaul cost categories - the forecast expenditure in each of these categories has not been escalated given that the expenditure in each category is cyclical in nature.

4. FORECAST OPERATING EXPENDITURE

4.1 The following table contains DBP's proposed forecast operating expenditure for each regulatory year of the AA Period.

Table 1: Proposed forecast operating expenditure (\$m Nominal)

	2016	2017	2018	2019	2020
Salaries	29.22	30.41	31.67	33.01	34.43
Salaries - Contractors	0.89	0.92	0.96	1.00	1.05
Employee Expenses	0.41	0.42	0.43	0.44	0.45
Advertising	0.09	0.10	0.10	0.10	0.10
Consulting	5.49	5.71	5.95	6.20	6.47
Entertainment	0.28	0.29	0.29	0.30	0.31
IT	4.20	4.29	4.38	4.48	4.58
Insurance	2.87	3.15	3.47	3.81	4.20
Motor Vehicle	1.24	1.27	1.29	1.32	1.35
Office & Admin	1.01	1.03	1.05	1.07	1.10
HSE - PPE supplies	0.20	0.20	0.21	0.21	0.22
Reactive Maintenance	1.43	1.46	1.49	1.52	1.56
Repairs & Maintenance	6.08	6.20	6.34	6.48	6.63
Training & Development	1.26	1.29	1.31	1.34	1.37
Travel & Accommodation	2.21	2.26	2.31	2.36	2.41
Utilities Rates & Taxes	8.46	8.63	8.82	9.02	9.22
Self-insurance	0.25	0.25	0.26	0.26	0.27
Fuel Gas	39.72	39.81	41.23	42.75	44.44
Regulatory	1.08	0.61	0.61	1.02	1.53
GEA/Turbine overhauls	5.30	7.40	9.20	5.30	5.30
Total (\$ Nominal)	111.68	115.69	121.37	122.01	126.99
Real (\$ 2015)	109.45	111.07	114.05	112.16	114.12

4.2 DBP submits that each of the above categories of expenditure fit the definition of operating expenditure for the purposes of NGR 69. This is justified on the following grounds:

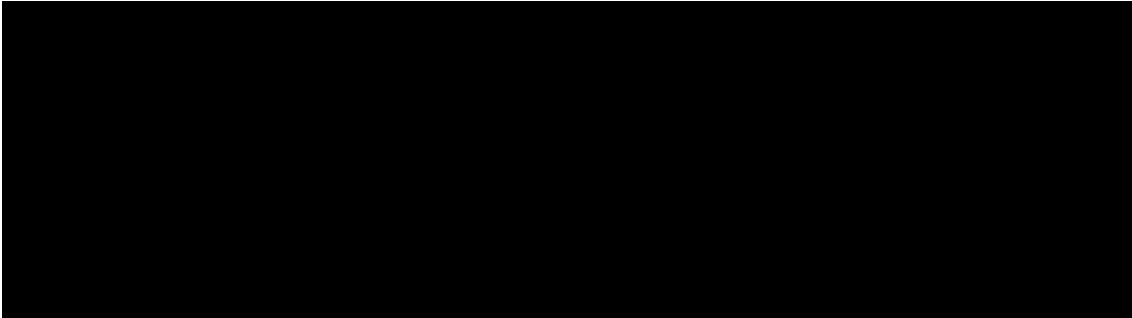
- (a) They are the same categories that were used by the ERA in the approval of the Current AA, with respect to which the ERA concluded they were all operating expenditure.
- (b) DBP's sole business is the business of owning and operating gas transmission pipelines and therefore all expenditure it incurs relate to the provision of pipeline services
- (c) Each category of expenditure is non-capital in nature and have been confirmed in audits prepared by external auditors for the purposes of the preparation of DBP's annual statutory financial statements. The exception to this is DBP's treatment of GEA and Turbine overhaul expenditure where expenditure has been reflected as operating expenditure rather than capital expenditure regulatory purposes. DBP has elected to do expense expenditure so that DBP is better able to manage the expenditure required for the annual GEA and turbine overhaul programme.

4.3 For the reasons outlined in section 3 of this submission, DBP also submits forecast cost information provided in the above tables meet the requirements of NGR 74 as they have been arrived at on a reasonable basis and represents the best forecast possible in the circumstances.

4.4 DBP also provided the statement of the basis of the forecast as required by NGR 74(1) in section 3 of this submission.



- 4.5 Finally, DBP submits that the forecasted expenditure outlined in the tables above is that which would be incurred by a prudent service provider acting efficiently, in accordance with accepted good industry practice, to achieve the lowest sustainable cost of delivering pipeline services for the following reasons:
- (a) The forecast is derived following a detailed internal business planning and budgeting process which is outlined in DBP's Submission 2.
 - (b) DBP is incentivised to include in its operating expenditure forecast costs that achieve the lowest sustainable cost of delivering pipeline services for the following reasons:
 - (i) DBP has a significant debt exposure and continually refinances a portion of its debt profile each year. A relatively minor increase in the cost of debt has a significant impact on the financial viability the business. Having a high level of confidence in the accuracy of the forecast helps achieve the optimal cost of debt for its business; and
 - (ii) DBP's contractual structure with its shippers is such that it is exposed to increases in operating expenditure. DBP has entered into long term standard shipper contracts with the vast majority of its shippers (SSCs). Like the SSCs negotiated at acquisition of the DBNGP costs were assumed in 2004 and provided for very little scope for DBP to unilaterally adjust the prevailing tariff. Under new SSC's DBP has again accepted operating expenditure risk being unable to pass onto shippers the effects of any operating expenditure that is over and above the operating expenditure assumed by DBP for the period up to 31 December 2021. It cannot pass onto shippers any increases above that already accepted.



5. DETAILED REVIEW OF PROPOSED OPERATING EXPENDITURE

5.1 This section of the submission is split into two parts:

- (a) A high-level comparison of actual operating expenditure incurred from 2011 to 2013 and that forecast for the AA Period; and
- (b) A detailed look at each regulatory expenditure category.

Comparison with actual operating expenditure

5.2 It should not be construed that details of actual expenditure is the sole consideration for setting the level of forecast expenditure, nor should it overly constrain how budgets are set from year to year. Rather DBP approaches each budget on a bottoms up approach based on the requirements and obligations that must be met in that year. DBP therefore submits that while actual operating expenditure is one piece of evidence that can provide context with respect to which DBP's proposed forecast can be assessed it is not the sole source of information that the ERA must take into account.

5.3 However, to the extent that the level of forecast operating expenditure for certain line items outlined in Table 1 are comparable to the level for the corresponding line item of verified actual operating expenditure in 2011-2013, DBP submits that the ERA should exercise its power under NGR 71(1) and infer compliance without embarking on a detailed investigation in respect of these line items.

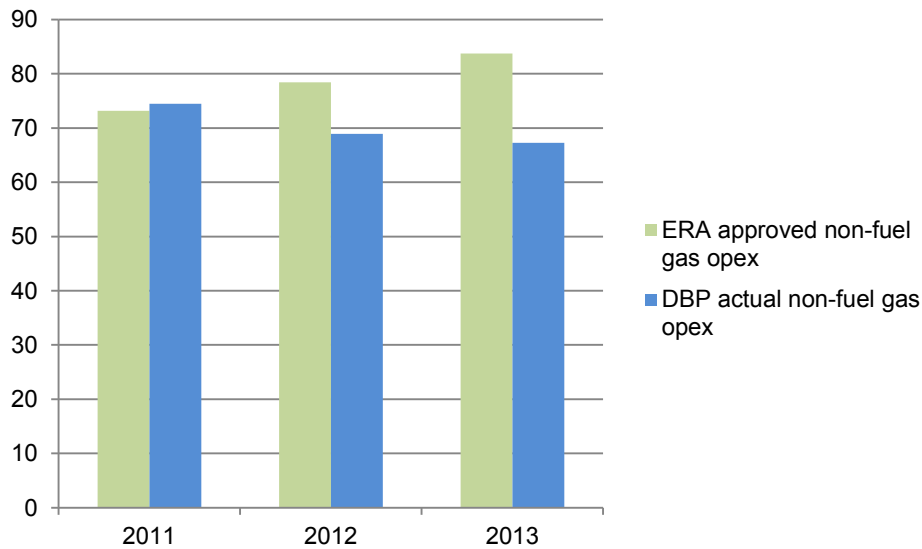
5.4 The following table was provided as Table 19 in Submission 6 outlining DBP's actual operating expenditure for 2011 to 2013 verified to DBP's audited accounts.

Table 2: Verified actual operating expenditure CY2011 to 2013 (\$m Nominal)

Opex category	2011	2012	2013
Salaries	23.82	25.41	27.02
Salaries - Contractors	1.09	0.43	0.64
Employee Expenses	0.45	0.38	0.25
Advertising	0.09	0.09	0.06
Consulting	3.61	3.24	3.71
Entertainment	0.46	0.50	0.44
IT	5.74	6.73	6.59
Insurance	4.76	4.20	3.83
Motor Vehicle	1.54	1.48	1.10
Office & Admin	1.07	0.91	0.93
OHS	0.77	0.25	0.23
Repairs & Maintenance	5.06	4.39	3.49
Training & Development	0.68	0.99	0.67
Travel & Accommodation	2.12	1.96	1.98
Utilities, Rates & Taxes	7.95	8.99	6.55
Clean Energy Act	0.00	2.87	6.31
Fuel Gas	12.35	9.33	9.77
Reactive maintenance	0.39	0.76	1.72
GEA/Turbine overhauls	13.90	3.23	(0.25)
Regulatory	0.95	2.07	1.99
Total	\$86.78	\$78.24	\$77.04

- 5.5 The graph in Figure 1 shows the variance between DBP's actual expenditure against that approved by the ERA in the Current AA for the same period (for non-fuel gas operating expenditure).
- 5.6 It should be noted that the ERA's approved figures have been adjusted from Real 2010 dollars to nominal figures so that a like for like comparison can be achieved. For this purpose DBP has used inflation provided in Table 2 of the Access Arrangement Information.

Figure 1: Non fuel gas operating expenditure comparison (Nominal \$m)



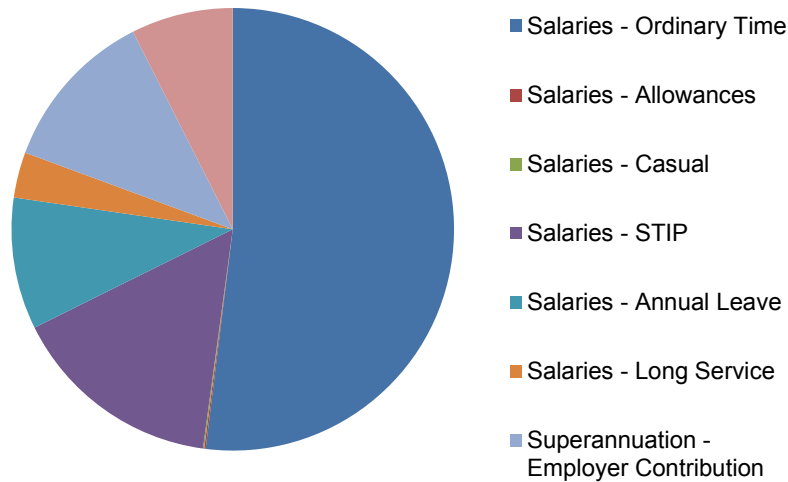
Source: ERA figures: Table 19 (page 15) Access Arrangement Information (18 Oct 2012). DBP figures: Verified actual expenditure provided in Submission 6.

- 5.7 The graph above demonstrates that while DBP's actual total operating expenditure was slightly higher than approved in 2011, total operating expenditure has been lower than that forecast conforming operating expenditure approved by the ERA in the Current AA for regulatory years 2012 and 2013.
- 5.8 The following sub-sections look at each regulatory operating expenditure category used in Table 1 in more detail, comparing actual expenditure for that category with the forecast expenditure (on a nominal basis) for each regulatory year in the Proposed AA Period for that category.

Salaries

5.9 The Salaries category contains costs for ordinary, overtime, casual wages, all forms of leave entitlement as well as certain allowances, short term incentive payments (STIP), employer superannuation contributions and payroll tax.

Figure 2: Salaries cost category

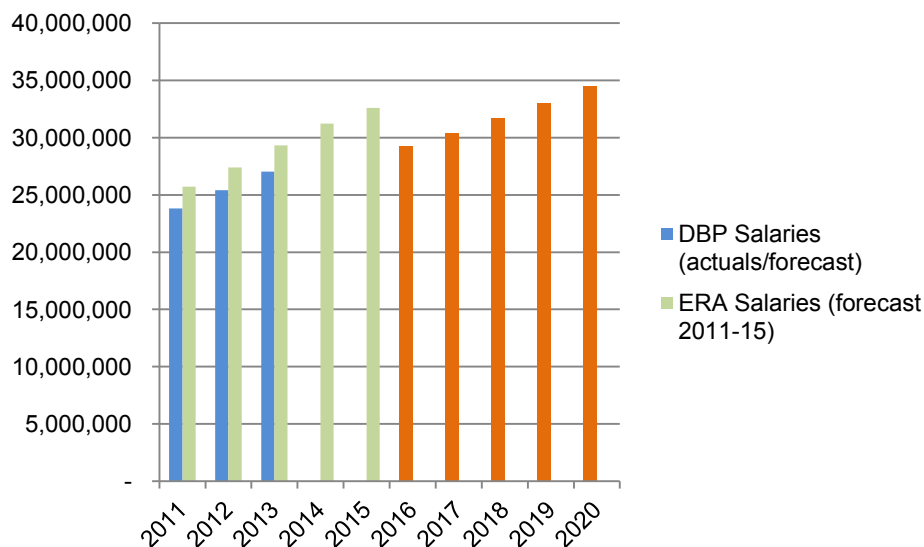


5.10 The forecast expenditure for Salaries accounts for 27% of all operating expenditure proposed for the next regulatory period.

5.11 The following figure compares DBP's actual operating expenditure incurred with:

- (a) that approved by the ERA in the Current AA as forecast operating expenditure (nominal) for 2011 to 2015; and
- (b) DBP's proposed forecast for the AA Period.

Figure 3: Salaries costs comparison (\$)



5.12 DBP's forecast expenditure is based on the 2015 Base Year escalated by expected inflation provided in Table 3 of the Access Arrangement Information plus 2% real increase in labour rates (see paragraphs 5.18 - 5.23).

Table 3: Full time equivalents as at 31 December (FTE)

FTE (31 December)	2011	2012	2013	2014	2015*
Executive	1	6	7	7	7
Finance & Information Technology	16.3	15.5	14.3	13.3	12.1
System Design & Operations	35.8	32.8	30.8	30.0	30.3
Maintenance	113.3	115.4	106.5	108.5	110.9
Corporate Services	11.8	10.8	11.6	11.2	11.0
Commercial	23.3	26.3	25.5	23.2	24.4
HR, Training & Administration	0	0	4	3	4
Total	201.5	206.8	199.7	196.2	200.7

* forecast numbers as at 30 June 2015

5.13 Changes have occurred throughout the Current AA Period in regards to how FTEs have been assigned to categories provided in the table above. Firstly, categories are reported on the groupings that currently exist at DBP. However in 2013 HR, Training & Administration staff moved out of the Finance group to be reported separately.

5.14 Secondly, in 2012 the General Managers of each division began to be reported in the "Executive" division instead of the respective divisions for which they are each a General Manager.

5.15 The table above excludes contractors engaged through temp agencies on a short and long term basis. It also excludes personnel engaged directly by DBP.

5.16 The FTE head count above does not directly relate to the actual expenditure or the forecast expenditure submitted by DBP. This is because there are amounts of Salaries expenditure captured as 'cost of goods sold' (based on the time sheeting process outlined in Submission 6) which allocates labour costs to shipper funded projects, capital projects for the DBNGP (stay-in-business and expansion projects), operation and maintenance of the DBNGP and DBP Development Group projects.

5.17 It should also be noted that DBP's actuals for Salaries in 2011, 2012 and 2013 do not include salaries that were captured under timesheets for activities associated with preparing revisions to the DBNGP access arrangement or involvement in the Australian Energy Regulator (AER) and ERA's Rate of Return Guidelines consultation process so that actuals can be consistently compared to forecast conforming operating expenditure for the same period. However, DBP's proposed forecast is based on all Salaries expenses included in DBP's FY2014/15 business plan including labour expenses associated with the economic regulation of the DBNGP.

5.18 DBP undertakes an annual review of salaries to ensure remuneration is efficient and continues to allow DBP to retain required skills and expertise. DBP's review process considers the following factors:

- (a) Retentions rates;
- (b) Market evidence obtained from recruitment activity;
- (c) Information made available by the Chamber of Commerce and Industry; and
- (d) Economic indicators readily available such as Average Weekly earnings (WA) and the Labour Price Index.

5.19 DBP also tests this information against external sources by undertaking the following reviews:

- (a) Mercer remuneration benchmarking review - on an as required basis targeting positions which DBP has either had difficulty in retaining or attracting the right expertise.
- (b) Scotford and Fennessy labour market review - conducted annually and addresses all role categories throughout the organisation using quantitative and qualitative evidence obtained through their practice as recruitment firm in the WA labour market.

Labour escalation assumption

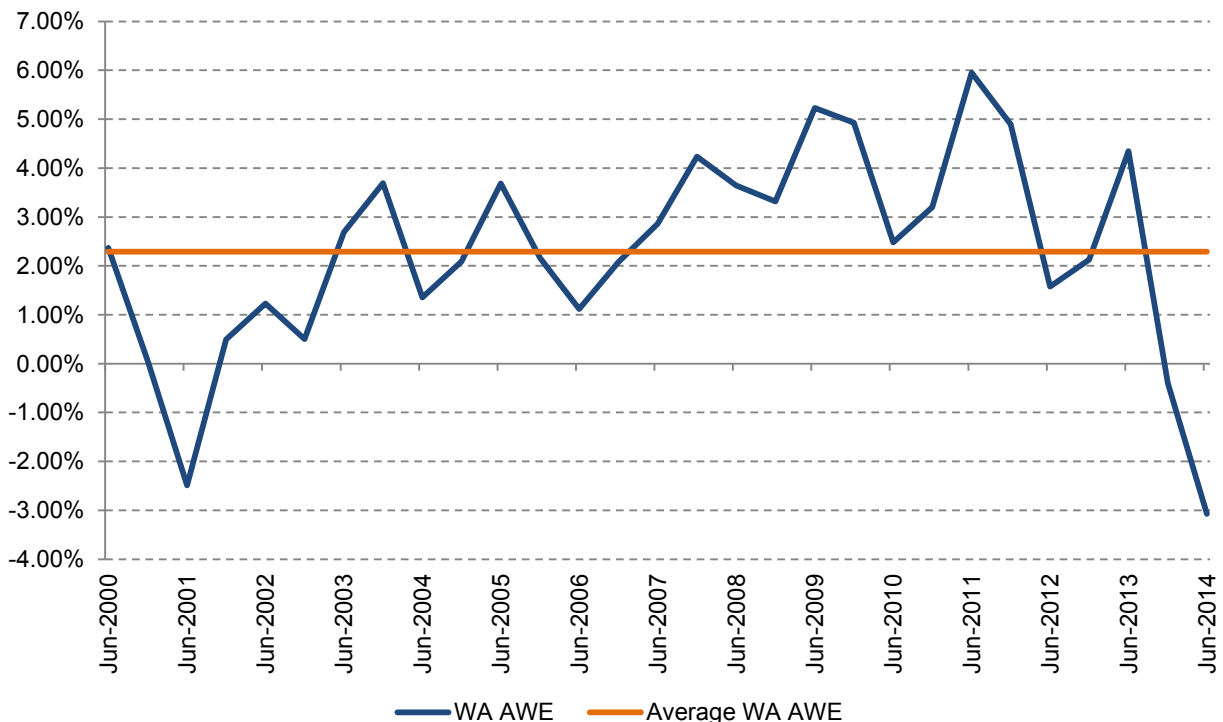
5.20 DBP has assumed a real 2% escalation to salary and wage expenditure based on the following evidence:

- (a) Historical Average Weekly Earnings (AWE) for WA obtained from the Australian Bureau of Statistics; and
- (b) WA Treasury forward estimates wage Price index (WPI);

5.21 In addition this evidence DBP has also taken into consideration the internal information mentioned above including the benchmarking and labour market reviews.

5.22 The average real Average Weekly Earnings (AWE) for WA for the period 30 June 2000 to 30 June 2014 is 2.29% shown in the following graph.

Figure 4: Real average weekly earnings for WA



Source: Australian Bureau of Statistics

5.23 DBP notes that the recent AWE figures recorded have trended lower than the long run average. However, DBP submits that it would not be appropriate to set the Real labour price escalation lower than the assumed 2% for the following reasons:

- (a) The assumed 2% figure is lower than the average for the last 14 years;
- (b) The 2% assumption is being applied from 1 January 2016 to 31 December 2020. It would not be reasonable to rely too heavily on a small sub set of data points for a 5 year forecast;

5.24 WA Treasury forward estimates of WPI adjusted to reflect a real value and a 0.5 per cent premium¹ for the Electricity, Gas, Water and Waste Sector (EGWWS) ranges from 1.74 to 2.09 with an average of 1.93 over the period. The calculation of which is provided in the following table.

Table 4: Adjusted forward WPI (%)

	2014/15 (budget est.)	2015/16 (Forward est.)	2016/17 (Forward est.)	2017/18 (Forward est)
Nominal WPI ²	3.25	3.5	3.5	3.75
Less expected inflation CY ³	2.01	2.03	2.08	2.16
EGWWA 'premium'	0.5	0.5	0.5	0.5
Real WPI per cent adjusted	1.74	1.97	1.92	2.09

5.25 This evidence therefore provides a range of 1.93 to 2.39.

5.26 DBP notes that the ERA's recent Draft Decision on ATCO's proposed revisions did not allow a labour escalation greater than CPI while it stated that ATCO's proposed labour cost escalation factor should not be higher than 1.75 per cent on based on:

- (a) WA Treasury forward estimates of the wage price index (WPI); and
- (b) The EGWWS experiencing a WPI of 0.5 per cent (on average) above the all-industry WA WPI over the four years from 2009-2013.

5.27 DBP does not consider that the determination reached by the ERA nor a real 1.75 per cent escalation assumption would result in a forecast that would meet the requirements of NGR 74 specifically a forecast that is arrived at on a reasonable basis nor a forecast that represents the best possible in the circumstances.

5.28 In regards to the use of WPI, while DBP does use WPI as a reference point for its annual salaries review process it is important to note the limitation of the economic indicator. WPI measures the change over time in the price of wages and salaries unaffected by changes in the quality or quantity of work performed. Price-determining characteristics of the jobs are fixed to ensure that changes in these characteristics do not contribute towards the movement of the index i.e. the index does not account for an individual's progression within the role due to being assigned different tasks or responsibilities, number of hours worked, age or successful completion of training⁴. It is for this reason DBP submits that WPI should not be the sole reference point in setting reasonable labour escalation assumption and is likely to indicate the lower bound of what would constitute a reasonable or best assumption in the circumstances.

5.29 To remain competitive in the WA labour DBP considers that the AWE measure is a more important indicator as it takes into not only changes in the level of earnings of employees but also changes with the overall composition of wage and salaries in the labour force⁵.

5.30 DBP submits that a real 2 per cent is arrived at on a reasonable basis and represents the best possible estimate in the circumstances and leads to a forecast expenditure that would meet the same criteria.

¹ Consistent with the ERA's own consideration of evidence in its draft decision for ATCO (para 212) and referenced to below.

² http://www.treasury.wa.gov.au/cms/TwoColumns_Content.aspx?pageid=13730&id=604

³ See table 1 and 3 of the AAI

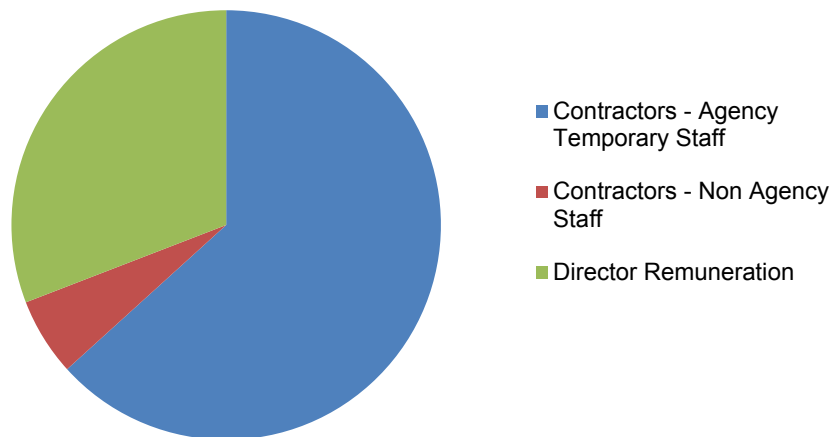
⁴ ABS WPI explanatory notes - [Link](#)

⁵ ABS AWE explanatory note - [Link](#)

Salaries - Contractors

5.31 The Salaries - Contractors reporting category includes expenditure for apprentices, temporary staff required to cover leave taken by permanent staff (on a short term basis), and director remuneration.

Figure 5: Salaries - Contractor cost category

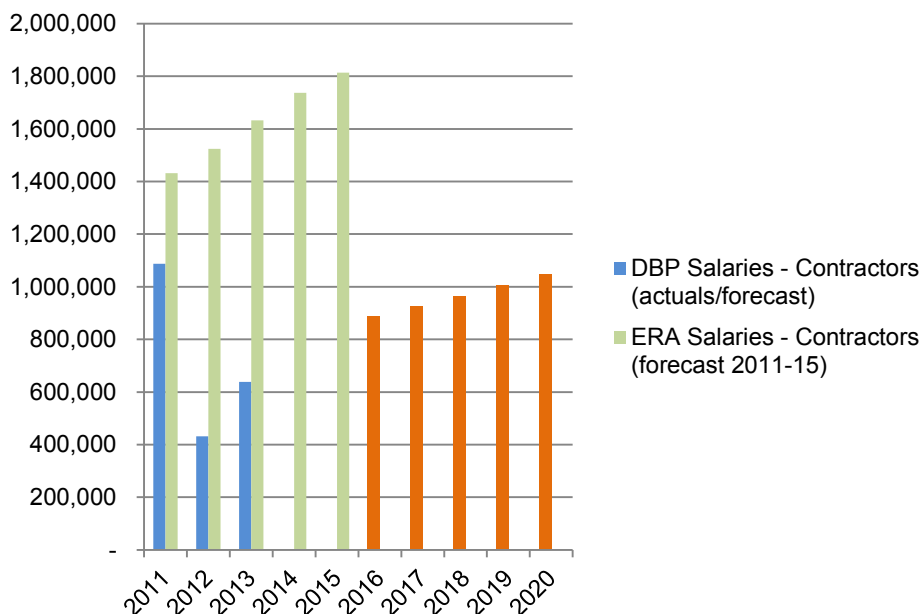


5.32 The forecast for Salaries - Contractors accounts for less than 1% of all operating expenditure proposed for the next regulatory period.

5.33 The following figure compares DBP's actual operating expenditure incurred with:

- (a) that approved as forecast operating expenditure (nominal) by the ERA for 2011 to 2015; and
- (b) DBP's proposed forecast for the AA Period.

Figure 6: Salaries - Contractor comparison (\$)

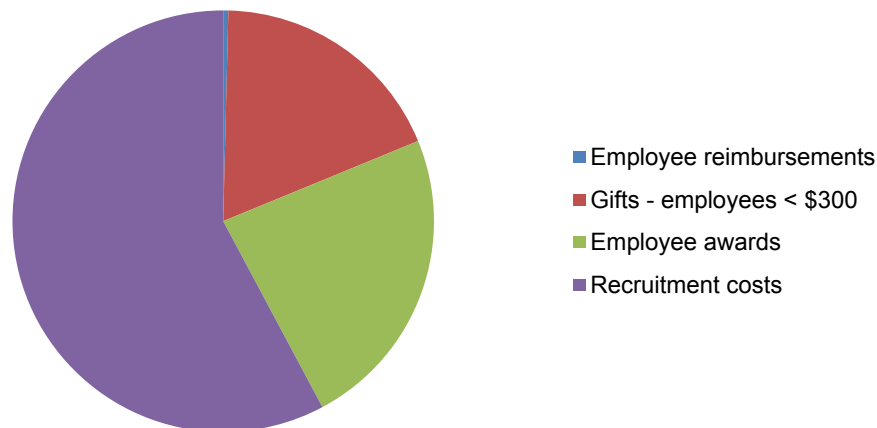


- 5.34 DBP's forecast expenditure is based on the 2015 Base Year escalated by expected inflation provided in Table 3 of the Access Arrangement Information plus a 2% real increase in labour rates (see paragraphs 5.20 - 5.30).
- 5.35 Recent changes or step increases to the reporting category include, the commencement of an apprenticeship programme [REDACTED] and additional HSE contractor support [REDACTED] which account for the majority of the variance between the 2013 actuals and forecast expenditure.
- 5.36 A component of directors' fees expenditure [REDACTED] has also been included in forecast expenditure for this category which had previously been incurred in the Salaries reporting category.
- 5.37 DBP forecast of the Salaries - Contractors are less than that incurred in 2011 and do not represent a material change from actuals provided in 2013. As DBP's forecast is based on the 2014-15 business plan DBP submits that the forecast is one that has been arrived on a reasonable basis and is the best forecast possible in the circumstances.

Employee Expenses

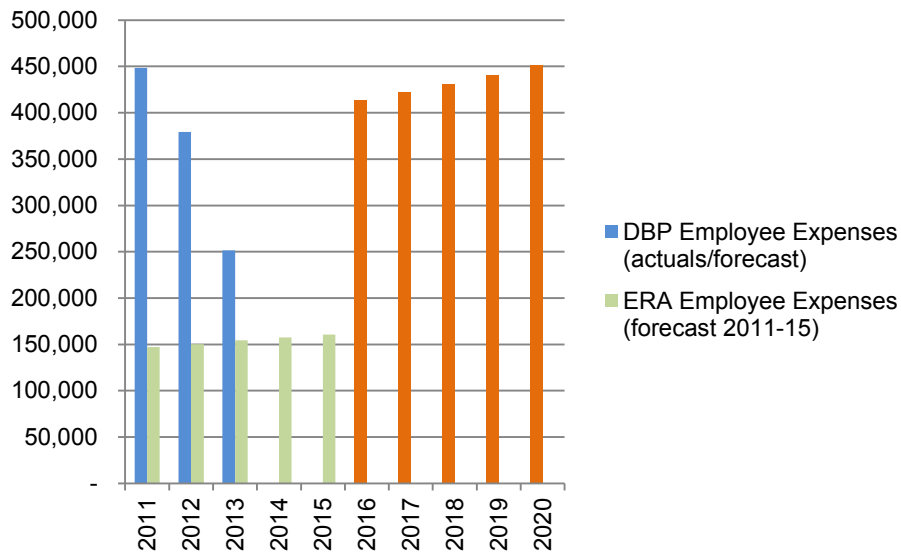
- 5.38 The Employee Expenses reporting category includes expenditure for employee reimbursements, employee incentives and awards (e.g. gym memberships, service awards, HSE awards) and recruitment costs.

Figure 7: Employee Expenses cost category



- 5.39 The forecast for Employee Expenses accounts for less than 1% of all operating expenditure proposed for the next regulatory period.
- 5.40 The following figure compares DBP's actual operating expenditure incurred with:
- that approved as forecast operating expenditure (nominal) by the ERA for 2011 to 2015; and
 - DBP's proposed forecast for the AA Period.

Figure 8: Employee Expenses comparison (\$)



- 5.41 DBP's forecast expenditure is based on the 2015 Base Year escalated by expected inflation provided in Table 3 of the Access Arrangement Information.
- 5.42 DBP's costs for 2013 show a lower than average expense for this cost category which is attributable to reduced recruitment expenditure in that single year. DBP has forecast the turnover rates to return more in line with costs experiences in 2011 and 2012.
- 5.43 While DBP considers that labour market conditions have become more favourable interns of staff retention in recent times DBP is likely to see a significant number of retirements due to an aging demographics which will affect this cost category. The following table provide the workforce age demographic.

Table 5: Workforce demographics (November 2014)

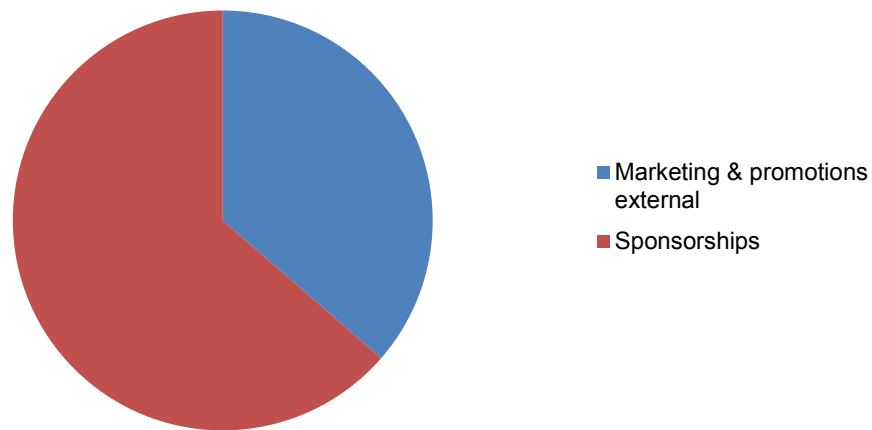
20-25 years	26-30 years	31-35 years	36-40 years	41-45 years	46-50 years	51-55 years	56-60 years	61-65 years	66-70 years
6	16	32	25	33	26	23	21	11	9

- 5.44 It is on this basis that DBP submits that the forecast is one that has been arrived on a reasonable basis and is the best forecast possible in the circumstances.

Advertising

5.45 The Advertising reporting category includes expenditure for marketing and sponsorship initiatives undertaken by DBP.

Figure 9: Advertising cost category

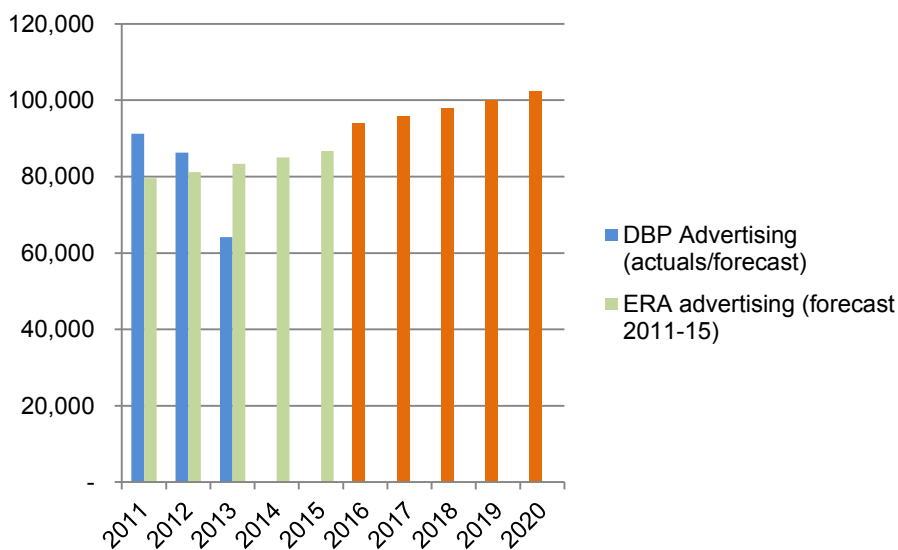


5.46 The forecast for Advertising accounts for less than 1% of all operating expenditure proposed for the next regulatory period.

5.47 The following figure compares DBP's actual operating expenditure incurred with:

- (a) that approved as forecast operating expenditure (nominal) by the ERA for 2011 to 2015; and
- (b) DBP's proposed forecast for the AA Period.

Figure 10: Advertising comparison (\$)



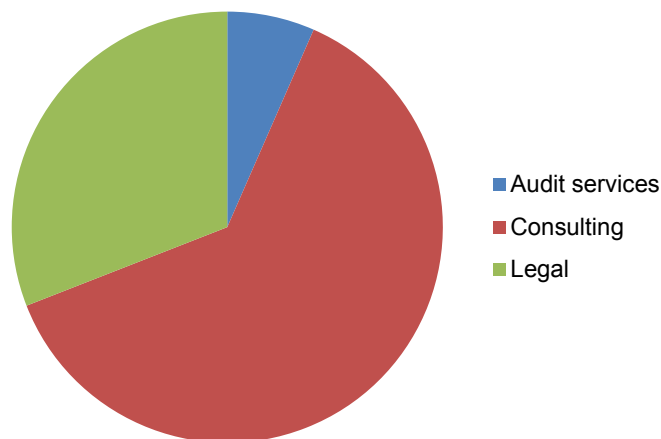
5.48 DBP's forecast expenditure is based on the 2015 Base Year escalated by expected inflation provided in Table 3 of the Access Arrangement Information.

5.49 DBP forecast do not represent a material change from actuals provided in 2011 to 2013 and forecast has been developed on the base year costs. It is on this basis that DBP submits that the forecast for Advertising costs have been arrived on a reasonable basis and is the best forecast possible in the circumstances.

Consulting

5.50 The Consulting reporting category includes expenditure for the engagement of auditors, external lawyers, engineering consultancies (e.g. cathodic protection surveys), contractors engaged on a long term basis and other consultants and advisors as required.

Figure 11: Consulting cost category

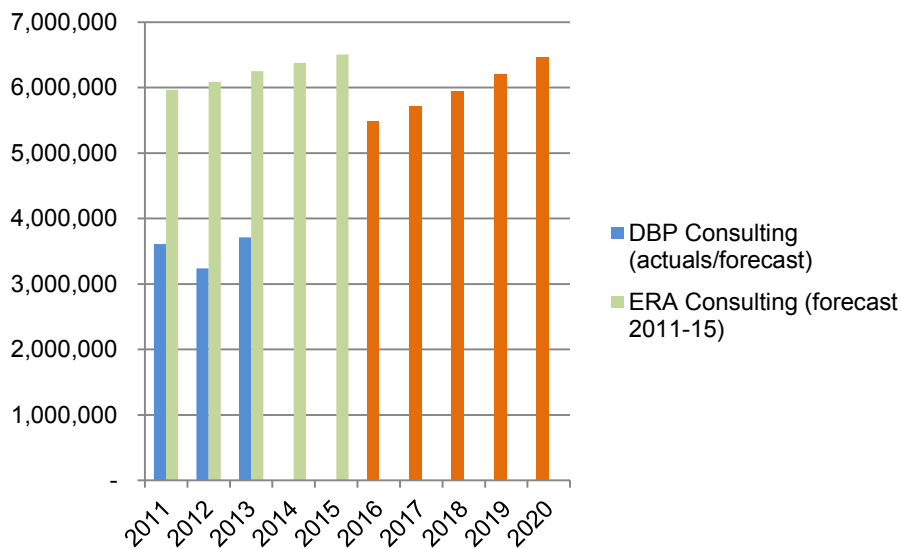


5.51 The forecast for Consulting accounts for 5% of all operating expenditure proposed for the next regulatory period.

5.52 The following figure compares DBP's actual operating expenditure incurred with:

- (a) that approved as forecast operating expenditure (nominal) by the ERA for 2011 to 2015; and
- (b) DBP's proposed forecast for the AA Period.

Figure 12: Consulting comparison (\$)



5.53 DBP's forecast expenditure is based on the 2015 Base Year escalated by expected inflation provided in Table 3 of the Access Arrangement Information plus 2% real increase in labour rates (see paragraphs 5.18 - 5.23).

5.54 The variance between the 2013 actuals and the 2016 forecast is largely due to an increase in expected legal costs of [REDACTED] of additional HSE consultancy, [REDACTED] of additional audit and compliance consultancy, [REDACTED] of additional risk management consultancy, offset by decreases in commercial, finance and engineering consultancy needs totalling [REDACTED]

Legal expenditure

5.55 In relation to the increase in legal costs, there has been a significant increase in commercial, corporate and financial activities requiring legal support that was not envisaged in 2010 when DBP's last Access Arrangement revisions were proposed. DBP has an internal legal counsel group of only 1.6 full time equivalent staff and it has not been able to manage all of the legal requirements associated with these activities. Accordingly, DBP has incurred external legal support expenses in all areas of its business and it is expected that this will continue. Accordingly the following legal expenditure is included in the forecast of consultancies for each year of the access arrangement period:

- (a) [REDACTED] to cover the costs of ongoing and new disputes with shippers. DBP has an internal legal counsel group of 1.6 full time equivalent staff which is not equipped to manage litigation or alternative dispute resolution processes. In 2014, there were two ongoing disputes with shippers (one initiated by a shipper and the other initiated by DBP) which resulted in dispute resolution processes being commenced. While it is expected that these disputes will be resolved, the allowance reflects the average legal expenditure incurred by DBP in managing the disputes over the last 5 years. In some years, the expense has exceeded [REDACTED] whereas in other years it has been as low as [REDACTED]
- (b) [REDACTED] to cover the legal input into the preparation of the DBNGP Access Arrangement, the assessment process for that Access Arrangement and the preparation of rate of return guidelines. It is expected that these costs will continue into 2017 and then begin again in 2018 in preparation for the 2021 access arrangement;
- (c) [REDACTED] is assumed to cover additional legal support required to deal with commercial negotiations of key shipper contracts. This amount reflects the average expenditure occurred by DBP in managing the commercial negotiations that cannot be undertaken by the employed legal counsel. In some years, the costs incurred have exceeded [REDACTED]

- (d) [REDACTED] to cover matters dealing with DBP's pipeline licences and land corridor;
- (e) [REDACTED] is to cover the costs of managing corporate issues with DBP's shareholders, including due diligence costs for fundraising exercising and the like;
- (f) [REDACTED] is to cover the costs of seeking financiers' consents to various transactions. DBP's financing documents require consent to be obtained from financiers in relation to certain changes to DBP's key documents. Like other line items referred to above, this allowance reflects an average of the expenditure DBP has incurred in providing legal support to the various financier consent processes undertaken in the last few years

HS&E consulting expenditure

- 5.56 In relation to the increase in consultancies required for DBP's HS&E group, an additional [REDACTED] has been allowed to cover the following activities:
- (a) DBP will be required to prepare and submit revisions to the safety case for the DBNGP in 2016. The process requires detailed risk assessments to be undertaken which requires facilitation from experts;
 - (b) The Department of Mines and Petroleum (DMP) has flagged that it requires a more transparent and quantitative approach to demonstrating the achievement of the standard of "as low as reasonably practicable" for all major accident events. This quantitative analysis requires external support;
 - (c) With the increasing average age in DBP's workforce, a number of additional safety initiatives have been proposed for the access arrangement period as part of DBP's drive to maintain its Zero Harm approach. These initiatives require input from expert consultants;
- 5.57 It should also be noted the 2011-2013 actuals provided for the consulting category do not include expenditure incurred on consultancy services that related to the economic regulation of the DBNGP as they have been reported against the regulatory category (for actuals) and therefore the aggregate levels of actual expenditure and forecast proposed are not directly comparable in this category.
- 5.58 It is on this basis that DBP submits that the forecast for Consulting have arrived on a reasonable basis and is the best forecast possible in the circumstances.

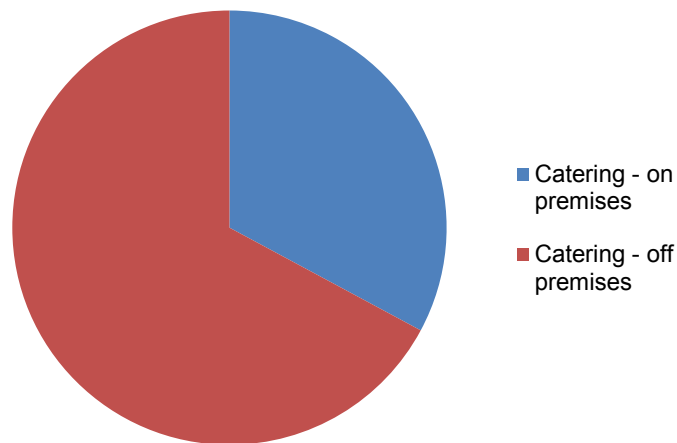
Audit, compliance and risk management

- 5.59 In relation to the increase in audit and compliance consultancy expenditure DBP's forecast includes [REDACTED] for annual audit of the Asset Management Plan using specialist engineering skills that were not reflected in 2011 to 2013 actuals.
- 5.60 As mentioned above, DMP has also flagged that it requires a more transparent and quantitative approach to demonstrating the achievement of the standard of "as low as reasonably practicable" for all major accident events and DBP considers that will require additional audit activity to respond to DMP requirements. It is on this basis DBP expects that future audit plans will need to include an increased focus on reviewing performance against the safety case resulting in additional forecast expenditure in this category.
- 5.61 In relation to the increase in consultancies required for the area of risk management, this relates to the establishment and ongoing management of DBP's obligations register. It has been recognised in the business that there was a need to better capture DBP's obligations and to report on compliance with against obligations.

Entertainment

5.62 The Entertainment category includes expenditure incurred for meals, catering for meetings and staff events such as an annual end of year function.

Figure 13: Entertainment



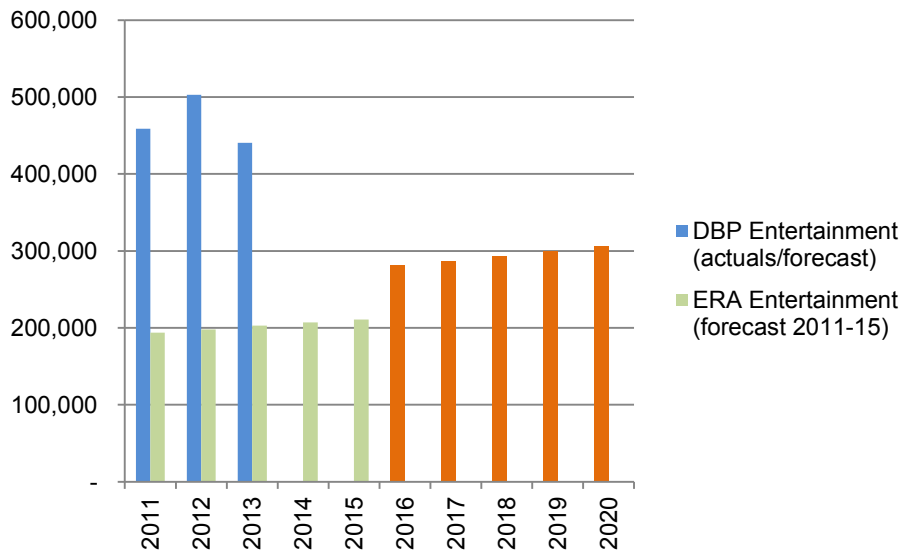
5.63 The forecast for Entertainment accounts for less than 1% of all operating expenditure proposed for the next regulatory period.

5.64 Note that FBT had previously been included in the Entertainment regulatory reporting category in the forecasts for 2011-15 approved by the ERA in the Current AA. However, DBP has recorded FBT costs into the Utilities, Rates and Taxes regulatory reporting category for actuals in 2011-13 and the proposed forecast 2015-20. It should be noted that the ERA's forecast conforming capital expenditure made allowance for FBT under the Entertainment category. This explains the step decrease in costs shown in the actuals and the forecast costs proposed.

5.65 The following figure compares DBP's actual operating expenditure incurred with:

- (a) that approved as forecast operating expenditure (nominal) by the ERA for 2011 to 2015; and
- (b) DBP's proposed forecast for the AA Period.

Figure 14: Entertainment comparison (\$)

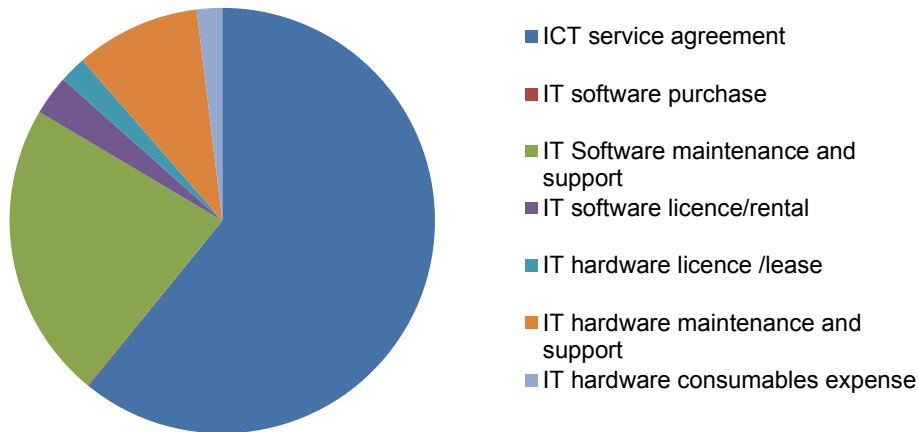


- 5.66 DBP's forecast expenditure is based on the 2015 Base Year escalated by expected inflation provided in Table 3 of the Access Arrangement Information.
- 5.67 Base year costs are informed by the business planning process and were developed through bottom up approach specifically for the 2014/15 financial year. It is on this basis that DBP submits that the forecast for Entertainment costs have been arrived on a reasonable basis and is the best forecast possible in the circumstances.

Information technology (IT)

5.68 The IT reporting category includes expenditure incurred under its Corporate ICT service agreement, expenditure incurred for software, software maintenance and support, license and rental costs, hardware licenses and leases, hardware maintenance and support and IT consumables.

Figure 15: Information Technology cost category

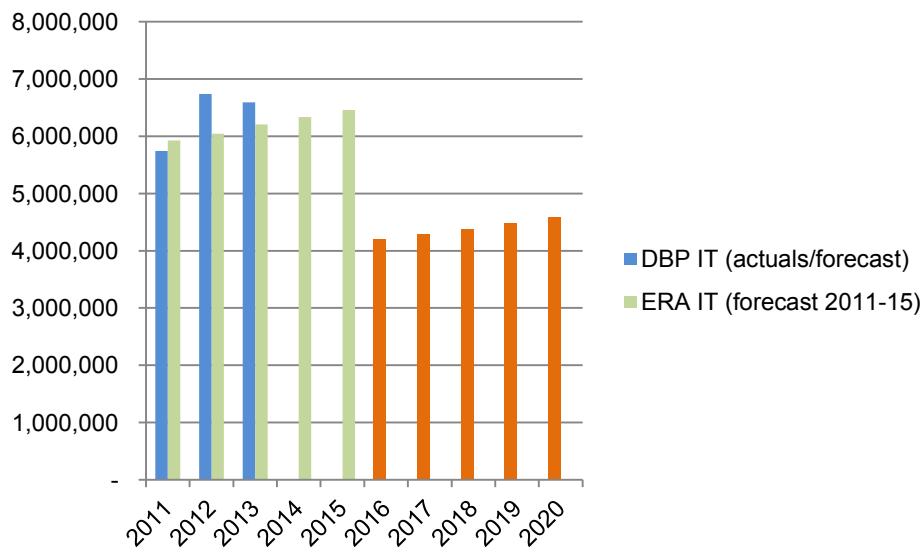


5.69 The forecast for IT accounts for 4% of all operating expenditure proposed for the next regulatory period.

5.70 The following figure compares DBP's actual operating expenditure incurred with:

- (a) that approved as forecast operating expenditure (nominal) by the ERA for 2011 to 2015; and
- (b) DBP's proposed forecast for the AA Period.

Figure 16: IT costs comparison (\$)



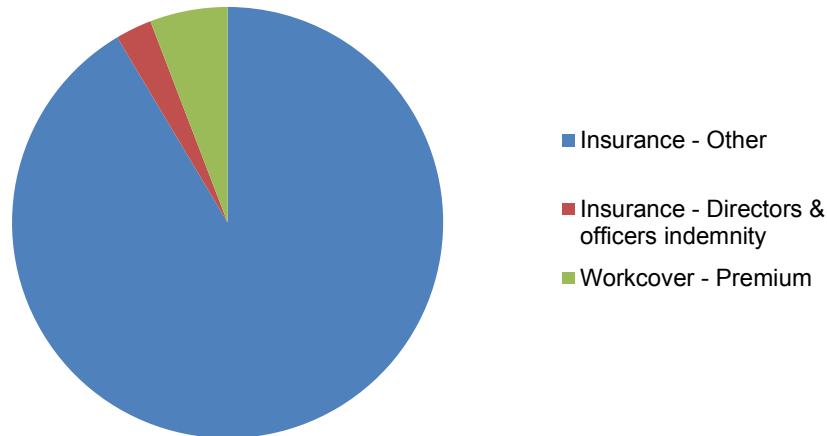
5.71 DBP's forecast expenditure is based on the 2015 Base Year escalated by expected inflation provided in Table 3 of the Access Arrangement Information.

- 5.72 It should be noted that DBP's base year costs reflect a new Corporate ICT Service Agreement entered into in 2014 with ZettaServe to replace the previous Operating Services Agreement.
- 5.73 Prior to DBP's corporate ICT Service agreement with ZettaServe, DBP's ICT provision was contracted under the Operating Service Agreement (OSA) with ATCO I-Tek (formerly WestNet Infrastructure) which was due to expire on 10 March 2014. In light of the expiry date DBP commenced a competitive tender process for corporate IT services.
- 5.74 The competitive tender process took place after DBP endorsed an updated ICT Governance framework in July 2013. The ICT Governance Framework's key aim is to drive improved planning, integration and communication between business units and integration ICT providers by simplifying the DBP IT environment by looking at people, process and technology.
- 5.75 DBP issued a request for proposal to four corporate IT service providers (including the incumbent service provider) in September 2013. Three proposals were received in October and evaluated by DBP's management with both ZettaServe and ATCO I-Tek being shortlisted.
- 5.76 In December 2013, DBP management recommended to its Board that it approve the Corporate ICT Service Agreement with ZettaServe based on:
- (a) The opportunity to partner with an organisation with a strong track record in providing IT managed services to companies of a similar size and scale to DBP;
 - (b) Low-cost, simple and transparent pricing model;
 - (c) Value for money service utilising the latest technology;
 - (d) Dedicated on-site support personnel;
 - (e) Innovative approach with the flexibility to continuously improve services within the agreement to enable DBP to simplify the IT environment;
 - (f) No departures from DBP's preferred terms and conditions and service level agreement requirements; and
 - (g) A 52% higher bid evaluation score than ATCO I-Tek proposal based on DBP's evaluation criteria.
- 5.77 It should also be noted that as part of the transition to a new ICT service provider DBP also sought to implement the following changes:
- (a) Transition from the SAP financial reporting system to MS Dynamics AX;
 - (b) Relocation of SCADA, Telecommunications and Business Systems equipment housed in an ACTO I-Tek managed facility to DBP's Jandakot and secondary disaster recovery location;
 - (c) Fit out of additional IT space within DBP's head office;
 - (d) Transition of desk telephony services in-house; and
 - (e) Complete data extraction and separation of DBP data from ATCO I-Tek systems.
- 5.78 As costs included in the 2015 base year are informed by the outcome of the competitive tender process described above DBP submits that the forecast for IT costs have been arrived on a reasonable basis and is the best forecast possible in the circumstances.

Insurance

5.79 The Insurance reporting category includes expenditure incurred for a number of insurance products including directors and officers insurance, workers compensation and, grouped in the "other insurance" category, industrial special risks, liability, motor vehicle, travel, journey, employment practices liability and crime insurance policies.

Figure 17: Insurance cost category

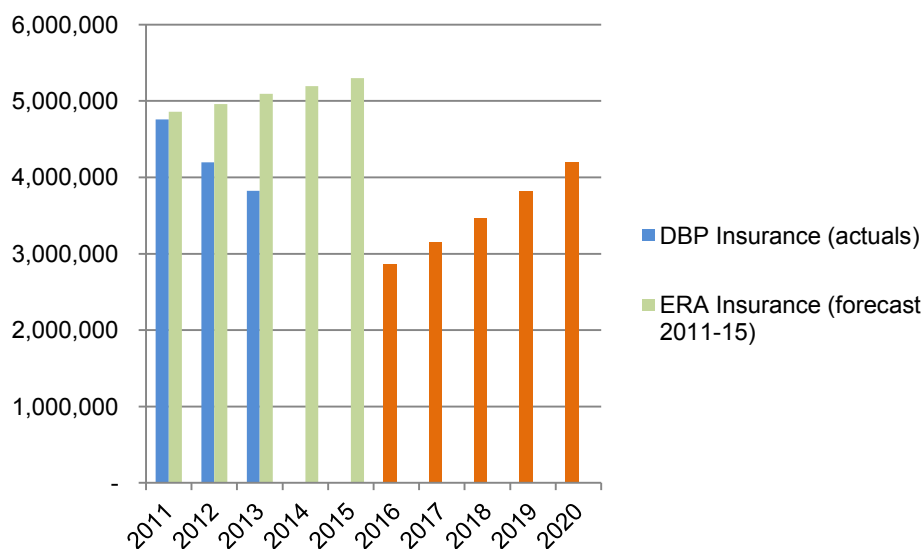


5.80 The forecast for Insurance accounts for 2% of all operating expenditure proposed for the next regulatory period.

5.81 The following figure compares DBP's actual operating expenditure incurred with:

- (a) that approved as forecast operating expenditure (nominal) by the ERA for 2011 to 2015; and
- (b) DBP's proposed forecast for the AA Period.

Figure 18: Insurance comparison



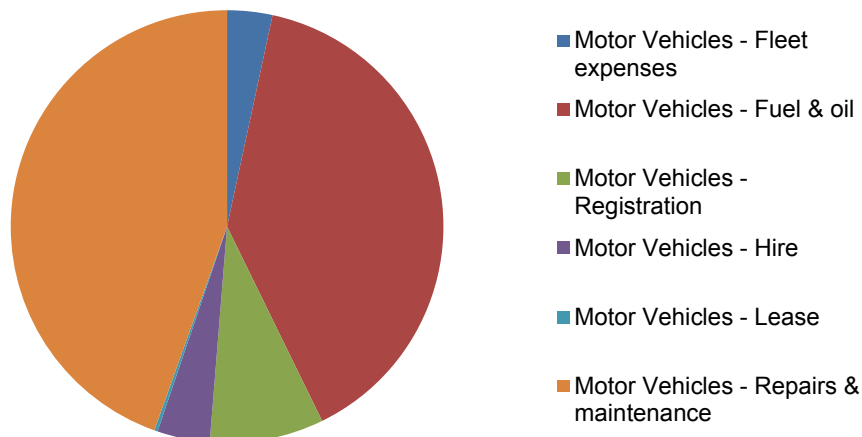
5.82 DBP's forecast expenditure is based on the 2015 Base Year escalated by expected inflation provided in Table 3 of the Access Arrangement Information.

- 5.83 Generally, DBP's insurance costs are influenced by a number of factors including the state of the global insurance market and more DBP specific issues such as the size and frequency of claims, value of the asset base and revenue.
- 5.84 The steady decrease in DBP's actuals in 2011, 2012 and 2013 reflect a general softening in the global insurance market and DBP having undertaken a detailed competitive tender process in 2011 for its two key insurance policies - industrial special risks and combined liability.
- 5.85 As the global insurance market is cyclical in nature and is likely to be at the bottom of its cycle, DBP submits that there is a greater chance that premiums will increase from that assumed in the base year than decrease.
- 5.86 Base year costs are informed by the business planning process and were developed through bottom up approach specifically for the 2014/15 financial year and an assumption that premiums will increase. It is on this basis that DBP submits that the forecast for Insurance costs have been arrived on a reasonable basis and is the best forecast possible in the circumstances.

Motor Vehicle

5.87 The Motor Vehicle reporting category includes expenditure incurred for motor vehicle fleet expenses, fuel and oil, licencing and registration, hire and lease costs and repairs and maintenance.

Figure 19: Motor Vehicle cost category

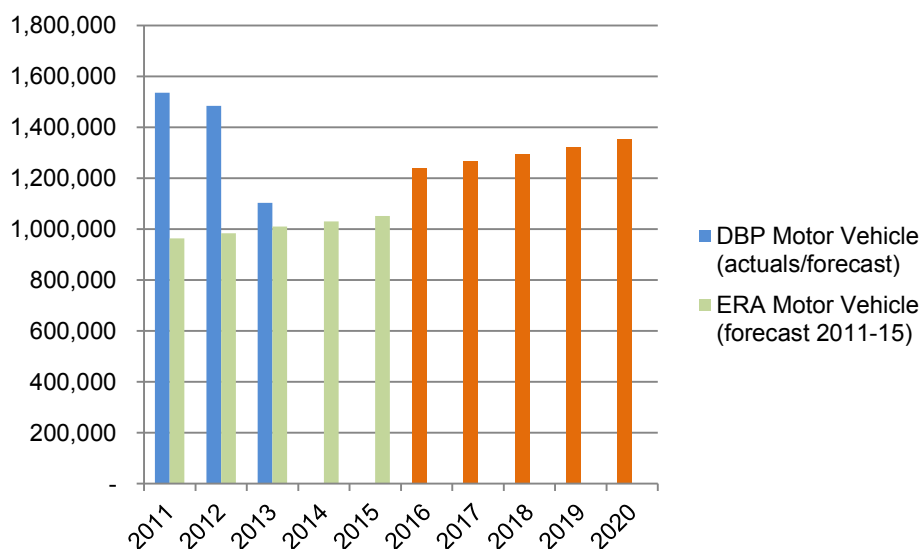


5.88 The forecast for Motor Vehicle accounts for less than 1% of all operating expenditure proposed for the next regulatory period.

5.89 The following figure compares DBP's actual operating expenditure incurred with:

- (a) that approved as forecast operating expenditure (nominal) by the ERA for 2011 to 2015; and
- (b) DBP's proposed forecast for the AA Period.

Figure 20: Motor vehicle comparison



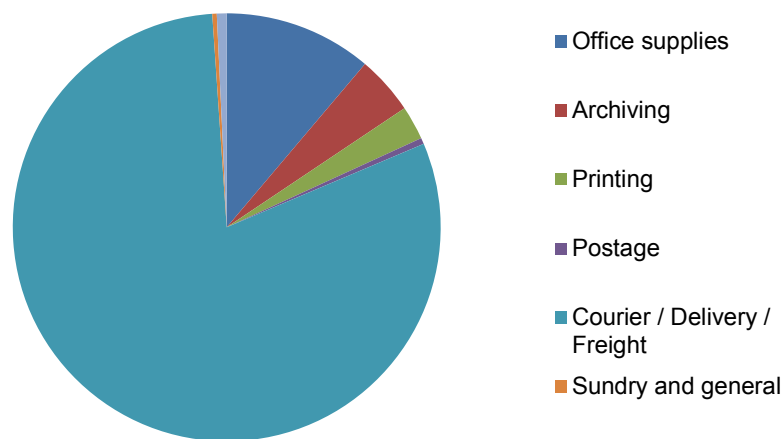
5.90 DBP's forecast expenditure is based on the 2015 Base Year escalated by expected inflation provided in Table 3 of the Access Arrangement Information.

- 5.91 Base year costs are informed by the business planning process and were developed through bottom up approach specifically for the 2014/15 financial year and do not represent a substantial change from actuals provided in the 2013 noting that DBP achieved some cost reductions from 2011 and 2012.
- 5.92 It is on this basis that DBP submits that the forecast for Motor Vehicle costs have been arrived on a reasonable basis and is the best forecast possible in the circumstances.

Office & Admin

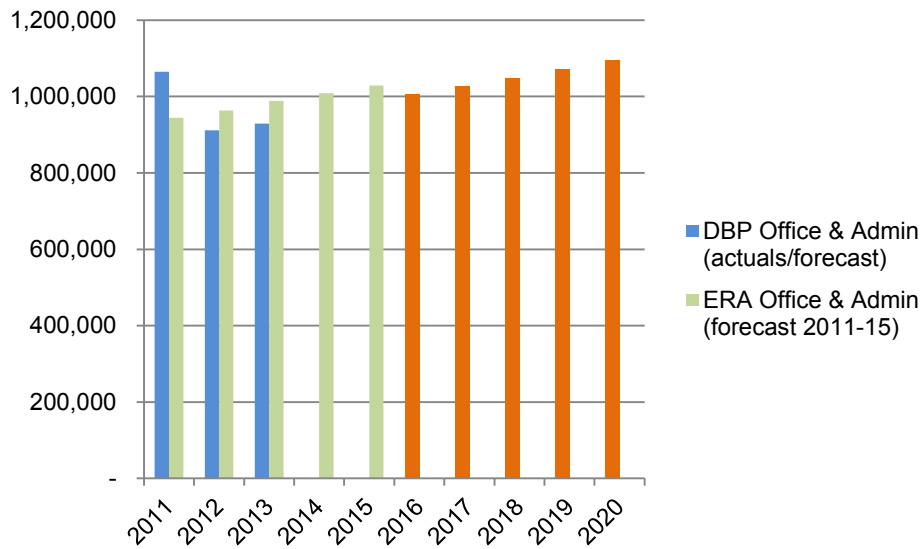
- 5.93 The Office & Admin reporting category includes expenditure incurred for office supplies, office equipment hire and lease costs, archiving costs, printing and mailing, couriers and freight charges and other general expenses.

Figure 21: Office & Admin cost category



- 5.94 The forecast for Office & Admin accounts for less than 1% of all operating expenditure proposed for the next regulatory period.
- 5.95 The following figure compares DBP's actual operating expenditure incurred with:
- that approved as forecast operating expenditure (nominal) by the ERA for 2011 to 2015; and
 - DBP's proposed forecast for the AA Period.

Figure 22: Office & Admin costs comparison (\$)



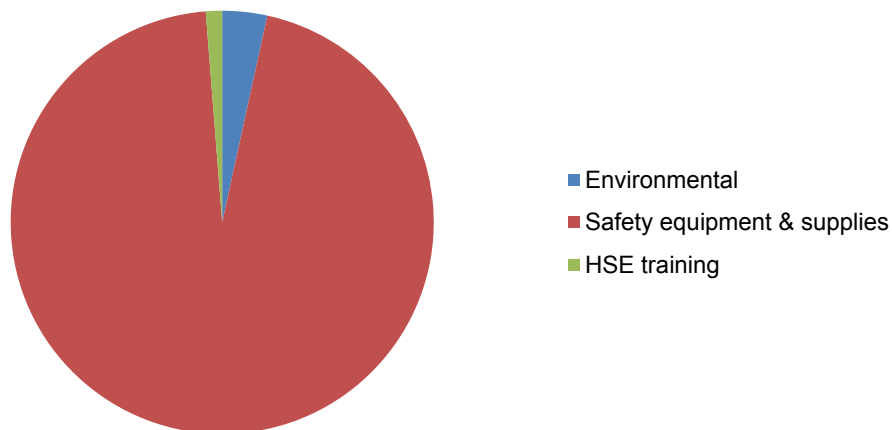
5.96 DBP's forecast expenditure is based on the 2015 Base Year escalated by expected inflation provided in Table 3 of the Access Arrangement Information.

5.97 Base year costs are informed by the business planning process for the 2014/15 financial year. It is on this basis that DBP submits that the forecast for Office and Admin costs have been arrived on a reasonable basis and is the best forecast possible in the circumstances.

Health Safety and Environment - PPE

5.98 The health safety and environment (HSE) reporting category includes expenditure required to supply the required personal protective equipment (PPE), GIS datasets required for environmental compliance work and a small amount of training that is specific only to the HSE staff within DBP. DBP's total HSE expenditure is forecast to be incurred across a number of categories including consulting, information technology, training and development and travel and accommodation.

Figure 23: HSE cost category

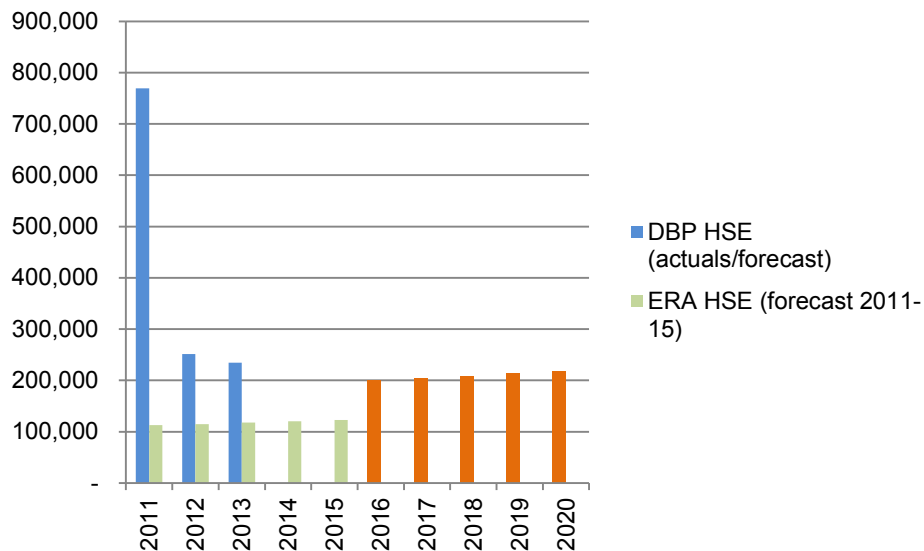


5.99 The forecast for HSE accounts for less than 1% of all operating expenditure proposed for the next regulatory period.

5.100 The following figure compares DBP's actual operating expenditure incurred with:

- (a) that approved as forecast operating expenditure (nominal) by the ERA for 2011 to 2015; and
- (b) DBP's proposed forecast for the AA Period.

Figure 24: HSE costs comparison (\$)



5.101 DBP's forecast expenditure is based on the 2015 Base Year escalated by expected inflation provided in Table 3 of the Access Arrangement Information.

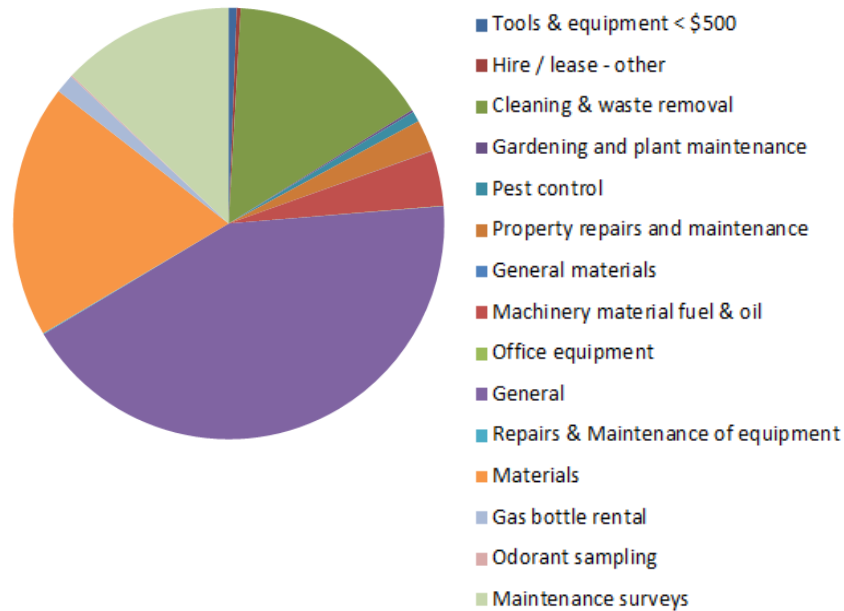
5.102 Costs incurred in 2011 are markedly higher than actual provided for 2012 and 2013 due to the roll out of the Optalert programme. Optalert is an early warning driver fatigue detection system.

5.103 Base Year expenditure is informed by the business planning process for the 2014/15 financial year. It is on this basis that DBP submits that the forecast for HSE costs have been arrived on a reasonable basis and is the best forecast possible in the circumstances.

Repairs and Maintenance

5.104 The Repairs and Maintenance reporting category includes expenditure incurred through property and plant repairs and maintenance, pest control, security, procurement of general materials, odorant sampling, surveys, the lease and hire of required equipment and cleaning and waste removal activities.

Figure 25: Repairs and Maintenance cost category

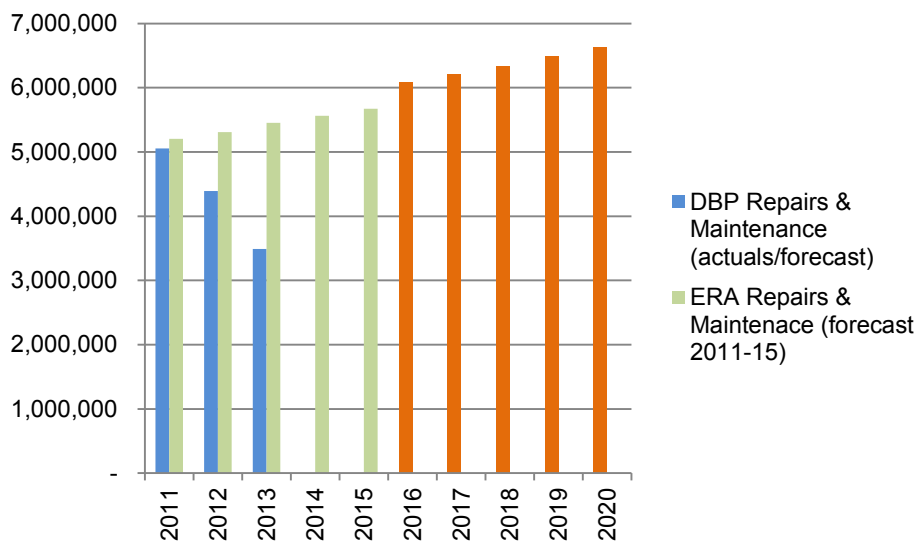


5.105 The forecast for Repairs and Maintenance accounts for 5% of all operating expenditure proposed for the next regulatory period.

5.106 The following figure compares DBP's actual operating expenditure incurred with:

- (a) that approved as forecast operating expenditure (nominal) by the ERA for 2011 to 2015; and
- (b) DBP's proposed forecast for the AA Period.

Figure 26: Repairs and Maintenance Comparison



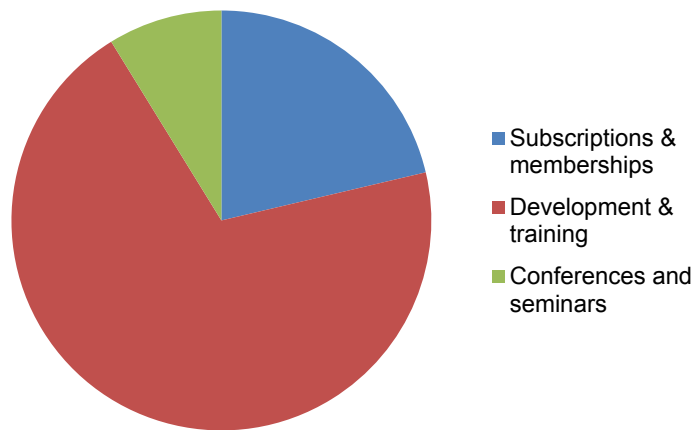
5.107 DBP's forecast expenditure is based on the 2015 Base Year escalated by expected inflation provided in Table 3 of the Access Arrangement Information.

- 5.108 DBP conducted a restructuring of the Maintenance division in 2012 which enabled better cost controls and delivered costs savings for maintenance.
- 5.109 DBP has also put in place clearer procedures dealing with the classification of planned maintenance and reactive maintenance explaining a degree of the reduction in historical costs and some of the uplift in the reactive cost category.
- 5.110 Notwithstanding the above measures base year costs underpinning forecast operating expenditure are substantially higher than the actuals provided for 2011 to 2013. The step increase from actuals to forecast operating expenditure can be explained by the following:
- (a) Actuals reported in calendar year 2013 were [REDACTED] lower than expenditure actually incurred in the 'repairs and maintenance - general' due to an offsetting effect in DBP's accounts caused by returning stock to inventory. In 2013 DBP performed stock-take/clean-up process which saw the return of parts and equipment in the field not currently being used and returning it to inventory.
 - (b) Additional costs have been included for a Veolia waste management contract [REDACTED] to ensure regulatory compliance to waste management requirements. This was once a minimal cost, however given the regulatory requirements to dispose of rubbish DBP now collects from site and dispose through a registered contractor.
 - (c) Additional costs [REDACTED] have been included for gas engine alternator (GEA) services to allow GEAs to be serviced on a frequency basis rather than on a run-time basis. The change in service regime has been found to address identified reliability issues with GEAs.
 - (d) Additional fuels and oils [REDACTED] is forecast to be purchased to support compression station operations.
 - (e) Additional costs [REDACTED] to allow for the servicing of pressure safety valves / relief valve repairs. Due to a change in the Australian Standards DBP is required to have work completed externally by certified specialists. Work on relief valves have previously been completed by DBP personnel.
 - (f) Additional costs [REDACTED] to meet increases in the costs of flight surveys.
 - (g) Additional costs [REDACTED] to allow for the provision of materials to the technical group working in the new workshop fitted out at Jandakot.
 - (h) The remaining difference is explained by general increases in costs and timing issues relating to reporting on a calendar year basis.

Training and Development

5.111 The Training and Development reporting category includes expenditure incurred through the provision of professional development and training for DBP staff.

Figure 27: Training and Development cost category

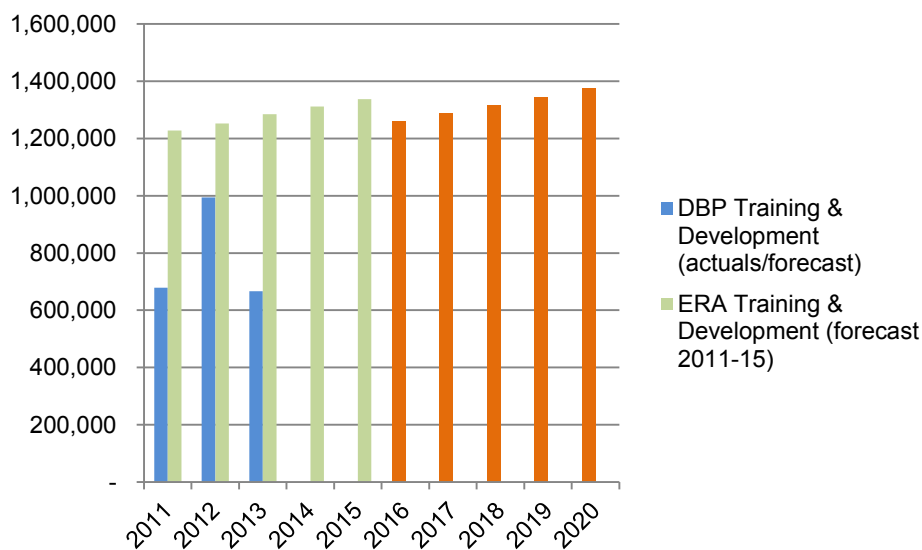


5.112 The forecast for Training and Development accounts for less than 1% of all operating expenditure proposed for the next regulatory period.

5.113 The following figure compares DBP's actual operating expenditure incurred with:

- (a) that approved as forecast operating expenditure (nominal) by the ERA for 2011 to 2015; and
- (b) DBP's proposed forecast for the AA Period.

Figure 28: Training and Development comparison



5.114 DBP's forecast expenditure is based on the 2015 Base Year escalated by expected inflation provided in Table 3 of the Access Arrangement Information.

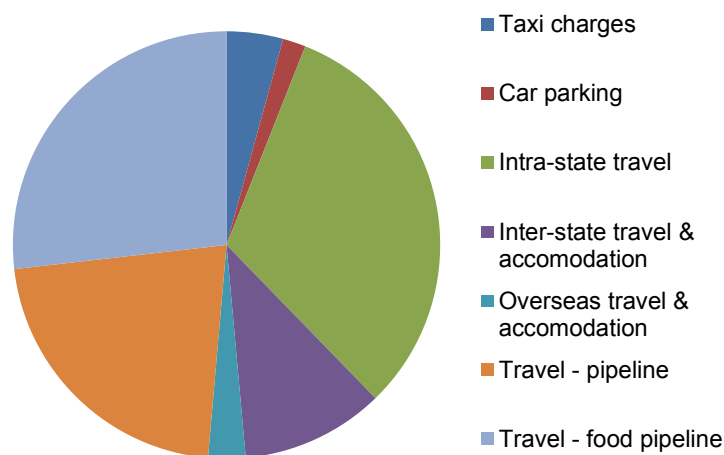
5.115 Prior to September 2012, all DBP's training development was managed by a third party service provider. From that time DBP has been developing its in house capabilities to adequately manage its own training and development costs explaining the gap between actuals and the forecast for the AA Period. Low expenditure 2013 reflect staff vacancy within the training and development team which delayed the deployment of the training and development framework which led to a low training expenditure. DBP has now filled these positions and as such has forecast the training costs to increase as both mandatory and development training is completed as required. The training budget is forecast to be less than 3% of the gross salary budget which is within industry standards.

5.116 It is on this basis that DBP submits that the forecast for HSE costs have been arrived on a reasonable basis and is the best forecast possible in the circumstances.

Travel and Accommodation

5.117 The Travel and Accommodation reporting category includes expenditure incurred for inter, intra and overseas travel and incidentals such as food and accommodation.

Figure 29: Travel Accommodation cost category

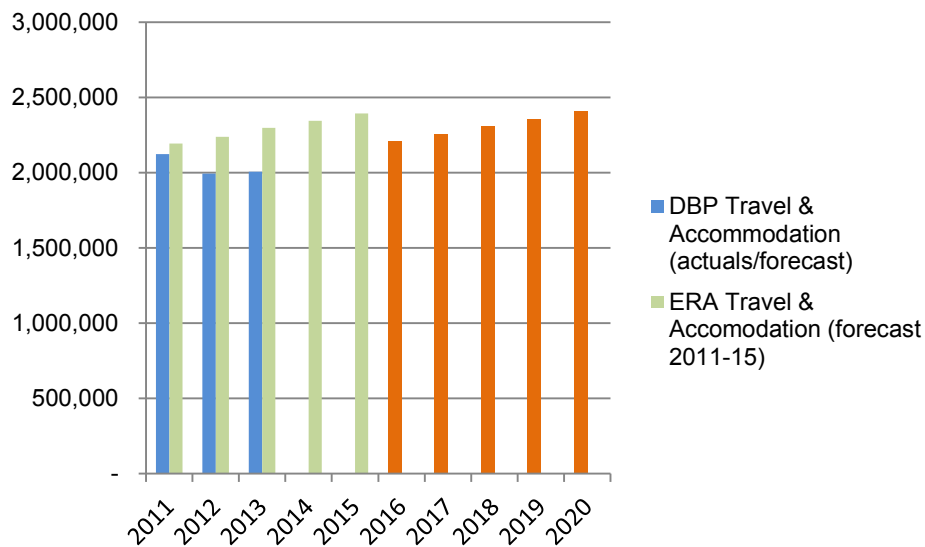


5.118 The forecast for Travel and Accommodation accounts for 2% of all operating expenditure proposed for the next regulatory period.

5.119 The following figure compares DBP's actual operating expenditure incurred with:

- (a) that approved as forecast operating expenditure (nominal) by the ERA for 2011 to 2015; and
- (b) DBP's proposed forecast for the AA Period.

Figure 30: Travel & Accommodation comparison



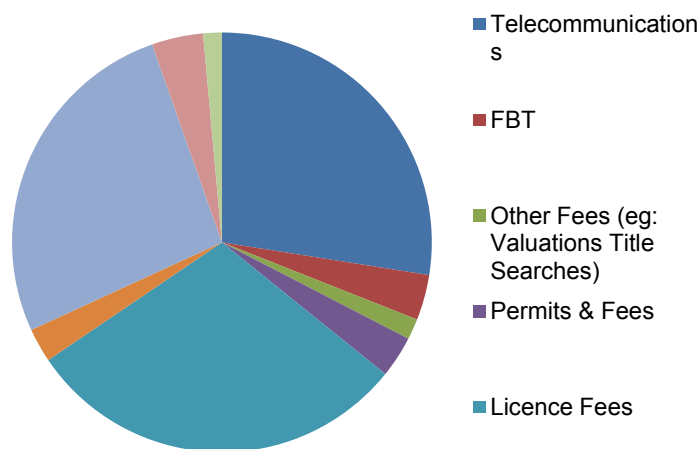
5.120 DBP's forecast expenditure is based on the 2015 Base Year escalated by expected inflation provided in Table 3 of the Access Arrangement Information.

5.121 Base Year expenditure is informed by the business planning process for the 2014/15 financial it is on this basis that DBP submits that the forecast for Travel and Accommodation costs have been arrived on a reasonable basis and is the best forecast possible in the circumstances.

Utilities rates and taxes

5.122 The Utilities Rates and Taxes reporting category includes expenditure incurred relating to fixed line, satellite and mobile telephone charges, rent an accommodation, gas and water rates, ERA standing and specific charges and other general rates and taxes excluding carbon costs.

Figure 31: Utilities, Rates & Taxes

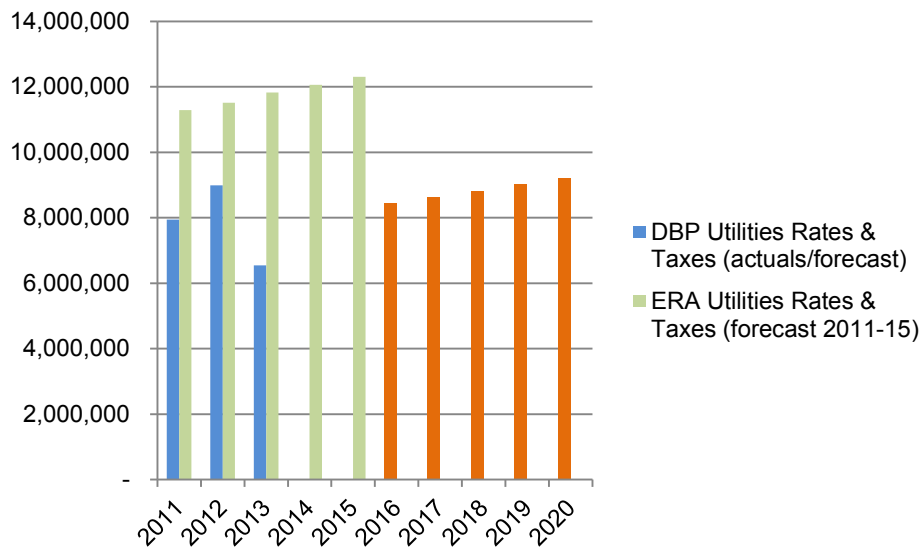


5.123 The forecast for Utilities Rates and Taxes accounts for 7% of all operating expenditure proposed for the next regulatory period.

5.124 The following figure compares DBP's actual operating expenditure incurred with:

- (a) that approved as forecast operating expenditure (nominal) by the ERA for 2011 to 2015; and
- (b) DBP's proposed forecast for the AA Period

Figure 32: Utilities, rates & tax comparison



5.125 DBP's forecast expenditure is based on the 2015 Base Year escalated by expected inflation provided in Table 3 of the Access Arrangement Information.

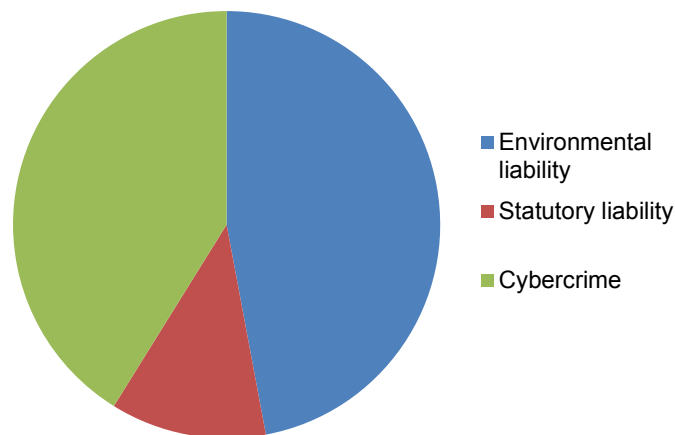
5.126 Note that Fringe Benefit Tax (FBT) has been included in the Utilities Rates and Taxes regulatory reporting category for actuals (2011-13) and proposed forecast (2016-20). Previously, FBT was included in the Entertainment regulatory reporting category.

5.127 Base Year expenditure is largely informed by historical expenses incurred, it is on this basis that DBP submits that the forecast for Utilities, Rates & Tax costs have been arrived on a reasonable basis and is the best forecast possible in the circumstances.

Self-Insurance

5.128 The forecast for Self-Insurance accounts for less than 1% of all operating expenditure proposed for the next regulatory period.

Figure 33: Self-Insurance cost category



5.129 Self-insurance generally falls into three categories:

- (a) Physical items that DBP does not or cannot insure at all and thus bears all risk if they are damaged or stolen;
- (b) Expenses incurred for insured events of items that fall under the deductibles for insurance products DBP will have in place over the period; and
- (c) Risks that could be insured for under insurance products but DBP has elected not to.

5.130 DBP has not attempted to quantify the level it is effectively self-insured for (a) above.

5.131 DBP has not attempted to quantify the level it is effectively self-insured for (b) above.

5.132 DBP has however, quantified at least some of the level of self-insurance it has accepted by not entering into insurance covers for events or risks that it is exposed to. To quantify the cost of self-insurance, DBP asked its broker, Marsh, to provide a list of insurance policies which DBP could have elect to purchase but have not. The costs represent the conservative amount DBP would need to set aside, as self-insurance, to cover losses should they occur.

- (a) The list of insurance products include:
 - (i) Environmental liability
 - (ii) Statutory liability insurance
 - (iii) Cybercrime insurance

5.133 The aggregate cost of entering into the three insurance products is \$243,017 pa which has been assumed to be the 2015 base year cost and inflated by expected inflation provided in Table 3 of the Access Arrangement Information to obtain a forecast of costs for the period.

5.134 It is on this basis that DBP submits that the forecast for Self-Insurance costs have been arrived on a reasonable basis and is the best forecast possible in the circumstances.

Fuel Gas

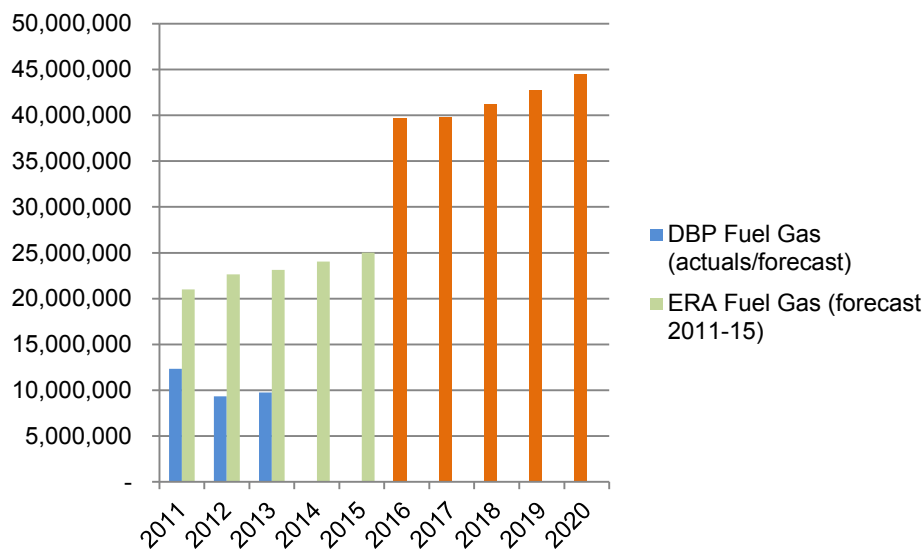
5.135 The Fuel Gas reporting category includes expenditure incurred by DBP in purchasing system use gas (SUG) required in the operation of compressors used to deliver gas on the DBNGP.

5.136 The forecast for Fuel Gas accounts for 35% of all operating expenditure proposed for the next regulatory period.

5.137 The following figure compares DBP's actual operating expenditure incurred with:

- (a) that approved as forecast operating expenditure (nominal) by the ERA for 2011 to 2015; and
- (b) DBP's proposed forecast for the next regulatory period based on new pricing contained in DBP's system use gas supply contracts.

Figure 34: Fuel gas costs comparison



5.138 The fuel gas quantity required during the 2016 to 2020 regulatory period has been estimated using forecasts of:

- (a) The expected gas quality that the DBNGP will be transporting during this period;
- (b) the quantity of gas required as compressor fuel to transport the forecast throughput; and
- (c) the quantity of gas required for all other operational activities, including gas used as fuel in gas engine alternators and heaters and vented during normal operation and maintenance activities.

5.139 DBP has developed a model for forecasting the quantity of gas required as compressor fuel. The model forecasts compressor fuel use using a polynomial function with the total throughput, less the quantity of gas transported to delivery points in the Pilbara and Mid-west, as the independent variables.

High Heating Value

5.140 The Higher Heating Value (HHV) affects the amount of fuel gas required to deliver the full haul capacity (downstream of CS9) because:

- (a) The HHV affects the volume of gas required to be delivered to meet the capacity requirements, which are measured in energy terms; and

(b) The HHV affects the quantity of fuel required to produce the required compressor power.

5.141 For a multi-inlet point pipeline such as the DBNGP, the Average HHV at CS9 is a function of the quantities of Gas received into the DBNGP at each of the Inlet Points and the HHV of each Inlet Point.

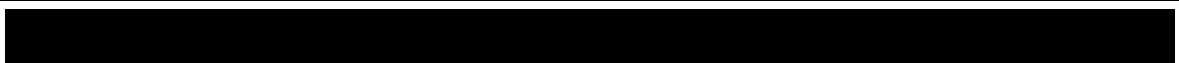
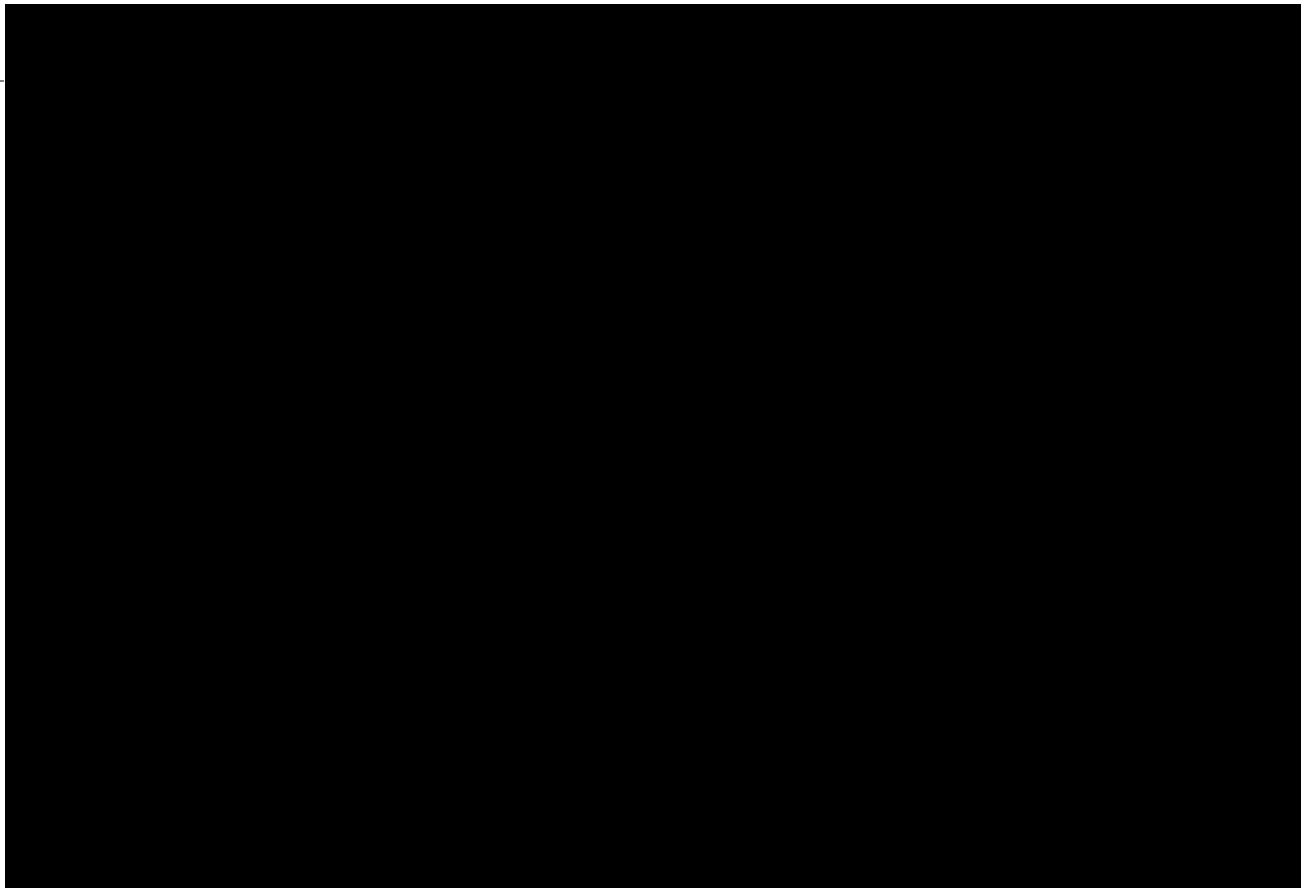
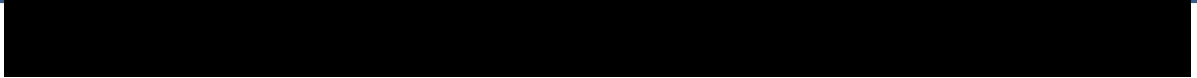
5.142 It is expected in the near term, gas from Karratha Gas Plant, Varanus Island and Devil Creek will continue to dominate the Average HHV on the DBNGP however, the low HHV Macedon gas will have an increasing influence as production ramps up [REDACTED]

5.143 [REDACTED]

5.144 However, Average HHV on the DBNGP is higher than the Reference HHV therefore DBP has undertaken the following analysis to determine the best available estimate of the HHV assumption to be used for the next regulatory period.

5.145 Overall, a Lower Pipeline Gas Higher Heating Value (HHV) has been assumed for the forecast for 2016-2020 period based on:

(a) Domgas (I1-01) Gas HHV has been trended down since July 2005. [REDACTED]





[Redacted content]

[Redacted content]

[Redacted content]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

5.149 It is expected that during the 2016-2010 period, there will be a gradual increase in Macedon gas injected into the DBNGP causing the blended full haul gas quality of the DBNGP to reduce even further.

[Redacted]

Determining the quantity of Fuel Gas

5.152 The fuel gas forecasting models used by Operator have the general form:

$$Q_{\text{fuel gas}} = (AX^3 + BX^2 + CX + D) \times (1 + E) + S + Y$$

where

A, B, C, and D are constants which are different for different pipeline configurations;
X is total throughput, less the quantity of gas transported to delivery points in the Pilbara;
E is an adjustment for transient behaviour;
S is the quantity of gas used in all other operational activities; and
Y is the forecast volume of compressor fuel used at Compressor Station 10.

5.153 The values of the parameters are summarised in the following table.

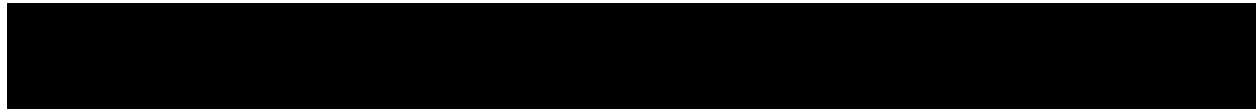


5.154 The annual quantities of fuel gas used, determined using the equation set out above are shown in the following table.



Source: DBP Reference tariff model provided (Submission 1 31 December 2014)

5.155 For the purpose of the reference tariff, DBP's forecast of fuel gas operating expenditure assumes that all fuel gas will be supplied by DBP. This is consistent with clause 5.12 of the reference service terms and conditions and the approach taken in the Current AA Period.

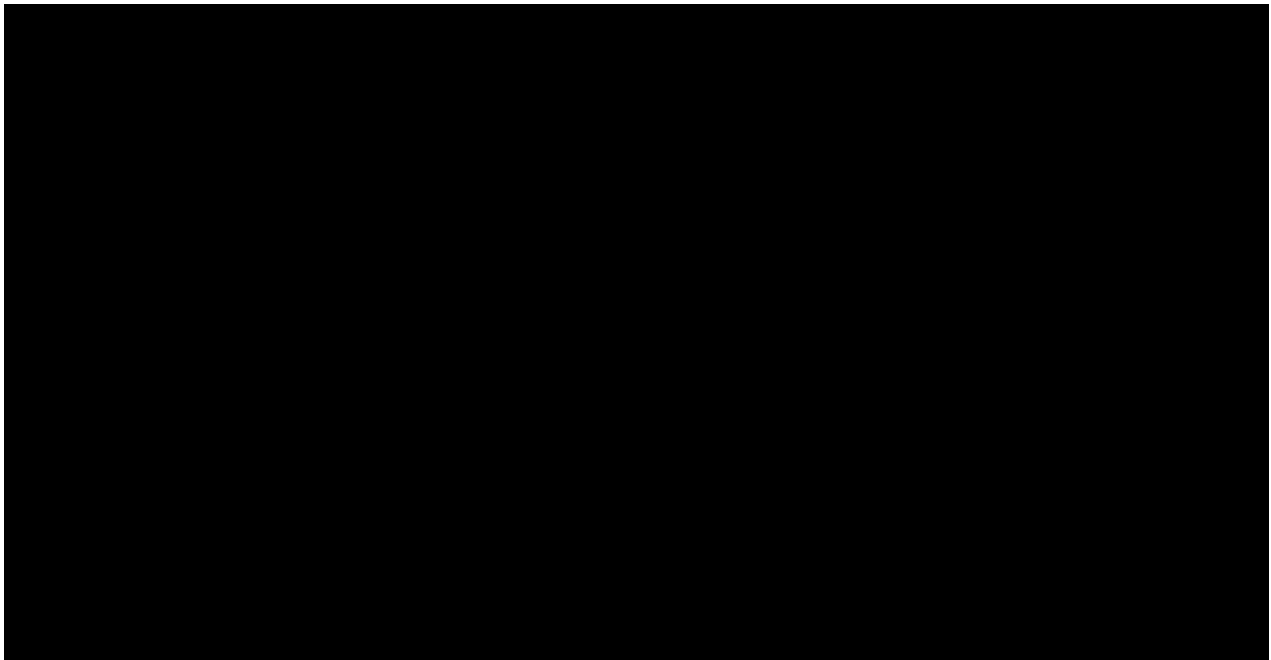


5.157 However, DBP will submit that this approach should not be of concern to the ERA nor reason to alter the forecast fuel gas operating expenditure for the following reasons:

- (a) for the purpose of the reference tariff calculation total revenue is allocated across forecast full-haul gas transmission and therefore shippers only face fuel gas costs in proportion to their use of pipeline services; and
- (b) where a shipper contracted under the Standard Shipper Contract has elected to supply its own share of fuel gas under clause 5.12, the SSC requires that DBP must provide a credit against the shipper's commodity charge in each monthly invoice⁶.

⁶ See clause 5.12(d)(ii) of the Standard Shipper Contract

Fuel gas price assumption



5.160 DBP submits that the SUG price contracted for under the [REDACTED] (a long term take or pay purchase and sales agreement) as opposed to short term spot agreements should underpin the fuel gas price assumption for the following reasons:

- (a) System Use Gas is essential for the operation of the DBNGP as without fuel for compressors and auxiliaries, the pipeline cannot deliver gas.
- (b) The criticality of the provision of System Use Gas for the DBNGP is recognised in the Priority Allocation Schedule for the allocation of gas in emergencies under Gas Supply Disruption Response Plan prepared under the provisions of *State Emergency Management Act* whereby the supply of gas for the operation of natural gas and LPG transmission and distribution systems is the first gas allocated in an emergency.
- (c) As gas transportation agreements are generally for long periods, the gas supply agreements which support the services under those contracts must also be for long terms, although it is not necessarily to exactly match the terms of the agreements, provided that the operator has in place a process to ensure that gas supply agreements are re-negotiated in sufficient time to ensure continuity of supply.
- (d) Short term spot gas purchase agreements generally have no firm commitment on either the buyer to take gas or the supplier to provide gas. Such an agreement cannot meet the requirements of either the obligations under gas transportation agreements or the Gas Supply Disruption Response Plan.
- (e) Since the [REDACTED] for a long term contract, DBP cannot benefit from intermittent low spot gas prices.

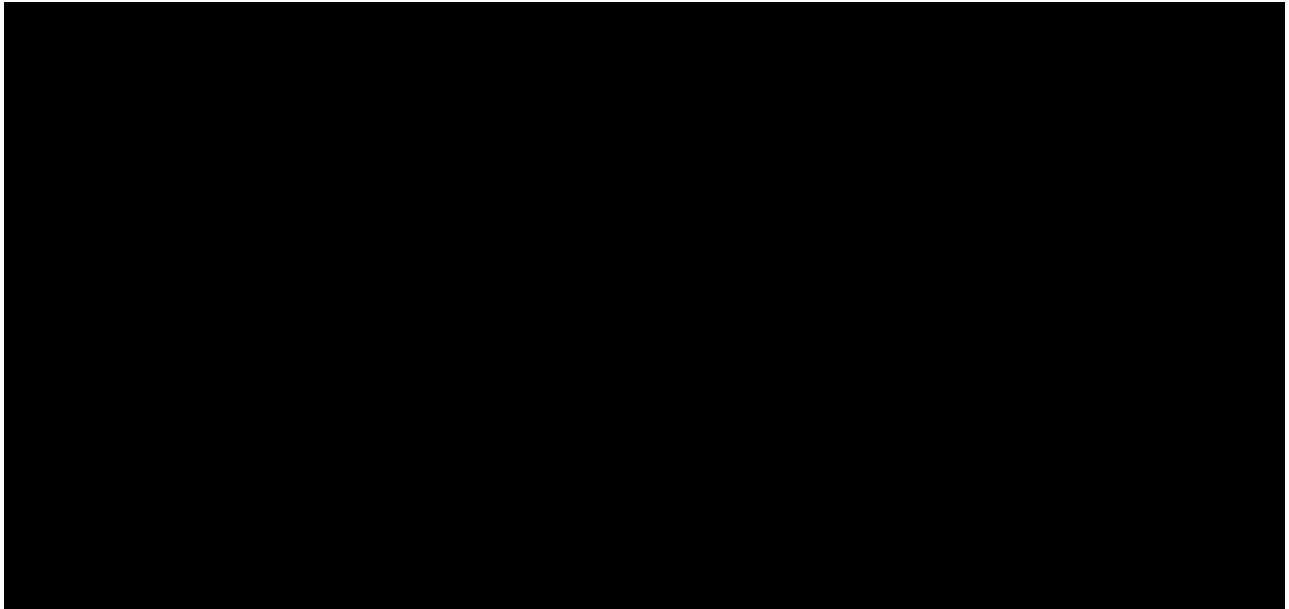
5.161 To meet these obligations, the pipeline operator must have in place firm supply agreements for System Use Gas.

5.162 Contracts for the firm supply of gas incorporate obligations on the supplier to make certain quantities available each day and on the buyer to take or pay for those quantities.

5.163 [REDACTED]

Additional evidence - Price

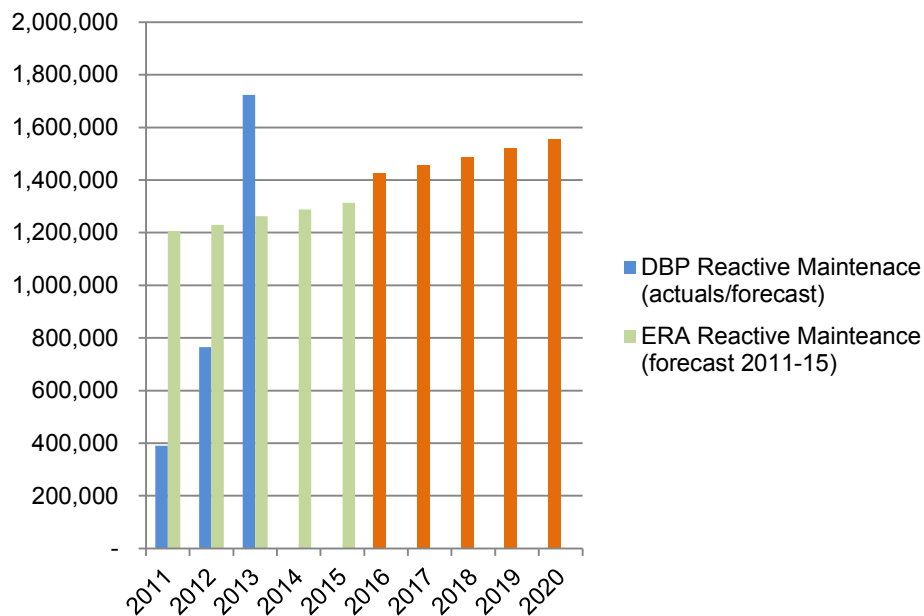
- 5.164 Public statements about new long term firm gas supply contracts concluded in recent times (Synergy contract to purchase gas from Gorgon, CP Mining contract to purchase gas from Devil Creek) infer gas prices of between \$6.50 and \$12/GJ (\$2014) with escalation based on either TAPIS crude price or Perth CPI.



Reactive maintenance

- 5.167 The Reactive Maintenance reporting category includes expenditure incurred by DBP
- 5.168 The forecast for Reactive Maintenance accounts for less than 1% of all operating expenditure proposed for the next regulatory period.
- 5.169 The following figure compares DBP's actual operating expenditure incurred with:
- (a) that approved as forecast operating expenditure (nominal) by the ERA for 2011 to 2015; and
 - (b) DBP's proposed forecast for the AA Period

Figure 41: Reactive Maintenance comparison



5.170 Due to the nature of work, expenditure captured under the Reactive maintenance cost category is volatile and difficult to forecast. DBP's 2015 base year costs informed by historical costs.

5.171 DBP's forecast expenditure is based on the 2015 base year escalated by expected inflation provided in Table 3 of the Access Arrangement Information.

Gas engine alternator (GEA) and turbine overhauls

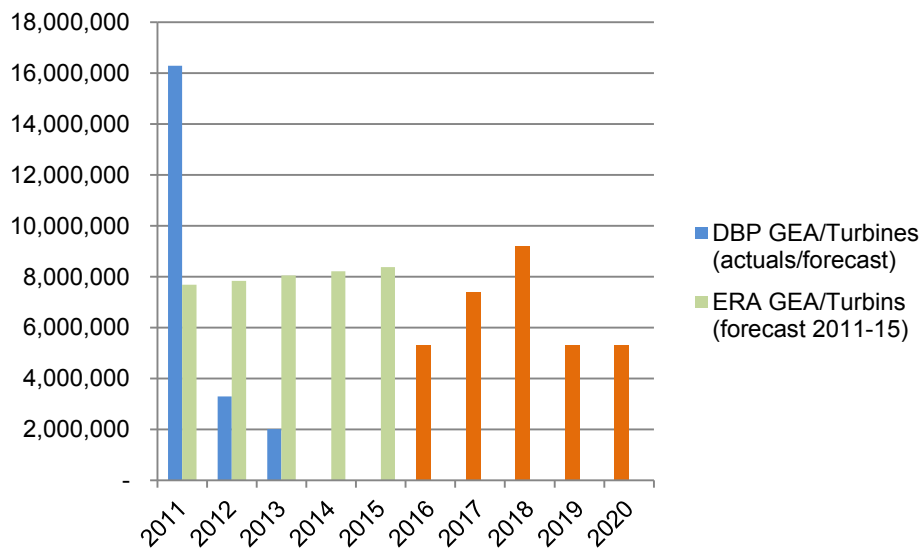
5.172 The GEA/Turbine overhaul reporting category includes costs associated expenditure overhauling gas engine alternators and turbine on the DBNGP.

5.173 The forecast for GEA & Turbine Overhauls accounts for 5% of all operating expenditure proposed for the next regulatory period.

5.174 The following figure compares DBP's actual operating expenditure incurred with:

- (a) that approved as forecast operating expenditure (nominal) by the ERA for 2011 to 2015; and
- (b) DBP's proposed forecast for the AA Period

Figure 42: GEA/Turbine comparison



Notes that DBP GEA/Turbine (actuals) include costs that were include as subsequent costs (and not excluded from conforming capital expenditure for 2011, 2012 and 2013.

Turbine overhaul

5.175 The replacement philosophy for turbines on the DBNGP is for units that have exceeded 30,000 hours are replaced in the following financial year. DBP's forecast costs for the AA Period provided in the following table:

[REDACTED]

[REDACTED]

5.176 Forecast costs are based on the following overhauls occurring in the AA Period.

[REDACTED]

[REDACTED]

5.177 Each overhaul has a forecast cost of [REDACTED] with the exception of the turbine unit 2 at compressor station 6 in 2018 which is a Nuovo Pignone unit. DBP forecast the overhaul to cost [REDACTED].

GEA Overhaul

5.178 The reliability of GEA units is imperative as units provide the power generation for the Compressor Stations. Forecast expenditure is required to ensure GEAs are maintained correctly as per OEM Specifications.

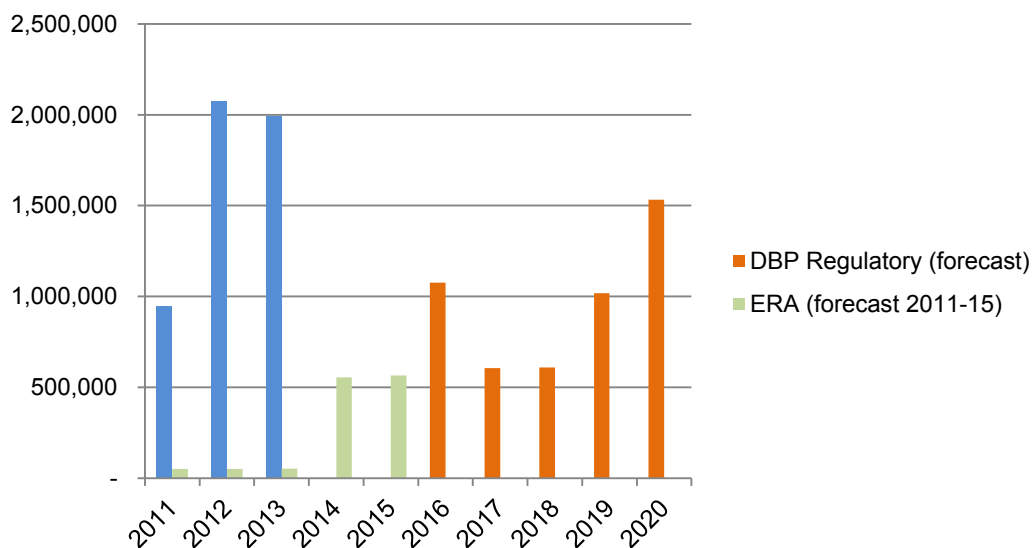
5.179 The engines reached the required run hours which will require either a minor and major overhaul. These hours are normally 12000H, 24000H, 48000H and 54000H services.

5.180 [REDACTED] is forecast to be spent in each year of the AA Period based on 8 units being overhauled each year according to run hours.

Regulatory Expenses

- 5.181 The Regulatory Expenses reporting category includes expenditure for ERA Standing Charges and ERA Specific Charges.
- 5.182 The forecast for Regulatory Expenses accounts for less than 1% of all operating expenditure proposed for the next regulatory period.
- 5.183 The following figure compares DBP's actual operating expenditure incurred with:
- that approved as forecast operating expenditure (nominal) by the ERA for 2011 to 2015; and
 - DBP's proposed forecast for the AA Period.

Figure 43: Regulatory Expenses comparison



- 5.184 The ERA does not provide regulated service providers with a forecast of charges to be levied during the regulatory period.
- 5.185 DBP's forecast expenditure is therefore based on available information including:
- The 2014-15 WA State Budget papers #3; and
 - DBP's actuals incurred for Standing and Specific charges levied by the ERA.
- 5.186 DBP forecasts are largely based on information available in the State budget papers which are provided on an aggregate basis.
- 5.187 To determine how the aggregate figure relates to DBP's proportion of charges DBP compared its actuals in FY2011/12, FY2012/13 and FY2013/14 to the ERA actual receipts.

Table 10: DBP's proportion of ERA's charges

	Actual FY11/12	Actual FY12/13	Est. Actual FY13/14
Regulatory fees and fines (\$m) ⁷	3.56	4.47	5.09
DBP Actuals (\$m)	0.84	0.51	0.97
DBP Percentage	24%	11%	19%

5.188 DBP has had reference to the actual historical percentage of the ERA's total charges allocated to DBP in the form of standing and service charges to determine the forecast of regulatory costs for the AA Period.

5.189 It should also be noted that DBP has considered:

- (a) That DBP pays 50% of all the ERA's costs attributed to regulation of WA covered gas transmission and distribution systems;
- (b) The cyclical nature of the ERA's fees based on the activity it performs in relation to the timing of the various access arrangement review processes regulation of the WA covered gas transmission and distribution systems;
- (c) The ERA's review of the rate of return guidelines required in 2016 and 2019; and
- (d) The likelihood of the ERA requiring regulated gas service providers to comply with annual regulatory information notices during the period.

5.190 DBP has also excluded \$3.5m from the ERA's total regulatory fees in the State Budget as DBP understands that the ERA include an additional allocation of \$3.5m in Total Regulatory Fees Income in 2014/15.

5.191 DBP has used expected inflation provided in Table 3 of the Access Arrangement Information to extrapolate the Stage Budget figures provided by the ERA in 2015/16 (used for CY16) and 2016/17 (used for CY17) to arrive at estimates for 2018, 2019 and 2020.

Table 11: Determination of ERA charges

	2016	2017	2018	2019	2020
Regulatory fees ⁸	8.88	8.56	8.57	8.59	8.61
Adjusted	5.88	5.56	5.57	5.59	5.11
Proportion applied	20%	12%	12%	20%	30%
Forecast opex (\$m)	\$1.08	\$0.61	\$0.61	\$1.02	\$1.53

⁷ FY12/13, FY13/14 from WA State Budget papers #3 (Division 55) and FY11/12 from #2.

⁸ 2016 & 2017 Regulatory fees and fines taken from WA State Budget papers #3 (Division 55)

6. KEY DRIVERS

- 6.1 In addition to the information provided in Section 5 outlining the regulatory cost categories and DBP also submits that there are a number of key drivers that influence operating expenditure. These include:
- (a) Requirements and obligations under the DBNGP Safety Case;
 - (b) Obligations under pipeline licenses and other mandatory requirements; and
 - (c) Findings from internal and external audits that are completed.

Safety Case

- 6.2 Many of DBP's activities on the pipeline are required for the safe and reliable operation of the DBNGP. They are identified pursuant to a Safety Case revised earlier this year, in accordance with the conditions of the pipeline licences covering the pipeline.
- 6.3 One of the purposes of a Safety Case is to demonstrate that a pipeline licensee has the management systems needed to systematically and continually identify and assess hazards so as to eliminate or minimise, as far as is reasonably practicable, the risks to employees working on the DBNGP facilities over the life of those facilities.
- 6.4 A Safety Case must be approved by the State's safety and technical regulator. Once it is approved, the Safety Case becomes the set of recognised legal requirements with which the pipeline licensee must comply in relation to the operation of the pipeline. The revised Safety Case is currently being assessed by the regulator although Operator is proceeding on the basis that it is operative.
- 6.5 A Safety Case comprises three elements: the facility description, the safety management system, and the formal safety assessment. The safety management system addresses all aspects of administering and managing safety on the pipeline. The formal safety assessment is represented by a risk assessment undertaken on the pipeline pursuant to Australian Standard 2885 ("Standard").
- 6.6 According to the Standard, pipeline loss of integrity (i.e. Gas release) and interruption to supply risks are to be assessed. The risk assessment therefore includes the pipeline and main line valve (MLV) sites. It does not include compressor stations and metering. However, as part of its own internal standards, Operator has applied the same approach to its compressor stations and metering facilities.
- 6.7 The assessment identified a number of hazardous events (ie events resulting in a loss of pipeline integrity or interruption to continuity of supply). The risk of these events occurring was assessed by pipeline location class (ie. R1, R2 and T1) and for Sensitive/Highly Populated areas. The Operator's personnel determined that risks could be managed to "As Low as Reasonably Practicable" through the implementation of further controls and ongoing monitoring/management of these risks.
- 6.8 It is important to note that in preparing the Operator's budget, any cost saving measure must not compromise DBP's ability to maintain and achieve compliance with the Safety Case.
- 6.9 Given this, Operator submits that its operational expenditure should be accepted by the Regulator without question.
- 6.10 Operator notes that the Full Court of the Supreme Court of Western Australia, in *Re: Dr Ken Michael AM; ex parte Epic Energy (WA) Nominees Pty Ltd & Anor [2002] WASCA 231*, found as follows in relation to expenditure required for the safe and reliable operation of the pipeline:

*“It is clear from s2.24(c) that the ongoing safe and reliable operation of the pipeline must be taken into account. Expenditure necessary for this purpose must be taken into account whether or not that would occur in a competitive market or according to theories of economic efficiency.”
(emphasis added)*

6.11 This is equally relevant in assessing whether the criterion under Rule 91 is met.

Pipeline licences and mandatory requirements

- 6.12 Pipeline licences provide mandatory conditions for the performance of operations and maintenance by the pipeline licensee. Other mandatory requirements include various Acts of Parliament and Standards to which some Acts refer.
- 6.13 DBP must, in operating and maintaining the pipeline and associated laterals, comply with the following licences issued under the Petroleum Pipelines Act:
- (a) PL40 - Dampier to Bunbury Natural Gas Pipeline
 - (b) PL41 - Tiwest to Kwinana Lateral
 - (c) PL47 - CS10 & Lateral
 - (d) PL69;
 - (e) PL 91;
 - (f) PL 94;
 - (g) PL 95;
 - (h) PL 100; and
 - (i) PL 101.
- 6.14 Amongst other mandatory requirements, the Standards set out in the licences mentioned above are:
- (a) AS3000 – testing, operating and maintaining of electrical works;
 - (b) AS2430 – classification of hazardous areas;
 - (c) AS2380 & AS2381 – installation & maintenance of electrical equipment in a hazardous area;
 - (d) AS1210 – testing & operating of pressure vessels;
 - (e) AS3788 – inspection & maintenance of pressure vessels;
 - (f) AS3600 – testing & maintenance of concrete structures;
 - (g) AS4100 - testing & maintenance of structural steelwork;
 - (h) AS1768 - testing & maintenance of lightening protection;
 - (i) AS2832.1 - testing & maintenance of cathodic protection;
 - (j) AS2885 – operation & maintenance of pipeline;
 - (k) ASME/ANSI B31.3 - operation & maintenance of above ground pipework (PL’s 41 & 47);
 - (l) AS1697 or ASME/ANSI B1.3 - operation & maintenance of above ground pipework (PL40);
 - (m) AS/NZS ISO 9001 – maintain & operate to recognised quality management system;
- 6.15 DBP, in complying with the associated pipeline licences, is required to undertake many other maintenance activities not defined in Standards.

Pipeline maintenance planning process

- 6.16 Maintaining assets is a complex and skilled process, and as it is core business for DBP. Planning, controlling and monitoring maintenance activities are essential in ensuring those activities are effectively and efficiently performed. To this end systems are utilised to aid in these activities.
- 6.17 Maintenance strategies available to DBP include:
- (a) Preventive maintenance - Based on time or run hours
 - (b) Predictive maintenance - Based on technology of determining a machines condition without disturbing normal operations i.e.: Vibration analysis, thermography.
 - (c) Proactive maintenance - Extends machinery life by applying advanced investigative & corrective technology, i.e.: Root cause failure analysis, bore scope inspection
 - (d) Reliability based maintenance - Based on Preventive, Predictive & Proactive maintenance
 - (e) Reactive maintenance - Based on run to failure (breakdown maintenance)
- 6.18 The planning process then summarises maintenance routines by:
- (a) Cycle – frequency of activity
 - (b) Duration – time to perform activity
 - (c) On/offline – ability to perform activity online
 - (d) Rationale – basis for activity i.e. regulatory or contractual requirement
 - (e) Basis – preventative, predictive or proactive
 - (f) Expertise – skill level to perform activity
 - (g) System – system/equipment on which maintenance is performed
- 6.19 The routines are then applied to each site, thus quantifying the amount of maintenance work required to be performed across the whole pipeline asset.
- 6.20 This philosophy, strategy and framework then form one of the bases for the development of the operating budget for the pipeline.

Findings from audits

- 6.21 DBP has an extensive audit plan that it undertakes. Most are required to be undertaken in order to comply with regulatory obligations (mandatory audits). Others are undertaken, as a prudent business operator, to deal with functions of the business or key business processes which have been identified as significant or higher risk for DBP (as part of DBP's biannual enterprise wide risk assessment process).
- 6.22 Mandatory audits are audits under the following regulatory obligations:
- (a) Practices Act – annual audits must be undertaken to assess compliance with the undertakings;
 - (b) under the pipeline licences issued under the Petroleum Pipelines Act;
 - (c) under the Safety Case; and
 - (d) under the National Energy and Greenhouse Reporting Act – annual audits are required.
- 6.23 All findings from these mandatory audits must be closed out.
- 6.24 As part of insurance cover for the pipeline, insurers require an annual audit of various pipeline facilities, and policies, processes and procedures for both corporate and operational functions.

- 6.25 To comply with the insurance program, DBP must institute, remedy or otherwise manage the findings from the insurance audit.
- 6.26 Compliance with insurance audit findings ranges from amending policies, remapping processes and redrafting procedures to modifications to pipeline plant and equipment itself.
- 6.27 The actions required to be undertaken to comply with these audits are therefore included in the development of the operating budget for the pipeline.

Other factors taken into account

- 6.28 DBP also takes a range of other factors into account when setting its operating budget. In particular, values must be set having regard to the need to comply with the following:
 - (a) All budgets are “zero” based (i.e. developed from the ground up each year - 'bottom up' process);
 - (b) All budgets are prepared on the basis of business as usual;
 - (c) Divisional plans are developed which set out business activities for each division. These are supported by business cases and prioritised;
 - (d) The divisional plans incorporate a high level reconciliation between forecast costs and budget costs in the previous year (top down analysis);
 - (e) Health, safety and environmental issues are not compromised;
 - (f) No departmental budget is submitted without General Manager approval.



APPENDIX A: CONFIDENTIALITY TABLE