



Notice

19 December 2019

Proposed revised access arrangement for the Goldfields Gas Pipeline

Final decision

The Economic Regulation Authority has released its [final decision](#) for Goldfields Gas Transmission Pty Ltd's (GGT) proposed revised access arrangement for Goldfields Gas Pipeline.

The ERA has not approved GGT's proposed changes to the access arrangement and has published its own approved access arrangement and access arrangement information.

The Goldfields Gas Pipeline (GGP) is a 1,378 kilometre transmission pipeline that receives natural gas from offshore fields in the north west of Western Australia, starting at Yarraloola and extending to Kalgoorlie in the Goldfields-Esperance region. The 47 kilometre Newman Lateral is also part of the GGP.

GGT's customers are primarily industrial companies in the Pilbara, Mid-West and Goldfields-Esperance region, with a small quantity of gas delivered for commercial and residential use in Kalgoorlie.

The ERA has substantially reduced the tariff increases proposed by GGT in its initial submission.

GGT's revised access arrangement will start on 1 January 2020 and run until 31 December 2024. This notice contains an explanatory statement which details further information on the ERA's decision, the access arrangement process and the role of ERA.

Further information

General enquiries

Tyson Self
Ph: 08 6557 7919
info@erawa.com.au

Media enquiries

Natalie Warnock
Ph: 08 6557 7933 | Mob: 0428 859 826
media@erawa.com.au

EXPLANATORY STATEMENT

This explanatory statement provides a summary of the ERA's final decision on proposed revisions to the fourth access arrangement (AA4) for Goldfields Gas Transmission's Goldfields Gas Pipeline. This overview does not form part of the ERA's final decision or the reasons for the final decision.

The final decision

The ERA has not approved GGT's revised access arrangement and requires 12 amendments for the access arrangement to comply with the National Gas Rules and National Gas Law. The summary of required amendments is on pages 1 and 2 of the final decision.

The ERA has prepared and published its own approved access arrangement in line with the required amendments. This approved access arrangement will take effect on 1 January 2020.

The ERA's final decision, approved access arrangement and access arrangement information is available at www.erawa.com.au/GGP-AA4. This page also lists GGT's initial and revised proposals and all submissions received from stakeholders during the review process.

Table 1: Comparison of GGT proposals and ERA decisions

	GGT initial proposal	ERA draft decision	GGT revised proposal	ERA final decision
Target revenue (\$ million nominal)	249.395	225.783	235.522	213.104
Weighted average cost of capital (%)	5.56	5.02	5.02	4.09
Capital base at the beginning of AA4	380.521	367.575	373.796	377.206
Capital base at the end of AA4	369.387	338.845	344.238	345.284
Capital expenditure (\$ million nominal)	17.153	6.672	6.305	6.544
Operating expenditure (\$ million nominal)	103.324	88.575	96.011	87.736

Pipeline usage

The GGP is currently at full capacity, and GGT expects this to remain the same for the AA4 period.

GGT has received some interest from prospective users to access the pipeline, which would require expansion of its capacity. However, these prospective users do not yet have the level of certainty required for GGT to commit to the development of new capacity.

Effect on tariffs

The reference tariff for the GGP is made up of three parts:

- a toll tariff – a fixed charge on a user's contracted capacity.

- a capacity reservation tariff – a fixed charge based on a user’s contracted capacity and its distance from the start of the pipeline.
- a throughput tariff – a variable charge based on the quantity of gas delivered to a user during a month and the user’s distance from the start of the pipeline.

The capacity reservation and throughput tariffs are distance-related charges to reflect the varied cost to provide pipeline services to individual users at different locations along the pipeline. The ERA reviewed GGT’s proposed tariffs with reference to the National Gas Rules and National Gas Law, which state that a service provider must be allowed to recover its efficient cost of providing the service.

Table 2: Comparison of nominal tariff price change on 1 January 2020 (%)

	GGT initial proposal	ERA draft decision	GGT revised proposal	ERA final decision
Toll tariff	21.55	10.16	14.91	3.75
Capacity reservation tariff	38.46	25.53	30.93	18.17
Throughput tariff	2.67	(6.67)	(2.67)	(12.44)

Rate of return

The rate of return provides a service provider with a return on the capital it has invested in its business. The rate, expressed as a weighted average cost of capital, is used in an access arrangement to determine part of the annual revenue that a company can earn.

The ERA published a guideline setting out the methods it will use to determine the rate of return for regulated gas networks. The guideline became binding in April 2019, following a prior decision by the Council of Australian Governments’ Energy Council.

The guideline is mandatory so the ERA must not depart from the guideline when determining the rate of return, reducing the complexity of the access arrangement review process.

The decline in the rate of return seen over the AA4 review process reflects the declining conditions in financial markets, and especially the falling yield on government bonds (see Table 1).

Background

The ERA is responsible for regulating third-party access to gas pipelines in Western Australia.

There are currently three fully regulated pipelines in Western Australia: the Dampier to Bunbury Natural Gas Pipeline, Goldfields Gas Pipeline, and Mid-West and South-West Gas Distribution Systems.

The GGP is a 1,378 kilometre transmission pipeline that receives natural gas from offshore fields in the north west of Western Australia, starting at Yarraloola and extending to Kalgoorlie in the Goldfields-Esperance region. The 47 kilometre Newman Lateral is also part of the GGP.

GGT’s customers are primarily industrial companies in the Pilbara, Mid-West and Goldfields-Esperance region, with a small quantity of gas delivered for commercial and residential use in Kalgoorlie.

On 21 December 2018, GGT submitted a proposed revised access arrangement for the network, for the period 1 January 2020 to 31 December 2024.

An access arrangement sets the terms and conditions, including prices, under which third parties can access services on a pipeline network. Those third parties generally include industrial gas users and gas retailers.

The National Gas Law and National Gas Rules set out the requirements for what should be included in an access arrangement, as well as the processes that the ERA must follow when considering whether to approve GGT's proposal.

The ERA published an issues paper for public comment on 1 March 2019.

On 31 July 2019, the ERA published its draft decision to not approve the proposed access arrangement and required GGT to make 13 amendments.

GGT submitted an amended proposal on 11 September 2019. The ERA has considered this amended proposal along with submissions from stakeholders to make its final decision.

About the ERA

The ERA is Western Australia's independent economic regulator. We aim to ensure that the delivery of water, electricity, gas and rail services in Western Australia is in the long-term interest of consumers.

The ERA also undertakes inquiries, which provide recommendations to government on economic issues that are likely to have significant implications for the people and businesses of Western Australia.