

Attachment 5.3

Draft Plan Submission - Newgen Kwinana

January 2020

Ms Kristen Pellew
Australian Gas Infrastructure Group
Sent by email: kristen.pellew@agig.com.au

28 June 2019

Dear Kristen

2021-2025 DRAFT PLAN FEEDBACK

NewGen Kwinana welcomes the opportunity to provide feedback on the Draft Plan released by AGIG in relation to the Access Arrangement for 2021 to 2025.

Shipper Engagement

The shipper engagement and roundtable discussions conducted by AGIG have been valuable in providing transparency and understanding of the building blocks that form the regulated tariff. NPK has appreciated this engagement, which has allowed the business to comment on the Draft Plan inputs with a greater understanding.

Feedback

Areas of the Draft Plan which NPK have concerns around are as follows:

Demand Assumptions

Section 11 of the Draft Plan outlines assumptions relating to contracted demand and throughput over the AA5 period. A key change for AA5 is a reduction in forecast contracted capacity by 11% compared to AA4. NPK note that this forecast has been made through consideration of contracts and shipper activities together with overall changes to the gas market. Due to the confidential nature of this information, the Draft Plan does not give much detail on the reason for the decreased demand.

From NPK's own view of the Energy Market and block loads in the SWIS together with a review of Australian Energy Market Operator's recently released Electricity Statement of Opportunities (ESOO), the business is unable to identify where a decrease in contracted demand is coming from. Given that demand forecasts play a significant role in determining the applicable tariff, a significant reduction in demand, has a significant increase on tariffs. Therefore, any information that may be provided to detail this capacity reduction would help Shippers greatly.

Looping Pipeline accelerated depreciation

Section 9.5.2 outlines the proposal to accelerate the Loop Line depreciation to align with the main pipeline's remaining useful life given the reliance on the main line for the looping line. This acceleration imposes a significant increase to current tariffs.

Given that the energy industry is undergoing a period of significant change, NPK consider that making this decision for AA5 is premature and instead reconsidered again at AA6. To reduce the useful life of the looping asset would be to assume that there is no use to the DBNGP beyond 2055. There could be a reasonable expectation that the mainline could be refurbished to extend its life beyond 2055, replacement pipeline built or augmenting of the looping pipeline to become a standalone pipeline. Even with uncertainty on carbon future, the pipeline could be used in a hydrogen or biomethane economy that supports storage capacity for renewable energy.

From a technical standpoint, it is also noted that some pipelines in other international jurisdictions have actual lives in excess of 70 years. Given the DBNGP is built to high Australian standards, there is likely to be residual technical life remaining even after 70 years.

Given the above uncertainty and options for furthering the life of the asset, accelerating the depreciation represents a potential for intergenerational equity transfer. This should be avoided until greater certainty on technology and pipeline use becomes evident.

Bond Rate Reductions

NPK notes that while the Draft Plan uses the ERA's rate of return guidelines as an input to the building blocks, the bond rates have heavily reduced in recent months since the Draft Plan was completed. This would represent a decrease to the overall tariff.

Should you have any queries in relation to the above feedback please email Daniel.Kurz@sscpower.com.au.

Yours sincerely



Daniel Kurz
General Manager – Trading, Commercial & Regulatory