

DBP Customer and Stakeholder Engagement

Shipper Roundtable #10

Wednesday 25 March 2020

Competition and Consumer Act 2010

Australian Gas Infrastructure Group (AGIG) is committed to compliance with the Competition and Consumer Act 2010 (the Act) and seeks to minimise the risk of a breach of the Act arising from its meetings and activities, particularly where participants are competing in the same market are involved

The Act prohibits anti-competitive and restrictive trade practices. Specific prohibitions include:

- Sharing of information in relation to prices and the mechanisms for setting of prices;
- Agreements not to deal with a particular business or class of business;
- Collective negotiations that have an anti-competitive effect; and
- Attempts to influence competitors or supplier or customer behaviour in an anticompetitive behaviour.

Anti-competitive agreements do not need to be in writing. An understanding or arrangement to take or refrain from taking a course of action may be prohibited

Representatives of AGIG and participants taking part in AGIG facilitated meetings must take care not to do anything which may result in a breach of the Act. A breach may lead to financial or criminal penalties for individuals, the organisation they represent or AGIG

The above explanation of the Act is not intended to be exhaustive and legal advice should be sought if uncertain about the obligations imposed by the Act

Compliance at this meeting

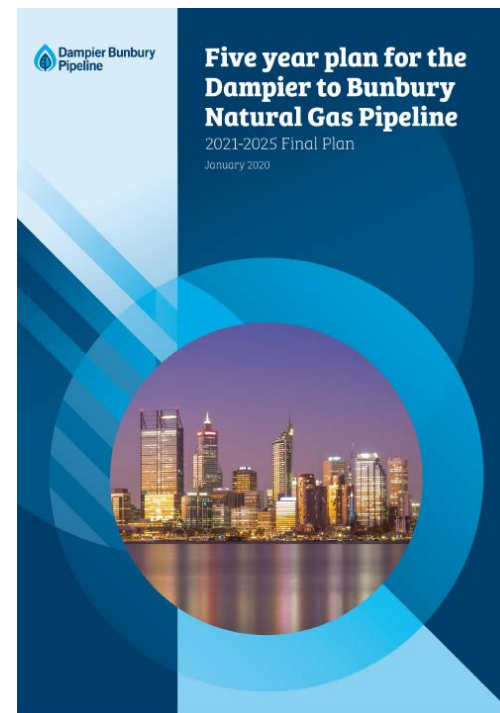
- Participants are reminded that matters discussed at the meeting may be sensitive from a Competition and Consumer Act 2010 compliance perspective. Participants should be mindful of compliance with the Act and seek legal advice should they be unsure whether a practice breaches the Act.

Today | Roundtable Meeting #10

- At Meeting #9 (25 November) we presented our Final Plan proposals
- Since our last meeting:-
 - ✓ We lodged our Final Plan with the ERA on 2 January 2020
 - ✓ We have responded to information requests from the ERA
 - ✓ The ERA released an Issues Paper on 17 March to guide consultation on our Final Plan. Consultation is open until 31 March.

Today's focus:-

- ✓ Business update
- ✓ Q&A in relation to the ERA Issues Paper



Business Update | COVID -19

Maintaining the reliability of the DBNGP and the safety of our staff is of critical importance

We have business contingency plans in place which are continually being monitored:

- Stringent protection measures are in place for control room operations
- Rostering practices and remote working in place wherever possible
- Limiting field staff on sites for critical operation
- Enhanced cleaning practices (more frequent and deeper) in place across all AGIG sites



Business Update | Regulatory modelling

	Final Plan	10 days to 18 March	3 days since 18 March
Risk-free rate	0.96%	0.54%	0.50%
Cost of equity	5.16%	4.74%	4.70%
Cost of debt	3.61%	3.33%	3.27%
Nominal Rate of return	4.31%	3.97%	3.91%
Inflation rate	1.19%	0.61%	-0.11%
Real Rate of return	3.08%	3.33%	4.03%
Full Haul Equivalent tariff	\$1.43	\$1.46	\$1.58

Updated rate of return using data 10 days to 18 March and 3 days post 18 March

- RBA announcement

Movement in market parameters results in increase in price from Final Plan of \$0.03 and \$0.15 respectively

- Real rate of return up by 0.25% and 0.95%, driven by lower inflation expectations (potentially deflation)

ERA Review



ERA Review | Consultation commenced

ERA published our Final Plan 23 January 2020

- Seeking submissions by 31 March
- Published Issues Paper 17 March to help guide consultation

List of questions provided on page 5 of the Issues Paper

- Identified our approach to depreciation and proposed incentive mechanism as notable matters
- Also seeking feedback on our approach to stakeholder engagement

ERA Review | Stakeholder engagement



Our Stakeholder Engagement Program:

- Consultation on our Draft Engagement Strategy 18 months early
- 9 Shipper Roundtables in the development of our plans with high (and increasing) attendance rates
- Roundtables independently facilitated, documented and reported on by KPMG
- Publication of a Draft Plan six months prior to lodging our Final Plan with the ERA
- Reporting all feedback we have received - and how we have responded
- Online engagement via Gas Matters



The ERA is seeking submissions on:

- Whether the AA aligns with stakeholder expectations following the engagement program
- The usefulness of the approach for stakeholders in the development of the AA



Final Plan | Reference Services and T&C's

- Our proposal is to continue with the reference services consistent with current period
 - Full Haul T1 Service
 - Part Haul P1 Service
 - Back Haul B1 Service
- The three reference services and respective terms and conditions are well established and have been subject to a number of regulatory reviews
- Proposed amendments to T&Cs are not substantial in nature and generally look to increase consistency with current contracts and reference services
- Thank you to those who have provided feedback
- Subject to feedback, the ERA supports continuing three reference services consistent with the current period

The ERA is seeking submissions on:

- The appropriateness of keeping the three reference services, as well as further queries in respect of T&C's

ERA Review | Opex and Capex

- Our proposed conforming opex for AA5, conforming capex for AA4 and conforming capex for AA5 were developed consistent with the approaches outlined at earlier Shipper Roundtable meetings
- As also discussed at these meetings, we submitted a number of attachments to our Final Plan to provide further detail and support for our opex and capex proposals
- These attachments outlined the activities and projects proposed, how they aligned with good industry practice and how we had forecast the associated expenditure

Do you have any questions on our public attachments?

7.1 Opex Forecast Model

7.2 Opex Business Cases

7.4 Expenditure Reclassification
Review

8.4 IT Investment Plan 2021-25

8.5 Capex Business Cases

8.6 Capex Forecast Model

8.7 Cost Estimation Methodology

8.9 Procurement Policy

8.10 Purchasing Procedure



The ERA is seeking comment on our proposed conforming opex for AA5, conforming capex for AA4 and conforming capex for AA5 including whether:

- The activities and projects proposed align with good industry practice
- The associated expenditure is reasonable

ERA Review | Asset base

- The shorter economic life proposal is made in the context “of growing affordability of renewable energy sources” and the WA government's target of achieving net zero greenhouse gas emissions by 2050
- Consulted on this point at Shipper roundtables in August, September and November
- The asset re-categorisation proposal is to better align with regulatory and industry practice
- Depreciation not about “increasing revenue” as we can only recover what we have invested, but shifting the timing of recovery
- We are required to continually review the timing of recovery of depreciation
- Our proposal provided detailed information in the form of Attachments 9.1 and 9.2, and a rigorous evidence based forecast of asset lives prepared by ACIL Allen in Attachment 9.3

The ERA is seeking comment on:

- Shorter economic lives for the asset as a whole (\$62 million over AA5)
- Asset re-categorisation (\$132 million over AA5)

Final Plan | Asset Base

41. The practical effect is that DBP is seeking to recover capital faster and reduce its exposure to stranded-asset risk in the event of a decline in the domestic market for natural gas. Submissions are therefore sought as to the reasonableness of DBP's assumptions and potential asset stranding and the proposed shorter economic life.

- Our proposal is not about transferring stranded asset risk to customers, but to recover our investment over its economic life;
- This is a requirement of the regulatory framework, which requires assets to be depreciated over their economic life, for assets to be depreciation once and for the economic life to be continually reviewed and changed where appropriate;
- The regulatory framework also deliberately requires a consideration of long-term price outcomes to avoid making decisions and focussing on current price outcomes;
- Since assets are recovered over their economic life, there is no transfer of risk, but a proposal to ensure we are in a position to provide the services our customers value today into the future
- Consistent with considerations of all business on responding to carbon emission targets

ERA Review | Demand



- As previously advised AGIG's demand forecast prepared with best information available
- **Contracted capacity** – is known, based on long term contracts
- **Throughput (utilisation)** – based on historical information and largely steady on annual average basis
- Due to commercial sensitivities at the individual shipper level - open stakeholder consultation not possible.
- As per shipper feedback, engaged KPMG to review conduct independent review
- Demand forecast is derived from known contractual terms and historical usage information – supplemented with AGIG's engagement with shippers on an individual working level

The ERA is seeking submissions on:

- The effectiveness of stakeholder consultation to build the demand forecast

ERA Review | Revenue and pricing



- Our proposal is for fixed and commodity split of 94/6, reflecting system use gas
- Overrun charges are a behaviour charge not a service
 - Designed to encourage shippers not to under contract what they require
 - Reflect infrequent use of charges and can't be forecast
- If it is passed through
 - Incentive to keep to contracted limits blunted as financial penalty lower
 - Whichever Shipper over runs most will provide greatest benefit to other Shippers by lowering tariffs in the future
- Also note that the dollar amounts for overrun charges are relatively small

The ERA is seeking submissions on:

- The fixed and variable components of the reference tariff
- Whether any revenue from the overrun charge should be considered in calculating reference tariffs

ERA Review | Incentive Mechanism

The proposed E Factor scheme:

- Promotes efficient provision of services by strengthening the incentive to find ongoing opex efficiencies
- Without such a scheme, the incentive to make ongoing efficiencies reduces each year of the regulatory period
- The proposed carryover period is five years consistent with other schemes in place in Australia
 - at a 6.00% real rate of return this equates to a 30/70 share between DBP and customers, at the much lower current real rate of return of
- Our contractual obligations and operating licence conditions provide strong incentives (including financial penalties) to maintain service reliability
- We have made strong commitments in our plan to maintain reliability and customer service and will measure our performance against these targets



The ERA is seeking comment on whether:

- The proposed scheme promotes efficient asset use, investment and service provision
- Efficient service provision can be achieved without the scheme
- The length of carryover and allocation of costs/benefits is reasonable
- There are sufficient mechanisms to ensure service levels do not decline

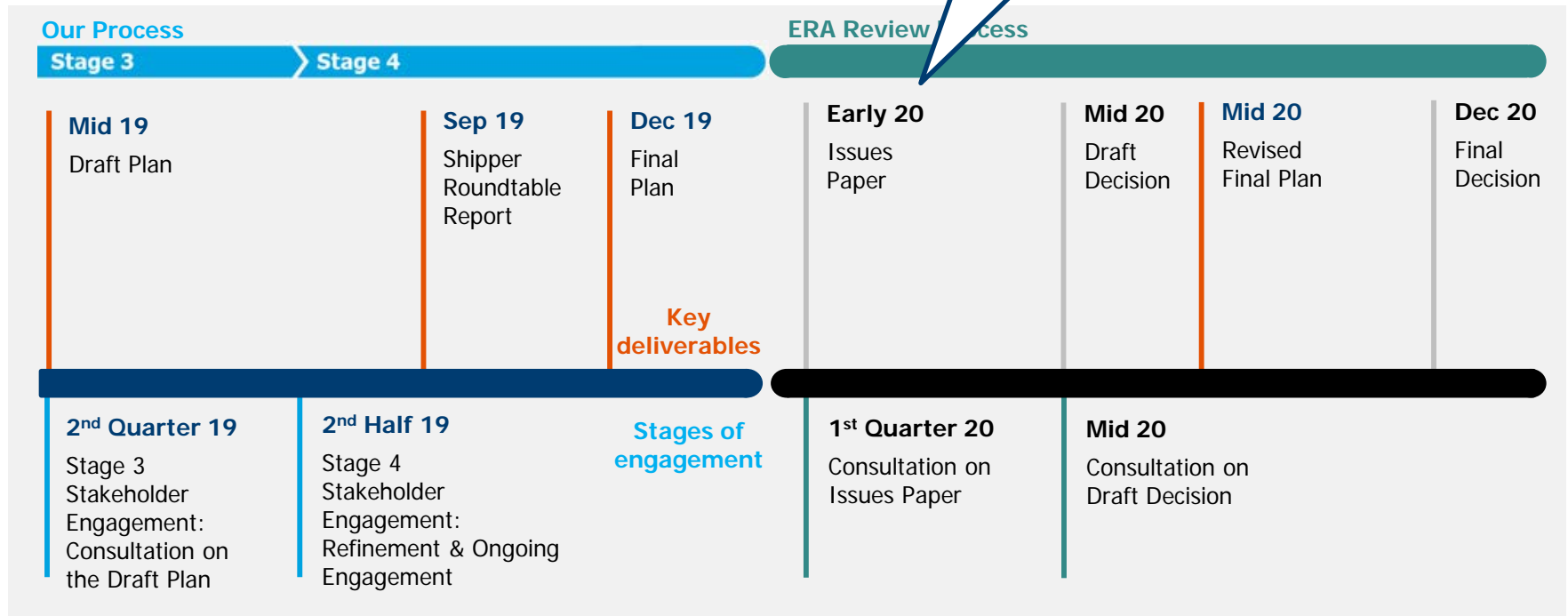
Open Discussion: Q&A

Next Steps and Further Engagement



Final Plan and Next Steps

We are here



Shipper Roundtable | Future engagement



- Future meetings:-
 - Draft Decision (mid 2020)
 - Final Decision (end 2020)

Thanks & close