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ERA Board and CEO
Albert Facey House
469 Wellington Street
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Dear Nicky, Greg, Ray and Jenness,

"DEMAND" – MIXING OF CAPACITY AND THROUGHPUT IN THE ERA'S DRAFT DECISION

This letter conveys our revised Final Plan for the DBNGP 2021-2025 Access Arrangement (AA5) and highlights what is by far the most concerning issue in the ERA's Draft Decision viz the mixing of capacity and throughput forecasts.

Our updated Final Plan submitted to the ERA in May this year proposed an allowed revenue of $1,658 million over AA5. The ERA's Draft Decision proposed an allowed revenue of $1,457 million and efficient costs of around $1,500 million, with the two main differences to our Final Plan being WACC (which is a timing difference only) and depreciation. Our revised Final Plan proposes an allowed revenue of $1,577 million on the latest WACC.

The difference in allowed revenue between the ERA's Draft Decision and our revised Final Plan of around $80 million reflects several issues. We have included 100% of our efficient costs in our allowed revenue (rather than 97% as in the Draft Decision), and we have provided additional and updated information on matters such as depreciation, operating and capital expenditure. We look forward to discussing the reasons for these differences with you.

Turning to what is by far the most important issue in the ERA's Draft Decision: the mixing of capacity and throughput forecasts. The ERA's Draft Decision has ignored the actual re-contracting decisions made by our customers who have reduced full haul contracted capacity to 592TJ/d in 2021, and has instead set reference tariffs based on 2020 levels of contracted capacity of 718TJ/d.

If the ERA's Draft Decision were to stand, it will be impossible for us to recover anything close to our efficient costs for AA5. Applying our actual contracted capacity to the tariffs in the Draft Decision results in revenue of $1,200 million, which is well below the ERA's allowed revenue of $1,457 million. The ERA's Draft Decision in respect of capacity and throughput needs to be reconsidered in light of the information we have provided in response to the Draft Decision.

Our revised Final Plan gives the ERA full visibility. We provide the contracted capacity schedules for all of our Full Haul services and copies of our Peaker Service contracts. Further, our revised plan proposes that 70% of the revenue from four non-reference services is rebateable. This approach will ensure that users of reference services are fairly and adequately compensated for any shared costs of the pipeline. The rebateable services include a new non-reference service (the Ullage Service) being developed to deliver gas from the Perth Basin to the Karratha Gas Plant – expected to commence late in 2023. These changes are consistent with the remarks we made in our recent meeting with the ERA board: we are not seeking to make 'super normal' returns from the DBNGP through non-regulated services. We aim to make our base revenue, and we look to other unregulated projects such as our Tubridgi gas storage project for growth. These services are there because customers need the flexibility they provide.

The ERA's decision to ignore our customers' actual recontracting decisions is extremely surprising and concerning, and is not consistent with the ERA's approach in 2016 for the current access arrangement and for previous access arrangement decisions. Estimating contracted capacity should be straightforward and uncontroversial, as actual contracting decisions by customers are known, and therefore represent the best estimate of our customers' requirements over AA5. The recontracted volumes for AA4 have indeed turned out to be a very good forecast of actual contracted capacity over the period.

The ERA refers to evidence including AEMO's Gas Statement of Opportunities that gas 'demand' is not falling. This reference is concerning as it relates to throughput, which is completely different from contracted capacity and is an 'apples and pears' comparison. Throughput will not drop suddenly on 1 January 2021, but contracted capacity will, because some of our largest shippers are over-contracted today and have taken the opportunity to relinquish capacity as part of their renewed contracts with us. This is an unarguable fact that needs to be considered appropriately by the ERA in making its Final Decision.

We get the sense the ERA may feel we are shifting capacity from reference services to non-reference services in order to earn significant non-reference revenue. However, our evidence to the ERA, including evidence provided by our customers, shows this is not the case. It is simply the case that certain shippers have been over-contracted. Also the ERA has proposed to make the peaker services rebateable. The inclusion of rebateable non-reference services, with a rebate that will increase as non-reference service revenues increase, also provides additional assurance to reference service users, and the ERA, that they are not cross-subsidising users of other services. This is consistent with our intentions above regarding securing our base revenue.

In summary there are some differences between the ERA's Draft Decision and our revised Final Plan which we need to work through. However the ERA's disregard of the relinquishment of capacity by our customers is in a different category – it has no basis in fact, and leaves us very significantly 'underwater' for our ability to recover the revenues the ERA says that we should be able to receive.

Yours sincerely,

[redacted]

John Langoulant
Chairman

[redacted]

Ben Wilson
Chief Executive Officer