

Five year plan for the Dampier to Bunbury Natural Gas Pipeline

2021-2025 Revised Final Plan

October 2020



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Foreword from the CEO

I welcome the opportunity to provide this response to the Draft Decision of the Economic Regulation Authority (ERA) outlining the proposed revisions to the Dampier to Bunbury Natural Gas Pipeline (DBNGP) Access Arrangement (AA) for 2021 to 2026 (AA5).

The Draft Decision presents significant challenges for our business and our operations. Our response aims to provide the ERA with additional and updated information to better reflect the actual circumstances we face, particularly as the Western Australian electricity market undergoes a significant transition towards renewable sources of electricity generation.

Our revised Final Plan makes several important changes to the Draft Decision.

In the Draft Decision, the ERA has set aside our actual full haul contracted capacity in determining the capacity forecast. Our customers have reduced full haul contracted capacity to 592TJ/d in 2021, yet the Draft Decision sets reference tariffs based on 2020 levels of contracted capacity of 718TJ/d.

This decision would make it impossible to recover the revenue the ERA has determined is required to meet our costs. Our revised Final Plan provides the ERA our actual contracted capacity with customers for the 2021 to 2026 period. This information represents the best forecast possible and has been arrived at on a reasonable basis.

The capacity and throughput forecasts also reflect the evolving ways some of our largest customers, specifically electricity generators, use the DBNGP as they require greater flexibility to respond to the increasing penetration of renewable electricity.

The decision to ignore our customers' actual recontracting decisions is extremely surprising and concerning, and is not consistent with the ERA's approach 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 ERA refers to evidence including AEMO's Gas Statement of Opportunities (GSOO) 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 is expected to drop because some of our largest shippers are over-contracted today and are taking the opportunity to relinquish capacity. This is an unarguable fact that needs to be considered appropriately by the ERA in making its Final Decision.

We have also updated our pipeline services and the approach to allocating shared costs. As the use of some non-reference services increases we are proposing that four services be specified as rebateable services. This approach will ensure that users of reference services are fairly and adequately compensated for any shared costs they incur, but only if demand for these rebateable services is not included in calculating reference tariffs.

For the capital base we have implemented, as an interim measure, the ERA's approach on economic lives, which gives rise to an end of economic life of 2063, we also highlighted a pathway forward for consideration of this issue in the long term. We have also modified the approach to asset recategorisation in the Draft Decision to propose an approach which is better aligned to the principles of the NGR.

We also welcome a number of elements of the Draft Decision. The ERA largely accepted our operating expenditure incentive scheme (the E Factor Scheme). This Scheme will help to

incentivise more efficient opex while maintaining service levels for our customers. We are proposing some modifications to the Draft Decision, but welcome the opportunity to improve our performance to deliver for our customers.

Our revised Final Plan includes operating expenditure (opex) of \$441 million, \$20 million lower than the ERA's Draft Decision. The reduction is driven by lower system use gas costs as a result of more accurate throughput forecasts. Our proposals amend the approach taken in the Draft Decision to productivity, GEA and turbine overhauls and labour cost escalation. These changes, which are consistent with those recently taken by the ERA for ATCO and the Goldfields Gas Pipeline, ensure we have sufficient opex to provide reference services throughout AA5.

Capital expenditure (capex) in our revised Final Plan is \$159 million, \$31 million more than the Draft Decision, and consistent with our original Final Plan. The Draft Decision was broadly supportive of our proposed capital expenditure program but proposed some significant deferrals. In the revised Final Plan we have provided further information to demonstrate why a number of these projects should go ahead during AA5. This \$31 million increase over the Draft Decision adds well below \$0.01/GJ to the tariff, but materially reduces the risk of supply interruption from the DBNGP. This is the right cost/risk balance for the pipeline that keeps the lights on in Western Australia.

Overall, our revised Final Plan includes revenue of \$1,577 million—an increase in revenue relative to the Draft Decision of \$122 million. The revised Final Plan is however a reduction of \$96 million relative to the updates to the Final Plan as submitted to the ERA in May 2020 (following changes to our capacity and throughput forecast), largely reflecting the fall in the rate of return from 4.31% to 3.66%.

Our revised Final Plan provides updated information to the ERA that ensures the Final Decision can reflect the long-term interests of our customers while promoting efficient investment in the pipeline. We look forward to continued engagement with all of our stakeholders and the ERA leading into the Final Decision.

Ben Wilson

Chief Executive Officer

Australian Gas Infrastructure Group

2021-2025 Revised Final Plan

Our revised Final Plan provides our response to the Economic Regulation Authority's Draft Decision. It outlines the activities and expenditure we propose to undertake from 2021 to 2025.

Delivering for Western Australia.

Lower revenue and lower costs in comparison to the 2016-2020 period. Maintaining our strong safety, reliability and service performance.

10% ↓
Lower total expenditure

17% ↓

\$336 million cut in revenue means savings for our customers



Delivering for customers

100%

reliability of the DBNGP

0

loss of containment of an energy source

>8 out of 10

customer satisfaction



A good employer



top quartile employee engagement

>98%

mandatory training compliance



further process safety improvements and a continued focus on achieving zero harm



Sustainably cost efficient

\$71 ↓
m

cut in expenditure

2.2% ↓

finance costs down from 5.83% to 3.66%



supports the long term competitive position of DBNGP



Plan Updates

Background

DBP, the owner and operator of the DBNGP, is part of the Australian Gas Infrastructure Group (AGIG), one of the largest gas infrastructure businesses in Australia. The DBNGP is one of the most important pieces of energy infrastructure in Western Australia.

Under the National Gas Law (NGL) and National Gas Rules (NGR), enacted in Western Australia in the *National Gas Access (WA) Act 2009*, we are required to propose revisions to the DBNGP Access Arrangement every five years. On 2 January 2020 we submitted our Final Plan to the Economic Regulation Authority (ERA).

The Final Plan outlined the key activities and expenditure that we intend to undertake and the prices that we propose to charge over the next (2021 to 2025) AA period (AA5). It also highlighted feedback that we received from our customers and stakeholders, including on our Draft Plan.¹

On 14 August 2020 the ERA released its Draft Decision on our Final Plan. This Revised Final Plan is our response to the Draft Decision.

Our Response to the Draft Decision

Table 1 provides an overview of our response to each required amendment in the Draft Decision. It notes whether we accept, modify or reject the amendment in the revised Final Plan. The table also provides a reference to the relevant attachment which explains the reasons behind our approach. A more detailed overview of the ERA's required amendments and our response is included in Attachment 1.5.

As the table shows, we have either accepted or modified many amendments in the Draft Decision. Our key areas of concern relate to the ERA's capacity and throughput forecasts and depreciation.

A document map is available in Attachment 1.3. The Document Map outlines the structure of the original Final Plan, and highlights in green new attachments included in this revised Final Plan.

In some cases, a required amendment in the Draft Decision is the cumulative outcome of several elements of the Draft Decision. As a result, Table 1 and Attachment 1.5 often cross-reference multiple attachments.

¹ We released our Draft Plan for public consultation in May 2019

Table 1: Summary of our response to the ERA's Required Amendments

Final Plan Theme	ERA Amendment	DBP Response	Revised Final Plan Reference
Pipeline and reference services	Amendment 1	Accept	Access Arrangement Document
	Amendment 2	Accept	Access Arrangement Document
	Amendment 3	Reject	Attachment 14.1B
	Amendment 4	Accept	Access Arrangement Document
	Amendment 5	Accept	Access Arrangement Document
	Amendment 6	Accept	Access Arrangement Document
Capacity and throughput forecasts	Amendment 7	Reject	Attachments 11.3-11.7
Revenue and pricing	Amendment 8	Modify	Access Arrangement Document
Operating Expenditure	Amendment 9	Modify	Attachments 7.1A, 7.2A, 7.5 and 7.6 Access Arrangement Document
Capital Expenditure	Amendment 10	Modify	Attachments 8.5A, 8.6A and 8.11 Access Arrangement Document
	Amendment 11	Modify	Attachments 8.5A, 8.6A, 8.11 and 9.6A Access Arrangement Document
Financing Costs	Amendment 12	Accept	Attachment 10.1 Access Arrangement Document

Final Plan Theme	ERA Amendment	DBP Response	Revised Final Plan Reference
Capital Base	Amendment 13	Modify	Attachments 9.6A, 9.7, 9.8, 9.9 and 9.10 Access Arrangement Document
Financing Costs	Amendment 14	Various	Attachment 10.1 Access Arrangement Document
Incentives	Amendment 15	Accept	Attachments 12.1A and 12.3 Access Arrangement Document
	Amendment 16	Modify	Attachments 12.1A and 12.3 Access Arrangement Document
	Amendment 17	Modify	Attachments 12.1A and 12.3 Access Arrangement Document
	Amendment 18	Modify	Attachments 12.1A and 12.3 Access Arrangement Document
	Amendment 19	Accept	Attachments 12.1A and 12.3 Access Arrangement Document
	Amendment 20	Accept	Attachments 12.1A and 12.3 Access Arrangement Document
Revenue and Prices	Amendment 21	Modify	Access Arrangement Document
Pipeline Access	Amendment 22	Accept	Access Arrangement Document
	Amendment 23	Accept	Access Arrangement Document
	Amendment 24	Accept	Access Arrangement Document

Final Plan Theme	ERA Amendment	DBP Response	Revised Final Plan Reference
	Amendment 25	Accept	Attachments 14.1A, 14.2A, 14.3A and 14.4A
	Amendment 26	Accept	Attachments 14.1A, 14.2A, 14.3A and 14.4A
	Amendment 27	Accept	Attachments 14.1A, 14.2A, 14.3A and 14.4A
	Amendment 28	Accept	Attachments 14.1A, 14.2A, 14.3A and 14.4A
	Amendment 29	Accept	Attachments 14.1A, 14.2A, 14.3A and 14.4A
	Amendment 30	Reject	Attachments 14.1A, 14.2A, 14.3A and 14.4A
	Amendment 31	Reject	Attachments 14.1A, 14.2A, 14.3A and 14.4A
	Amendment 32	Modify	Attachments 14.1A, 14.2A, 14.3A and 14.4A
	Amendment 33	Modify	Attachments 14.1A, 14.2A, 14.3A and 14.4A
	Amendment 34	Modify	Attachments 14.1A, 14.2A, 14.3A and 14.4A
	Amendment 35	Accept	Attachments 14.1A, 14.2A, 14.3A and 14.4A
	Amendment 36	Reject	Attachments 14.1A, 14.2A, 14.3A and 14.4A
	Amendment 37	Modify	Attachments 14.1A, 14.2A, 14.3A and 14.4A
	Amendment 38	Modify	Attachments 14.1A, 14.2A, 14.3A and 14.4A
	Amendment 39	Accept	Attachments 14.1A, 14.2A, 14.3A and 14.4A
	Amendment 40	Modify	Attachments 14.1A, 14.2A, 14.3A and 14.4A
	Amendment 41	Accept	Attachments 14.1A, 14.2A, 14.3A and 14.4A
	Amendment 42	Modify	Attachments 14.1A, 14.2A, 14.3A and 14.4A

Final Plan Theme	ERA Amendment	DBP Response	Revised Final Plan Reference
	Amendment 43	Accept	Attachments 14.1A, 14.2A, 14.3A and 14.4A
	Amendment 44	Reject	Attachments 14.1A, 14.2A, 14.3A and 14.4A
	Amendment 45	Reject	Attachments 14.1A, 14.2A, 14.3A and 14.4A
	Amendment 46	Reject	Attachments 14.1A, 14.2A, 14.3A and 14.4A
	Amendment 47	Reject	Attachments 14.1A, 14.2A, 14.3A and 14.4A
	Amendment 48	Accept	Attachment 14.1B Access Arrangement Document
	Amendment 49	Accept	Attachment 14.1B Access Arrangement Document
	Amendment 50	Accept	Attachment 14.1B Access Arrangement Document
	Amendment 51	NA	Attachment 14.1B – Other amendments have made this change unnecessary
	Amendment 52	Accept	Attachment 14.1B Access Arrangement Document
	Amendment 53	Accept	Access Arrangement Document

Note: In this 'traffic light' table, green shading represents the acceptance, orange represents a modification/modifications and red shading represents a rejection.

Our Revised Plan

Our revised Final Plan modifies the ERA's Draft Decision in several important areas. In other areas we have largely accepted the Draft Decision. A brief summary of key areas is outlined below. The Attachments listed here and in the Document Map (Attachment 1.3A) should be reviewed to understand our detailed reasoning. All modifications have been included in the proposed revisions to the Access Arrangement.

- On **capacity and throughput forecasts**, in the Draft Decision the ERA set aside our actual full haul contracted capacity for AA5. This decision would make it impossible to recover the revenue the ERA has determined is required to meet our costs. Our revised Final Plan provides our actual contracted capacity, which is based on the firm commitments of our customers. It also describes electricity market developments and how the use of our services is changing as a result. Finally, we provide further information to demonstrate that our capacity and throughput forecasts are in line with those in the Australian Energy Market Operator's (AEMO's) Gas Statement of Opportunities (GSOO).

The decision to ignore our customers' actual recontracting decisions is extremely surprising and concerning, and is not consistent with the ERA's approach 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.

See Attachments 11.3 – 13.7

- In considering **gas market developments in Western Australia** that might result in a change in direction of the flow of the DBNGP, we have not accepted the ERA's proposed trigger mechanism. We outline proposed alternatives in discussing the access arrangement document and rebateable non-reference services.

See Attachments 6.2 and 14.1B

- In considering the ERA's approach to **total revenue allocation**, we replace the ERA's proposal to use the ratio of reference to non-reference service revenue as a basis for total cost allocation. In place of this methodology we propose four non-reference services that utilise the DBNGP be specified as rebateable services (Peaker Service as per the Draft Decision, Pilbara Service, Other Reserved Service and the proposed Ullage Service). In doing so capacity and throughput for these services should not be included in the tariff calculation. The rebate will ensure reference service users are compensated for any shared costs, by lowering prices in subsequent years.

See Attachment 13.2

- For the **capital base**, we have reconsidered our approach based on the ERA's Draft Decision. This results in the economic life of the DBNGP extending until 2063, given the arguments about future competition underpinning our WOOPS modelling, as this is the year in which we would need to charge negative transport prices to remain competitive with alternatives. While we have implemented the ERA's approach for economic lives for AA5, this approach is likely to alter investment incentives if used in the long term. We therefore support further engagement between the ERA and industry to develop a long-term solution.

In respect of our asset categorisation, our Final Plan and the Draft Decision differ in how to treat existing assets. The approach in the Draft Decision would have resulted in a very slow return of these assets, and inconsistencies whereby older assets otherwise identical to ones invested in post 2021 would be in the RAB decades longer than their newer equivalents. We

therefore propose an approach to address this inconsistency which differs both from our Final Plan and from the ERA's approach.

See Attachment 9.7

- Our **opex** forecast modifies the Draft Decision, with opex of \$441 million over the period, \$20 million less than in the Draft Decision. We have modified the Draft Decision by reducing the productivity factor to zero in line with recent ERA decisions for ATCO and the Goldfields Gas Pipeline. We also reduce the savings factor applied to overhauls as the approach in the Draft Decision would be unsustainable for the maintenance of the pipeline. Labour cost escalation and opex base years have been updated with more recent information. Finally, system Use Gas (SUG) costs are also reduced as a consequence of a lower forecast of throughput in line with our throughput forecast.

See Attachments 7.1A, 7.2A, 7.5, and 7.6

- Our **capex** forecast for AA5 modifies the ERA's Draft Decision, with capex at \$159 million over the period, \$31 million less than in the Draft Decision. Most notably, around half of the proposed deferrals in the Draft Decision have been accepted along with reduced Compressor Station Accommodation costs. Our revised capex does incorporate higher IT investments flowing from the most recent available information.

See Attachments 8.5A, 8.6A and 8.11

- For **financing costs**, consistent with the Final Plan submitted in January, we have applied the ERA's Rate of Return guideline when determining the weighted average cost of capital (WACC).

See Attachments 10.1 and 10.2

- We welcome the ERA's Draft Decision which largely accepts our proposed opex efficiency **incentive scheme** - the E Factor. Our revised Final Plan proposes some modifications to the Draft Decision on this matter to exclude specific fees and levies over which we have no control.

See Attachment 12.3

- Finally, on pipeline access, we have accepted the majority of the ERA's proposed amendments to the terms and conditions, and the Access Arrangement document. In some instances however we have either modified or rejected the ERA's proposed amendments.

See Attachments 14.1A, 14.1B, 14.2A, 14.3A and 14.4A

What we will Deliver

In line with our Vision, our revised Final Plan will enable the DBNGP to deliver for customers, be a good employer and be sustainably cost-efficient.

Table 1 and Figure 1 below summarise the regulatory building blocks, demand and price in our revised Final Plan relative to our initial Final Plan and the Draft Decision.

The revised Final Plan results in a proposed price of \$1.44 per GJ on a full haul equivalent basis (see Table 2). This proposed price is based on actual capacity information and reflects the long-term interests of our customers while promoting efficient investment in the pipeline.

Figure 1: Summary of regulatory building blocks, demand and price in AA5 (\$ Dec 2020)

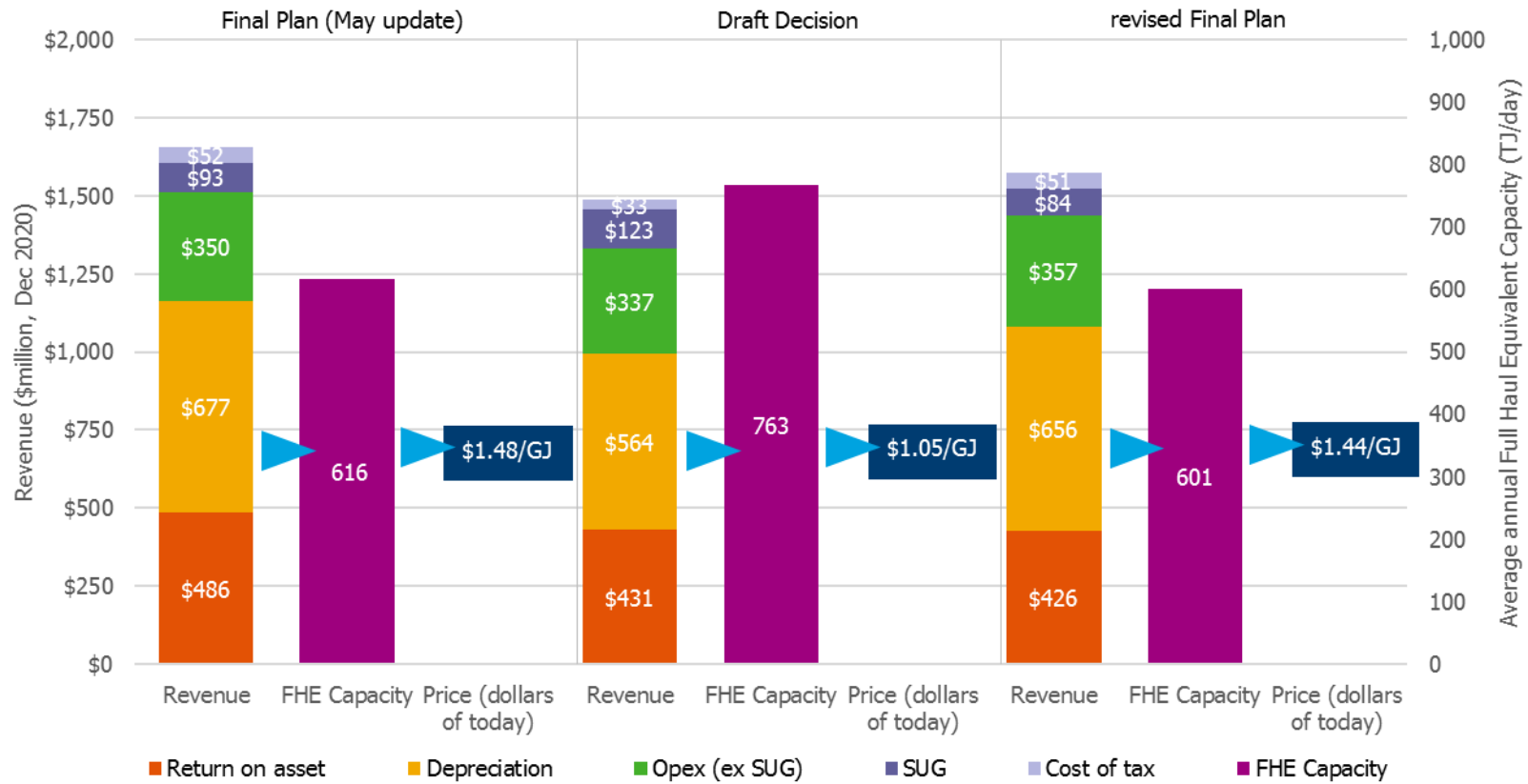


Table 1: Summary of regulatory building blocks, demand and price in AA5 (\$ Dec 2020)

	2021	2022	2023	2024	2025
Return on capital	90.8	87.4	85.2	82.6	80.3
Return of capital (depreciation)	182.4	116.2	118.4	118.6	120.3
Less inflationary gains on RAB (no inflationary gain in real building block)	0.0	0.0	0.0	0.0	0.0
Correction for over-depreciation (no longer applied after AA3)	0.0	0.0	0.0	0.0	0.0
Estimated cost of corporate income tax (net)	21.5	7.4	7.2	7.3	7.3
Operating costs	93.0	91.2	91.6	83.9	81.3
Building block total revenue	387.7	302.2	302.4	292.4	289.2
Smoothed total revenue	333.4	327.5	324.0	297.8	293.8

Table 2: Revised Final Plan proposed tariffs (\$ Dec 2020)

	T1 service (\$/GJ)	P1 & B1 services (\$/GJ/km)
Capacity reservation charge	1.366378	0.000977
Commodity charge	0.077593	0.000055
Total tariff	1.443971	

Next Steps

We will continue to engage with stakeholders on an ongoing basis, including during the remaining review process leading into the ERA's Final Decision. The ERA will also seek stakeholder feedback during its own review process, including following submission of our revised Final Plan. The key dates for the review of our Revised Final Plan are below:

- *4 November 2020* – the ERA seeks stakeholder feedback on the ERA Draft Decision and our Revised Final Plan; and
- *End 2020 / early 2021* – the ERA releases its Final Decision.

We would also welcome receiving any additional feedback on our revised Final Plan directly from our stakeholders at any point in the future. You can provide your feedback online at gasmatters.agig.com.au/.

Structure of this Revised Final Plan

The structure of our revised Final Plan is outlined in Attachment 1.3A. It has been structured to include the following:

- all of the documents provided to the ERA in the January 2020 Final Plan, which is referred to as our Final Plan (for the purposes of brevity and clarity, these documents are not attached to this Revised Final Plan as they have already been provided to the ERA); and
- further documents which provide additional information, or modify the Final Plan, all of which are attachments to our Final Plan.

More specifically, the structure of this revised Final Plan consists of:

- revised preliminaries to the revised Final Plan (this document), which includes a revised Foreword from the CEO, an overview of key areas, and a list of new attachments;
 - the Document Map (Attachment 1.3A) reflects our original submission with the addition of new attachments developed as part of this revised Final Plan (these new documents are highlighted in green);
- attachments to our revised Final Plan:
 - responses to the ERA Draft Decision are set out in attachments to the revised Final Plan and prefaced with the words 'Response to Draft Decision' in the title;
 - all information contained in these attachments supersedes information previously provided in our Final Plan to the extent that there is any conflict; and
- a Revised AA Document (including the Terms and Conditions) dated October 2020.

Unless otherwise stated, information presented in our revised Final Plan is in dollars of December 2020.

Glossary

Glossary			
AA	Access Arrangement	GEA	Gas Engine Alternator
AA4	DBNGP Fourth Access Arrangement (for the period 2016-2020)	GJ	Gigajoule/s
AA5	DBNGP Fifth Access Arrangement (for the period 2021-2025)	NGL	National Gas Law
AER	Australian Energy Regulator	NGR	National Gas Rules
AGIG	Australian Gas Infrastructure Group	opex	Operating Expenditure
capex	Capital Expenditure	PJ	Petajoule/s
DBNGP	Dampier to Bunbury Natural Gas Pipeline (used in reference to the pipeline)	revised Final Plan	This document and its attachments, comprising our response to the ERA's Draft Decision
DBP	Dampier to Bunbury Pipeline (used in reference to the companies which own and operate the pipeline)	SUG	System Use Gas
Draft Decision	The ERA's <i>Draft Decision on proposed revisions to the Dampier Bunbury Pipeline Access Arrangement 2021 to 2026</i>	SWIS	South West Interconnected System
ERA	Economic Regulation Authority	TJ	Terajoule/s
Final Plan	DBP's proposed AA revision for the 2021 to 2026, submitted to the ERA in January 2020		

List of Attachments

- 1.3A Revised Final Plan Document Map
- 1.4A Response to Draft Decision: Confidentiality Claims
- 1.5 Summary of responses to Required Amendments
- 6.2 Response to Draft Decision: Pipeline Services (DC)
- 7.1A Response to Draft Decision: Opex Forecast Model
- 7.2A Addendum to Opex Business Cases (CI)
- 7.5 Response to Draft Decision: Opex
- 7.6 ACIL Allen Consulting Opex Partial Productivity Study.SA Final Plan July 2021 - June 2026, July 2020
- 8.5A Addendum to Capex Businesses Cases (CI)
- 8.6A Response to Draft Decision: Capex Forecast Model (CI)
- 8.11 Response to Draft Decision: Capex (CI)
- 9.7 Response to Draft Decision: Capital Base
- 9.8 Incenta Report: Asset Recategorisation
- 9.9 Incenta Report: economic lives
- 9.10 Asset recategorisation manual
- 10.1 Response to Draft Decision: Financing Costs
- 10.2 Letter from Deloitte Tax Services Pty Ltd (DC)
- 11.3 Response to Draft Decision: Capacity and Throughput Forecasts (CI)
- 11.4 ACIL Allen Report: Gas Demand Review: Dampier to Bunbury Natural Gas Pipeline (CI)
- 11.5 EnergyXL Report (DC)
- 11.6 Statement from Jon Cleary, General Manager Commercial AGIG (DC)
- 11.7 Responses to demand questionnaires (DC)
- 12.1A Response to Draft Decision: Proposed Opex Incentive Scheme Calculation Model (CI)
- 12.3 Response to Draft Decision: Incentives
- 13.1A Response to Draft Decision: Tariff Model (DC)
- 13.2 Response to Draft Decision: Revenue and Pricing (CI)
- 14.1A Revised Final Plan: Proposed Changes to Reference Service Terms and Conditions - Further Information
- 14.1B Revised Final Plan: Proposed Changes to Access Arrangement Document (CI)
- 14.2A Response to Draft Decision: Reference Service Terms and Conditions - Markup T1 Full Haul
- 14.3A Response to Draft Decision: Reference Service Terms and Conditions - Markup P1 Part Haul
- 14.4A Response to Draft Decision: Reference Service Terms and Conditions - Markup B1 Back Haul