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4 November 2020

Mr Tyson Self
Economic Regulation Authority
Level 4, Albert Facey House
490 Wellington St, Perth WA 6000

Via website submission

Dear Tyson,

Dampier to Bunbury Natural Gas Pipeline Access Arrangement 2021–25, Draft Decision and Revised Proposed Access Arrangement

Thank you for the opportunity to provide this response to the ERA's Draft Decision on the Access Arrangement for the Dampier to Bunbury Natural Gas Pipeline for 2021 to 2025 and DBP's subsequent Revised Proposed Access Arrangement.

This response is divided into two sections:

- ❑ our response to the proposed revision to the DBP access arrangement 2021 to 2025, and
- ❑ our response to DBP's Revised Final Plan and related correspondence

Thank you for the opportunity to make this submission.

Yours sincerely

[redacted]

Allan McDougall
GENERAL MANAGER
Gas Trading Australia Pty Ltd

Attached: Submissions to the Draft Decision and Revised Final Plan

Draft Decision on proposed revision to the Dampier to Bunbury Pipeline access arrangement 2021 to 2025

The National Gas Objective is:

"to promote efficient investment in, and efficient operation and use of, natural gas services for the long term interests of consumers of natural gas with respect to price, quality, safety, reliability and security of supply of natural gas."

In gasTrading's view this Objective is the critical measure to which all decision must be made.

Overall, we consider the Draft Decision represents a good balance between the needs of consumers and the pipeline owner. We do have some comments to the Required Amendments in particular to the Trigger Event, Forecasts of Contracted Capacity and Demand and the impact of renewable energy sources on the DBNGP.

We also thank AGIG for good engagement on the Draft Decision and do have some sympathy for AGIG's arguments around forecast Contracted Capacity and Demand.

gasTrading's comments are focussed on the following:
Required Amendment 2,
Required Amendment 3,
Required Amendment 4,
Required Amendment 7,
Required Amendment 13, and
Required Amendment 42.

The following Required Amendments gasTrading has no further comment on and supports the ERA's amendments other than consequential changes from the Amendments above:
1, 5-6, 8-12, 14-41, 43-53.

1. Required Amendment 2 and Required Amendment 4

Advertising of both regulated and non-regulated services, Reference Contracts and Non-reference Contracts

In the interest of an efficient market, and transparency, DBP should be required to make available on its website example contracts for all "common" services. Currently DBP only makes available the Standard Shipper Contract (not the Reference Service Contracts). DBP does not make available the Pilbara Service, Peaking Service, Pipeline Impact Agreement, Inlet Sales Agreement, Data Services, Storage Service or Operational Balancing Agreement.

Whilst we recognise some of these will be bespoke, a standard/template contract should be made available, especially for services like the Reference Service Contracts, the Pilbara Service and Inlet Sales Agreement which are widely used and almost standard amongst shippers.

2. Required Amendment 3

Trigger Event

gasTrading is supportive of the proposed Trigger Event but feels that DBP's proposal to include the "Ullage Service" as a non-reference rebateable service is a superior outcome as it provides Shippers with certainty for the Access Arrangement Period that significant non-reference revenue received by DBP will be considered through the rebate mechanism. Refer further comments on DBP's Revised Access Arrangement.

If the ERA determines a Trigger Event concept should remain in the Final Decision

The Trigger Event should also include the possibility of a production facility ceasing production north of Compressor Station 2 as this could also result in the reversal of physical gas flow. The Trigger event provides an opportunity for the market to understand the changes in physical flow, any impacts to gas quality as a result of the change and then consider the impact to the Access Arrangement and tariff model. It will also allow for the appropriate drafting changes to the Reference Service Terms and Conditions, as "Backhaul" will no longer be dependant on "sufficient forward haul".

In our view changes in the B1 Reference Contract are required at clauses:

- ❑ Definition of Forward Haul (or new definitions of upstream and downstream)
- ❑ 3.2c Capacity Service
- ❑ 14.7 noting that the Shipper will not be relocating but the service may change
- ❑ 17.2f Curtailment

3. Required Amendment 7

Demand and Contracted Capacity

gasTrading had trouble reconciling the data because of the confidentiality claims made, however our engagement with DBP post the Draft Decision has been thorough and we agree with DBP's revised plan with regards to full haul equivalent contracted capacity. We make the following general comments:

Demand (actual gas throughput)

Average Full Haul Demand (actual throughput) has been relatively flat since 2016 and gasTrading expects Full Haul Demand to remain relatively flat over the coming Access Arrangement period. We are yet to see low prices stimulating demand, despite years of continued low spot prices. However, we note that high gas prices, like those on the East Coast, do result in demand destruction.

Average Part Haul Demand has been growing over the 2016-2019 period and gasTrading expects this to continue to grow, especially in response to Perth Basin production, increased mining activity in the Mid-West, Pilbara and on the Goldfields Gas Pipeline.

Average Back Haul Demand has grown over the 2016-2019 period and again we consider this likely to continue to grow, primarily driven by mining demand in the Pilbara and, potentially, some Perth Basin production.

Demand for non-reference Spot capacity and Pilbara services have grown steadily from 2016 and we expect this growth to continue. However, we note that in terms of the Access Arrangement these services have a very small impact on the tariffs as they are relatively low cost or low volume compared to the reference services.

Contracted capacity

On contracted capacity it is very difficult to provide any meaningful insight, as the information is largely confidential.

gasTrading expects that some Full Haul contracts will be converted to Part Haul as Perth Basin gas producers increase supply and so we expect some reduction in Full Haul contracted capacity.

In our view, the forecast of Contracted Capacity needs to be based on (in priority order);

1. Contract commitments in place, plus;
2. Reasonable forecasts of new projects likely to come to market in 2021-2025 that will use gas, less;
3. Reasonable forecasts of relinquishments consistent with existing contractual rights and;
4. Reasonable forecasts of conversion of full haul to part haul contracts consistent with existing contractual rights given the Perth Basin production

DBP's forecasts

We cannot reconcile the approximately 117TJ/d reduction in Contract Full Haul Capacity between 2020 and 2021 because we do not have access to the confidential data, though this should be easily verified by the ERA by viewing existing contracts. The relatively flat forward profile of Full Haul Contracted Capacity would appear conservative at first view but not unreasonable given the current lack of new projects and impact of COVID-19. The shut down of BP Refinery Kwinana is likely to have a number of knock-on impacts which are yet to be known.

The fact that Part haul contracted capacity is flat throughout the period is cause for further investigation. We would expect to see Part haul contracted capacity increase as Waitsia, Beharra and West Erregulla begin production and shippers in the South West should prefer to contract with these suppliers.

Back haul contracted capacity similarly is flat, and we expect to see some growth in demand, not the least from recent announcements from Alinta and FMG for large gas power station investments and significant mining activity on the Goldfields Gas Pipeline. Though Pilbara customers may well be favouring the Pilbara Service instead of Back haul.

4. Required Amendment 13

gasTrading refers our previous submission and restates that we consider it far too early to consider accelerated depreciation in response to climate change.

DBP's proposal concerns us on two fronts:

1. The gas price assumptions used to determine the point at which gas is displaced by alternatives
2. The possibility that gas demand may actually grow in response to Australia's actions to address climate change

gasTrading has already addressed both these points but would like to restate, that the pricing used in the ACIL Allen report bears no resemblance to historical OR current gas prices in Western Australia. DMIRS publishes historical realised gas prices shown below. The Western Australian gas price has been between $4.00 and $4.50/GJ since 2017 (Figure 1). Current spot gas prices in the gasTrading Spot Market™ are averaging below $3/GJ.

Figure 1. Average natural gas prices realised in Western Australia

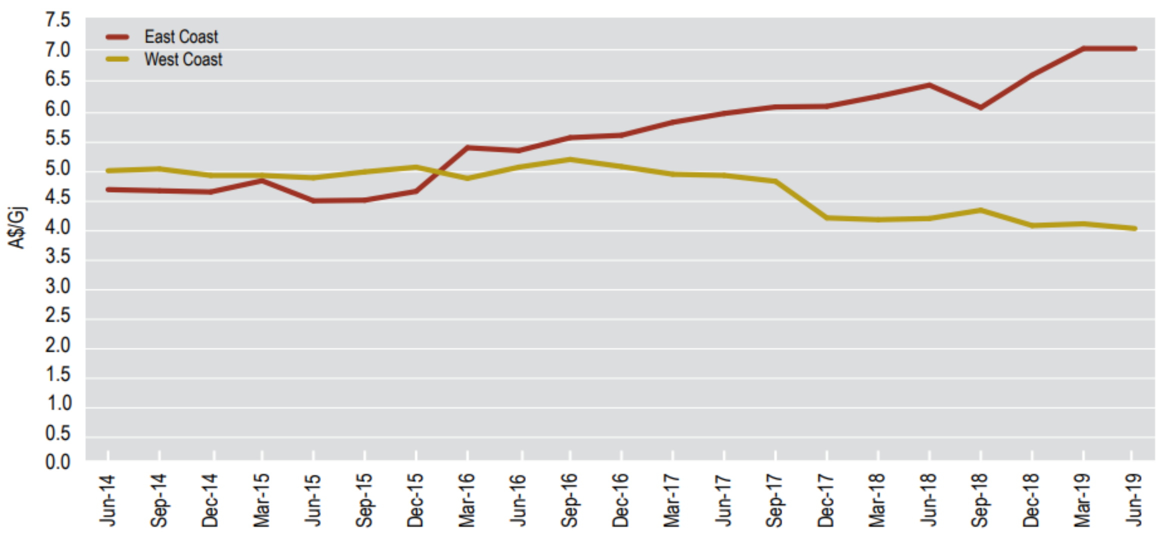


Figure 32 | **Average quarterly natural gas price**
Source: EnergyQuest and DMIRS

ACIL Allen has instead chosen forward prices based on LNG netback pricing, which is less relevant to the Western Australian market given our Domestic Gas Reservation Policy and increasing number of domestic gas focussed projects. ACIL has instead used prices in $2018 that average $6.50/GJ for the LOW price scenario and $8.00/GJ for the Base Scenario. A base case gas price that is nearly **80% higher than current gas prices** is an inappropriate basis for decision making.

This is critical to DBP's argument, as if hydrogen remains uncompetitive against natural gas at $4.50/GJ then the uptake of hydrogen will be significantly slower. Even at a target price for hydrogen of $2/kg, this equates to a price (on an equivalent basis to natural gas) of $14.10/GJ. This is over 3 times the current price of natural gas in WA.

For hydrogen to achieve cost competitiveness with natural gas at $4.50/GJ, using the ACIL Allen model, this would be delayed (even under the most aggressive case) to beyond 2050.

The forecast for gas demand in response to climate change is inherently difficult to predict. However, gasTrading notes that AGIG, the parent of DBP, continues to invest in and promote gas pipelines, such as the proposed Amadeus to Moomba Gas Pipeline. The federal government has a number of initiatives to promote and develop gas to provide firming for renewable energy. Increased electrification, especially electric vehicles, may also drive up demand for electricity, in turn driving up demand for gas.

5. Required Amendment 42

Refer our comments with regards to the Trigger Event in Required Amendment 3.

Dampier to Bunbury Pipeline Revised Final Plan

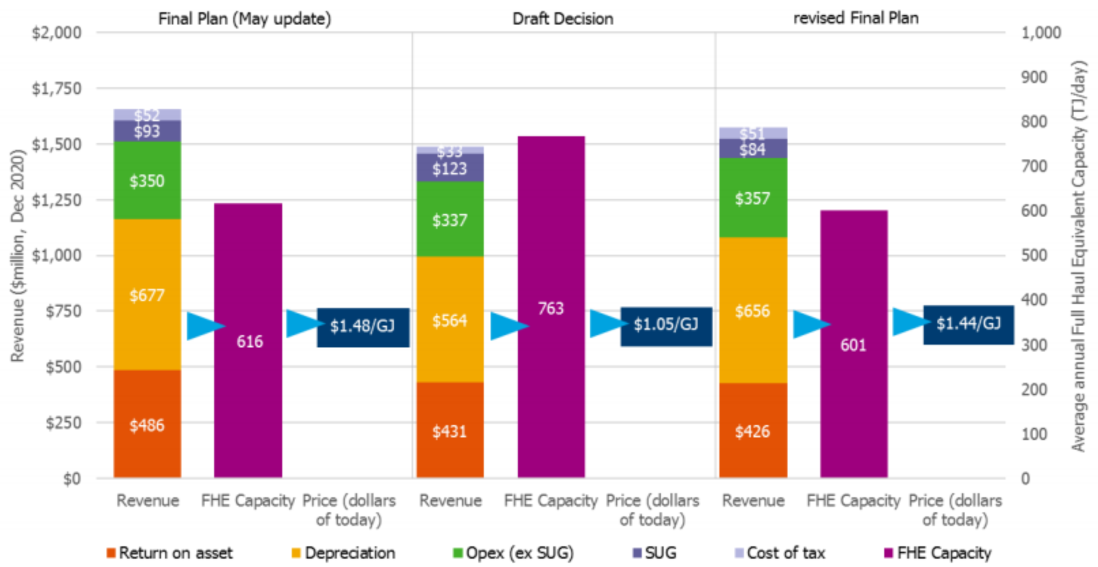
gasTrading Australia's comments are as follows:

6. Five year plan for the Dampier to Bunbury Natural Gas Pipeline 2021-2025 Revised Final Plan dated October 2020

Figure 1 in the Revised Final Plan (below) shows that DBP expect full haul equivalent capacity to fall further from the May update submission. Whilst gasTrading cannot confirm the forecast, the information provided by DBP post the draft decision gives gasTrading confidence that this forecast appears to be in line with customer commitments and so should be given appropriate weight by the ERA.

Figure 2. DBP's Figure 1 from the Revised Final Plan document (p.13)

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



7. Revised Final Plan: Access Arrangement (mark-up) October 2020

Paragraph 3.7 inclusion of Ullage Service.

gasTrading would recommend being less prescriptive in the definition of the Ullage Service. Whilst gasTrading recognises that currently only Waitsia has approval to export onshore gas as LNG, it is not incomprehensible that a similar service be used for other onshore gas reserves or for other LNG export projects. The service is also not a "ullage service" for ullage related to DBNGP. In the interest of robustness and of market clarity, gasTrading would propose to define the service as such:

"LNG Export Service: A service for transport of gas to an LNG export project with specific conditions related to the export of pipeline gas as LNG"

gasTrading agrees the "ullage service" is most likely a non-reference service.

Based on our review of the Reference Service Factors and DBP's own analysis of the Reference Service Factors, gasTrading agrees the service is most likely non-reference. Given the Western Australian Premier's comments regarding the Waitsia Stage 2 Project and the State's Domestic Gas Policy, we are further convinced.

That leaves the treatment of the revenue, and gasTrading agrees that the revenue should be rebated back to Shippers as ultimately, the service is dependent on the covered pipeline. All Shippers should benefit from the increased use of the pipeline. However, there are some costs that can clearly be attributed to the provision of the "ullage service", and these costs should be considered in the rebate methodology applied to the service.

Ullage service implementation impact on Reference Contract terms

The inclusion of the "ullage service" proposed by DBP needs to carefully consider the impact on contractual clauses in other Shipper contracts as gas flow from CS1 to KGP will be **predominantly** north in one or both of the DBP pipelines based on the announcements by Beach Energy[1] and known gas flows north of CS1.

The current definition of Back Haul is:
"Back Haul means a pipeline service where the inlet point for acceptance of gas into the DBNGP from the customer is downstream of the outlet point for delivery of gas to the customer."

In the above definition downstream is not defined, but it could be interpreted to be a point that is "south of the inlet". However, in the case that the "Ullage Service" proceeds, as per gasTrading's previous submission, "downstream" may well be north of the inlet.

To address this the use of the word downstream should be defined as:
Downstream means a point south of the inlet point;
And similarly;
Upstream means a point north of the inlet point.

Where the terms "upstream" and "downstream" (all lower case) are used will refer to actual physical flow. The capitalised terms refers to the contractual concept of back haul and forward haul used for tariff determination,

This addresses the current ambiguity associated with a bidirectional pipeline.

[1] https://www.beachenergy.com.au/wp-content/uploads/2020/08/FY20-Results-and-Outlook-Presentation.pdf

By way of example, the words upstream and downstream of the Back Haul Reference Contract shall need to be capitalised in clauses:
Definitions of:
Forward Haul
Full Haul
Part Haul
Pipeline Zone 1
Pipeline Zone 2
Pipeline Zone 10
Pipeline Zone 10B

Clauses:
3.2c
8.9(f)(ii)
8.16(d)(ii)
14.2(b)(iii)
14.2(c)(i)
14.7(c)

Similar changes are required in the Part Haul and Full Haul Reference Service Contracts

8. Annual Scheduled Variation of Reference Tariffs

Paragraph 18.5 and A5

Whilst DBP's proposal is to rebate the revenue received under the "ullage service" (and other non-reference rebateable services) by lowering the reference tariff in the subsequent year this process makes it difficult for customers to forecast the DBP tariff and the associated gas transport costs. gasTrading accepts that using the rebate mechanism will have winners and losers, but considers that a more appropriate mechanism may be a lump sum refund paid to all shippers based on their deliveries (actual throughput) within a short period after each year (the exact year to be defined) or other shorter reasonable frequency (such as 6 months).

This allows Shippers to forecast DBP tariffs for their own budgeting purposes and separately manage any rebate.

Tax implications may need to be considered of the above, but gasTrading considers it a superior solution as it provides greater certainty for planning purposes.

DBP has also proposed to keep 70% of the rebateable service revenues including the "ullage service", and it is unclear why DBP should only rebate 70%, especially when some costs can be clearly attributed to the service.

With regards to cost allocation (mostly addressed by DBP in Attachment 13.2 but addressed by gasTrading here for convenience), DBP should be able to allocate some of (if not all) the cost of the BEP Lease to the "ullage service" as from DBP's submission it appears that the gas transported under the "ullage service" will be transported up the BEP from MLV7 to Karratha Gas Plant and that no other Shipper or Producer need make use of the BEP capacity.

The BEP Capacity was entered into at a time when it was expected that Karratha Gas Plant will be consistently producing 630TJ/d. This time has passed, and there is no expectation, especially whilst the "ullage service" is in use, that Karratha Gas Plant will produce anywhere near 630TJ/d. Even if it does, the cost can easily be allocated as it will be metered at Karratha Gas Plant. Should, in the future, Karratha Gas Plant increase domestic gas sales then the cost of the BEP capacity can be allocated based on actual volumes between the Reference Service and the "ullage service".

9. Attachment 7.5 Response to Draft Decision on Opex

System Use Gas

DBP has modified its forecast for System Use Gas (SUG) based on lower forecast throughput.

gasTrading considers, that should the "ullage service" proceed, a further reduction in SUG will occur as ~250TJ/d will be injected at Waitsia and not be transported from Pilbara based producers all the way to CS8, therefore significantly reducing SUG consumption in the compressor stations upstream of CS8. This saving in the SUG consumption should be reflected in the forecasts or where the uncertainty is such that a forecast cannot be made, then a mechanism for ensuring that the cost savings of this occurring are passed to Shippers.

10. Attachment 11.3 Response to Draft Decision on Capacity and Throughput

Unfortunately, much of the report is redacted which makes meaningful comments difficult.

Given the amount of redaction we can only rely on the ERA to make a sound decision. We would urge the ERA to also consider what growth in gas use could lead to increased throughput and contracted capacity throughout the 2021-25 period given sustained low gas prices, lower than that ACIL Allen has used for other analysis!

11. Attachment 13.2 Allocation of total revenue

gasTrading notes that in Section 1.3.4 that:

"Finally, usage of the Storage Service is declining with the advent of standalone gas storage facilities in Western Australia. Therefore, any shared costs are likely to decrease to zero in the very near term and do not warrant any further action."

gasTrading is concerned that DBP believes Shippers will not be interested in a storage service on the DBNGP and instead direct Shippers to their related company, DDG to provide storage from Tubridgi. Storage services from the DBP are very different to storage services offered by Tubridgi and an assumption that appears to imply no one is seeking this form of storage is not correct. gasTrading would expect to see DBP continue to actively market and supply Storage Services, not redirect customers to Tubridgi.