

11 March 2024

Tyson Self
Economic Regulation Authority
Level 4, Albert Facey House, 469 Wellington St
Perth, WA, 6000

RE: Reference service proposal for the Dampier to Bunbury Natural gas Pipeline

Dear Mr. Tyson Self,

South32 Worsley Alumina Pty Ltd (**South32 Worsley**) is pleased to respond to the Economic Regulation Authority's (**ERA**) consultation on the reference service proposal for the Dampier to Bunbury Natural Gas Pipeline (**DBNGP**).

South32 Limited (South32) is a globally diversified metals and mining company. We produce commodities including alumina, aluminium, bauxite, copper, lead, manganese, metallurgical coal silver, nickel, and zinc from our operations in Australia, southern Africa and South America. Our strategy includes identifying opportunities to sustainably reshape our business for the future, increasing our exposure to commodities critical to the transition to a low-carbon world. Our Climate Change Action Plan describes the actions we are taking to address the risks and opportunities that climate change presents, including our approach to decarbonising our operations, our goal of net zero greenhouse gas (GHG) emissions by 2050 and our medium-term target to halve operational GHG emissions by 2035 from our FY21 baseline.

South32 Worsley is a joint venture between South32 (86%), Japan Alumina Associates (10%) and Sojitz Alumina Pty Ltd (4%). Bauxite is mined near the town of Boddington, transported via overland conveyor to the refinery and turned into alumina powder before being transported by rail to Bunbury port. A combination of coal, gas and biomass are used to fuel the onsite boilers for steam and electricity generation. Natural gas is drawn through the DBNGP as a direct fuel source to the power station and for use in the alumina process. DBNGP capacity is secured via a full haul (**T1**) Standard Shipper Contract (**SSC**) with DBNGP (WA) Transmission Pty Ltd (**DBP**).

South32 Worsley's response is centred around the proposed reference services for AA6. South32 Worsley notes:

- **The gas market is dynamic** | recent Government inquiries, discussions and media releases suggest a potential change to the existing ban on export from onshore gas assets; and
- **Requirement for ullage services may increase** | should export bans be lifted, an increase in ullage services from the Perth Basin is likely to occur. This could see an increase by up to 15% in pipeline capacity for ullage services;

South32 Worsley recommends the following as part of our response:

- Consideration of ullage service as a reference service **or** using the existing back haul reference service instead of the ullage service; and
- Review of the timeline for the reference service proposal given the changes in market conditions.

South Worsley's response to the ERA's consultation

1. ***Do you consider that DBP can no longer reasonably provide some pipeline services (storage services and data services) approved in the current access arrangement period in the suit of pipeline services that will be offered on the DBNGP for AA6? Similarly, do you agree that some ancillary services (seasonal service, metering and temperature service, and odorization service) should be excluded in the list of pipeline services for AA6? Are there any other pipeline services that you think DBP can reasonably provide on the DBNGP for AA6?***

South32 Worsley has no commentary on this query.

2. Do you agree with DBP's assessment of pipeline services against the reference service factors? In particular, is there current and future demand for some of the pipeline services that were not proposed as reference services? Are there any pipeline services that should be specified as reference services for AA6 and how would you assess these services against the reference service factors?

In the current AA period, the vast majority (~88%) of DBP's pipeline revenues are attributed to T1 full haul, P1 part haul and B1 back haul reference services. Based on this, DBP intends to propose the same three reference services in the next AA period. The reference services were selected due to:

- their high demand and inability to be substituted with other services;
- forming the foundation of the pipeline demand forecast and cost allocation;
- providing prospective users with an aid for use in access negotiations; and
- minimising the cost and regulatory burden.

South32 Worsley agrees with the recommendation to proceed with a reference service for full haul, part haul and back haul.

Ullage Service (Rebateable Non-Reference Service)

However, we challenge the current separation between back haul and Ullage services. The Ullage service is currently a highly bespoke service specific to a single shipper. The basis of this service is due to specific exemptions under the WA Domestic Gas Policy.

While export exemptions are currently limited to one onshore asset, recent Government inquiries, discussions and media releases suggest this could expand to multiple other onshore assets. Should this occur, pipeline capacity and respective revenue associated with Ullage/back haul services will likely increase by up to 15%.

Should there be an increase in Ullage/backflow requirements from the Perth Basin, South32 Worsley recommends consideration of either:

- **The back haul Reference service replacing the Ullage service altogether** | South32 Worsley recognises the back haul reference service is primarily used by Pilbara based gas producers moving gas a relatively short distance (<273km). However, should Perth Basin gas producers start exporting significant quantities from Northern WA, the utilisation of the backhaul service will likely increase and for longer distances; or
- **The Ullage service is made a reference service** | Alternatively, the bespoke Ullage service can be made a reference service for any onshore (Perth Basin) gas producers looking to export. The reference service can be more specific than the backhaul service and address concerns around imbalance limits, gas quality etc.

This ensures:

- Any costs associated with the back haul/Ullage service is correctly allocated and distributed amongst shippers;
- A clear and consistent contract for all users of the back haul/ullage service. This provides visibility and transparency for all shippers on the DBNGP;
- Reduced cost and regulatory burden in negotiating and executing bespoke ullage services if and/or when ullage/back haul transport requirements increase.

Peaker Service (Rebateable Non-Reference Service)

The energy transition is likely to accelerate during the term of AA6, and gas is largely recognised as the fuel to assist in the transition to net-zero. Alongside the challenges of increasing renewable penetration, the electricity grid will become more reliant on gas powered generation for firming.

South32 Worsley recognises that the future behaviour of gas-powered generation could result in greater instability of the pipeline, leading to an increase in Shippers exceeding their Peaking Limits and/or increase in demand for the Peaker Service in AA6. South32 Worsley would like to explore the considerations below:

- DBP expected an increase in the utilisation of the Peaker Service during AA5, how did expectations align with actuals? What were the reasons behind this result? Were Shipper's Peaking Limits monitored and/or enforced across AA5?
- What are the DBP's Peaking Limit and Peaker Service expectations in AA6? Do these expectations consider that the Peaker Service may be more relevant than previous Access Arrangements? Will Peaking Limits be

actively monitored during AA6, and actions taken by DBP, as pipeline throughput will likely experience more variability than previous AA periods?

- The Peaker Service may not be actively sought by Shippers as practically it is easier to seek 'forgiveness' rather than 'permission'. Has the DBP seen Shippers come forward seeking the Peaker Service? Does DBP feel that the availability of the Peaker Service is working in its original intended way? Should Peaking Charges be applied as a standard daily charge similar to Imbalance Charges, removing the need for the Peaker Service?

The responses to the considerations above will assist in determining how suitable the Peaker Service will be to continue as a service in AA6. And if so, does it remain as a non-reference service, or become a reference service in AA6.

Rebateable Non-Reference Services

South32 Worsley would like to take this opportunity to reinforce our initial requests to DBP for more transparency on the process, methodology, mechanisms and calculations of the Rebate Mechanism.

South32 Worsley recommends consideration of:

- An easy-to-access and fully-transparent source library indicating how the revenue from rebateable non-reference services flows into reference service tariff adjustments that applies to all shippers.

3. Do you think you were given sufficient opportunity to provide your views on the draft reference service proposal? Was your feedback adequately considered and addressed in the reference service proposal?

Engagement with DBP on the AA6 has been positive thus far. Initial Shipper Roundtable was conducted 23rd August. The session provided a business overview, AA6 engagement approach, summary of AA5 performance to date and the reference service proposal. Pre-read, supporting documentation and meeting minutes have been shared with sufficient time to digest and provide feedback.

Feedback on the draft reference service proposal was sought by 6th October 2023. Final version of the reference service proposal was then shared on the 8th December 2023. South32 Worsley appreciates the timeline and review period provided. However, note there have been substantial changes in market conditions since the final version of the reference service proposal was circulated. Recent Government inquiries, discussions and media releases suggest a change to the current export ban from onshore gas facilities. Depending on the outcome, this could see significant changes to the utilisation of backhaul/ullage services. South32 Worsley recommends a review of the reference service proposal in light of the new information.

Summary

We hope this letter adequately addresses the ERA's queries. For further information please contact Marten Russell, South32, Energy Manager at [REDACTED]

Regards,

[REDACTED]

Marten Russell

South32, Energy Manager