

Economic Regulation Authority
Level 4, Albert Facey House
469 Wellington Street
Perth
Western Australia 6000

31 March 2025

Re: Wesfarmers Chemicals, Energy & Fertilisers submission on the proposed Dampier to Bunbury Natural Gas Pipeline Access Arrangement 6 (2026-2030).

Dear Sir/Madam,

Wesfarmers Chemicals, Energy and Fertilisers (“WesCEF”) is a division of Wesfarmers Limited. Its subsidiaries, Wesfarmers Energy (Gas Sales) Limited and CSBP Limited, purchase and transport natural gas (approximately 70TJ/d) for the manufacture of LPG, LNG and ammonia and for the on-sale to commercial, industrial, small-to-medium-enterprise and residential customers in WA. Its joint ventures, Australian Gold Reagents Pty Ltd and Covalent Lithium Pty Ltd, also purchase and transport over 10TJ/d of natural gas for their processing operations. WesCEF holds its transportation agreements with the Australian Gas Infrastructure Group (“AGIG”) through the following entities:

- CSBP Limited;
- Wesfarmers Gas Limited; and
- Wesfarmers Energy (Gas Sales) Limited.

WesCEF appreciates the opportunity to comment on the proposed Dampier to Bunbury Natural Gas Pipeline (“DBNGP”) 2026-2030 Access Arrangement (“AA6”). In assessing AA6, WesCEF notes that the Economic Regulation Authority (“ERA”) must apply the provisions of the National Gas Law (“NGL”) and National Gas Rules (“NGR”). In particular, the ERA must:

- Ensure that AA6 is consistent with the National Gas Objective¹ – ie that it promotes “*efficient investment in, and efficient operation and use of, natural gas services for the long term interests*”

¹ Rule 100 National Gas Rules

of consumers of natural gas with respect to:

(a) price, quality, safety, reliability and security of supply of natural gas; and

(b) the achievement of targets set by a participating jurisdiction—

(i) for reducing Australia's greenhouse gas emissions; or

(ii) that are likely to contribute to reducing Australia's greenhouse gas emissions".

- Take into account the revenue and pricing principles when exercising its discretion in approving or making those parts of AA6 relating to a reference tariff²². These principles include that:
 - a reference tariff should allow for a return commensurate with the regulatory and commercial risks involved in providing the reference service to which that tariff relates; and
 - the efficient provision of pipeline services.
- Ensure that the AA6:
 - describes all of the pipeline services that the service provider can reasonably provide on the pipeline, which must be consistent with the ERA's reference service proposal decision under rule 47A, unless there has been a material change in circumstances; and
 - specifies the reference services, which must be consistent with the ERA's reference service proposal decision under rule 47A, unless there has been a material change in circumstances.

WesCEF understands that AGIG needs to achieve adequate returns but in an efficient and cost reflective manner with appropriate risk allocation and WesCEF agrees with AGIG that the energy landscape is changing very quickly in Western Australia.

However, generally, WesCEF believes that natural gas, and therefore natural gas transmission and storage, will have a growing role to play in the long term strategic orientation of the State's energy needs and decarbonisation targets. WesCEF's view is supported on a number of fronts, including the ongoing development of additional gas fields whose gas is to be processed using infrastructure that is already connected to the DBNGP and also recent changes to government policy at both the State and Commonwealth levels, as exemplified by:

- the 2024 revisions to the WA Government's domestic gas reservation policy aimed at promoting the development of new onshore gas fields; and
- the Commonwealth's [Future Gas Strategy](#), also released in 2024, which is underpinned by six principles, including that:
 - gas must remain affordable for Australian users throughout the transition to net zero by 2050; and

²² Section 28(2)(a) NGL

- new sources of gas supply are needed to meet demand during the economy-wide transition, so as to prioritise energy security.

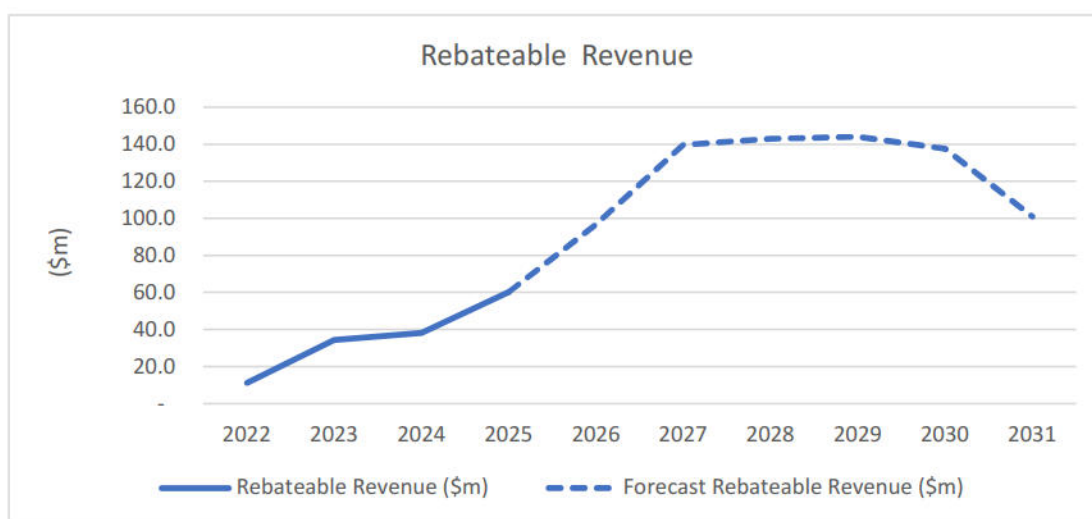
In these circumstances, WesCEF has structured its submission to share its views on the following five key issues raised in the AA6 proposal:

1. The proposal in relation to rebateable services, in particular:
 - a. the services that should be rebateable services and reference services;
 - b. the portion of the total revenue / costs to be allocated to the provision of certain services which AGIG has proposed as rebateable services (rebateable non reference service costs); and
 - c. the proportion of the revenue from the sale of each rebateable service that is to be rebated to reference service shippers.
2. The approach to depreciation, including the amount of deferred depreciation from AA5 to be added in the total revenue allowance.
3. The ratio of the commodity charge and capacity charge components of the reference tariff.
4. The methodology adopted to derive the demand forecasts.
5. Certain components of the forecast capital expenditure.

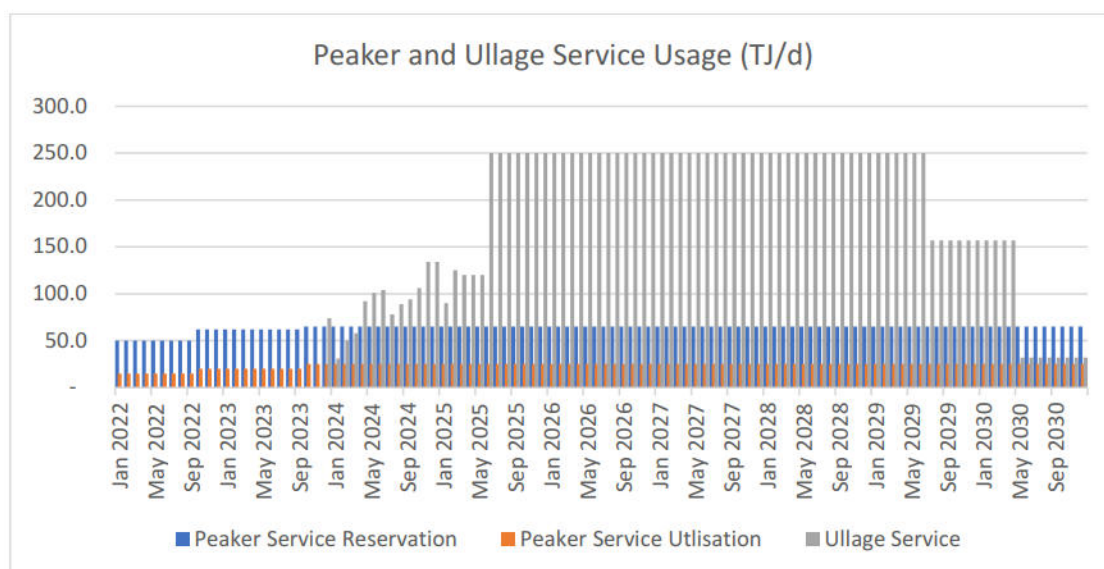
1. Rebateable Services and Reference Services

The amount of revenue derived from the rebateable services, being Spot Capacity, Peaker Service, Ullage (Backflow) Service and Other Reserved Services has increased significantly during the course of the AA5 period and the scale of both the increase and the amount of revenue collected by AGIG from users of these services is only now apparent since the latest Tariff Variation letter - identifying the rebateable revenue at \$60.3 million for 2025, issued by the ERA on 28 November 2025. The chart below shows the scale of the increase in, and the amount of, rebateable revenue and includes a forecast for the rebateable revenue through to 2030³, which peaks at around \$140m then declines as the Waitsia 7.5 million tonne export limit is met (noting that the forecast is based on WesCEF's internal analysis on key assumptions).

³ Rebateable revenue for a year is generated in the period from September (2 years prior) to October (prior year).



AGIG's final plan does not publicly disclose the quantities for all rebateable services, specifically the Peaker Service and Ullage Service which is driving the increase. WesCEF is of the view that it is reasonably likely that demand for both of these services will remain high during AA6 in comparison to AA5, and, in the case of the Ullage Service, will be increasing significantly, as shown in the chart below⁴.



⁴ It is noted that, at paragraph 58 of the ERA's decision on the DBNGP Reference Service Proposal that the ERA considers that pipeline services that are high in demand (or are increasing in demand) meet reference service factor A.

The Peaker Service is aimed at peaking gas fired generators which use it to meet peak electricity demand, particularly where renewable generation is not backed up by other types of firming capacity, such as batteries and coal generation is phased out over the AA6 period. To demonstrate the high level of demand, the level of demand for reservation of the Peaker Service is expected to be higher than the level of demand AGIG has forecast for at least one of its other proposed reference services – the Part Haul Reference Service.

The Ullage service is aimed at Perth Basin producers that have permission to export LNG over the next five years. WesCEF expects that it will primarily be utilised by the Waitsia project to deliver 250TJ/d of gas to the Karratha Gas Plant (KGP), however it could feasibly be used by other Perth Basin projects, increasing the backflow to KGP. The scale of demand for this backflow service should not be overlooked given it represents approximately 40 per cent of the gas flow to Perth.

Using reasonable forecasts of the volumes and pricing for Peaker and Ullage services and holding the other services steady generates rebateable revenues of approximately \$140,000,000 per year. This represents about 30 per cent of the annual reference tariff revenue AGIG has proposed in the first year of AA6⁵, highlighting the significance and scale of the revenue and costs associated with providing these services.

Given this context, WesCEF is of the view that there is not enough information in AGIG's AA6 proposal to support AGIG's proposal in relation to rebateable services and reference services and in fact, the information available suggests that AGIG's proposal in relation to both reference and rebateable services should not be accepted in the Draft Decision.

In this regard, the ERA should investigate the following four issues as part of its deliberations in making its Draft Decision:

- a) Whether two of the proposed rebateable non reference services (ie the Ullage (Backflow) Service and the Peaker Service) should be categorised as reference services. NGR48 requires the AA to specify the reference services, which must be consistent with the ERA's reference service proposal decision under rule 47A, unless there has been a material change in circumstances.

WesCEF is of the view that:

- there has been a material change in circumstances; and
- the change is such that there is a strong case for each of the Ullage Service and the Peaking Service to be made reference services (as opposed to rebateable non reference services).

Material Change in Circumstances

⁵ Based on the figures included in AGIG's public tariff model submitted with its AA6 Proposal

Since the ERA's AA6 reference service proposal decision was made, there have been two relevant changes, each of which, WesCEF believes, are a material change in circumstances for the purposes of NGR47A. The changes are:

- on 19 September 2024, the WA Government announced changes to its domestic gas reservation policy⁶. One of the key changes announced was that, up until 31 December 2030, new onshore gas projects will be able to export up to 20 per cent of its gas production during that period to markets other than the local WA gas market.
- Based on the data outlined in the above graphs, the forecast demand for both the ullage service and the peaking service (particularly the demand for the reservation of the peaking service) is likely to be high for the duration of AA6. And in relation to the Ullage Service, demand is likely to be increasing significantly during AA6.

In the ERA's reference service proposal decision for the DBNGP⁷, the ERA acknowledged that examples of what would be "material changes" were:

- a lift on export bans for domestic gas under the WA Domestic Gas Reservation Policy; and
- a demand for another pipeline service to be specified as an additional reference service.

Given the above evidence demonstrates a material change in circumstances, the ERA is obliged, by NGR48(1) (c), to re-assess whether both these pipeline services (and potentially any other pipeline service) should be reference services for the purposes of AA6.

Reference Services

At paragraph 38 of the ERA's decision on the DBNGP reference service proposal, and consistent with the requirements of NGR48(1)(c), the ERA concluded that if the majority of the reference service factors in NGR47A(15) are satisfied with respect to a service, that service should be classified as a reference service. Paragraph 58 of that decision also concluded that a pipeline service should be a reference service if demand for it is forecast to be high (or is increasing in demand).

WesCEF submits that based on a consideration of the reference service factors as they relate to each of the Ullage Service and the Peaking Service, there is a strong case for the ERA to specify both of them as reference services for AA6:

In relation to the Ullage Service

- As mentioned above, there has been a partial lifting (or relaxation until the end of 2030) of the export ban for new onshore reserves, allowing up to 20 per cent of gas produced during that time to be exported to other markets (including international markets (as LNG)).

⁶ See <https://www.wa.gov.au/government/announcements/domestic-gas-policy-updated-secure-was-energy-future>

⁷ See paras 30 and 69 of the [ERA's decision](#)

- Given that only existing LNG processing plants in WA could be practically be able to be used to process gas from these fields for export within the timeframe of the relaxation period (ie until the end of 2030) and all of them are based in the Pilbara, and the only producers who are practically likely to be able to commercialise gas within this period are the Perth Basin producers, to allow for these domestic producers to take advantage of this change in the Domgas policy, there is a high likelihood that demand for the reservation of this service will remain high during AA6 and there will be an increase in the demand for the Ullage Service during the period. This is relevant to the reference service factor in NGR47(15)(a).
- The ERA's reference service proposal decision decided that the B1 reference service was not substitutable with any other service. As there has been no changes proposed to either the Ullage Service or the B1 Service since that time, it therefore follows that the Ullage Service (Backflow) is not substitutable with the B1 Service. This is relevant to the reference service factor in NGR47(15)(b).
- AGIG argued in its reference service proposal (and the ERA accepted this argument in its decision on the reference service proposal – see paras 47 and 48 of the decision) that it is difficult to allocate costs to that service (along with other non reference services due to variability and temporariness of demand). However, given demand for the ullage service is already high and it is likely to increase and remain high for the duration of AA6, there should be a strong case to argue that costs can be more easily allocated to this service. This is expanded upon below. This is relevant to the reference service factor in NGR47A(15)(c).
- Specifying the Ullage Service as a reference service would be very useful in assisting with access to the service, particularly given the short window for which the export ban has been relaxed (ie until the end of 2030). If producers wanting to export gas have to spend time negotiating access to a pipeline service during this window, their opportunity to maximise exports (and use of gas) in this window diminishes. This is relevant to the reference service factor in NGR47A(15)(d).
- In light of the above, the costs for parties in specifying this service as a reference service would appear to be outweighed by the above benefits of specifying it as such. This is relevant to the reference service factor in NGR47A(15)(e).

In relation to the Peaker Service:

- WesCEF's own forecasts shown above, together with forecasts contained in AEMO's most recent Gas Statement of Opportunities⁸, show that during the entire AA6 period, there is a continuing high demand for gas for gas fired peaking stations, much of which will be transported on the DBNGP under the peaking service. This is relevant to the reference service factor in

⁸ See in particular, figure 4 of the 2024 GSOO, which forecasts that anywhere between 100 and 300TJ/d of gas will be required for gas fired peaking plants during the AA6 period (depending on the season).

NGR47(15)(a).

- The ERA's reference service proposal decision decided that the peaker service was not substitutable with any other service. As there has been no changes proposed to either the Peaker Service or the T1 or Spot Service since that time, it therefore follows that the Peaker Service is not substitutable with any other proposed pipeline service (reference or non reference). This is relevant to the reference service factor in NGR47(15)(b).
- AGIG argued in its reference service proposal (and the ERA accepted this argument in its decision on the reference service proposal – see paras 47 and 48 of the decision) that it is difficult to allocate costs to that service (along with other non reference services due to variability and temporariness of demand). However, given demand for the reservation of the Peaker Service is already high (relative to demand for at least one other reference service proposed by AGIG – the P1 Reference Service - and it is likely to increase and remain significant for the duration of AA6 (as shown in the forecast demand graph earlier in this submission), there should be a strong case to argue that costs can be more easily allocated to this service. This is expanded upon below. This is relevant to the reference service factor in NGR47A(15)(c).
- Specifying the Peaker Service as a reference service would be very useful in assisting with access to the service, particularly given the expected growth in demand for gas fired electricity generation as both a firming capacity and to support the peak intraday demand for electricity during AA6 and beyond. If generators have to spend time negotiating access to a pipeline service during this window, their opportunity to meet the need for the capacity in the SWIS will not be able to be met, which puts at risk the reliability of electricity supply. This is relevant to the reference service factor in NGR47A(15)(d).
- In light of the above, the costs for parties in specifying this service as a reference service would appear to be outweighed by the above benefits of specifying it as such. This is relevant to the reference service factor in NGR47A(15)(e).

Having regard to the above, and consistent with the reasoning of the ERA in its reference service proposal decision, given that these pipeline services:

- are high in demand (and are increasing in demand);
- can have costs allocated;
- cannot be substituted with another service;
- are useful in supporting access negotiations and dispute resolutions; and
- have minimal regulatory costs (relative to the benefits of them being specified as reference services);

they should each be specified as reference services.

- b) These services also do not appear to meet the two requirements for a rebateable service under NGR93(4). The above submissions show that the first of the requirements are not met – these services should not be non-reference services. The evidence of the historical and forecast demand of both the Ullage Service and the reservation of the Peaker Service also demonstrates that the second requirement is not met – ie that there is substantial uncertainty concerning the extent of the demand for the service or of the revenue to be generated from the services.
- c) Regardless of whether the Ullage Service and Peaking Service are classified as reference services or remain as rebateable non reference services, WesCEF is of the view that not enough information has been provided to substantiate AGIG’s proposal concerning the allocation of costs involved in the provision of these services. The information provided by AGIG in the AA6 proposal does not demonstrate that the proposed allocation of costs is compliant with NGR93(2), in particular the requirements that:
- costs directly attributable to reference services are being allocated to those services;
 - costs directly attributable to pipeline services that are not reference services are being allocated to those services; and
 - other costs are being allocated between reference and other services on a basis (which must be consistent with the revenue and pricing principles) determined or approved by the ERA.

WesCEF is of the view that there should be more costs allocated to the provision of these services than AGIG has proposed (whether as reference services or rebateable non-reference services). This is so, particularly because:

- The increase in demand for these services during the AA5 Period, and the forecast further increase in demand during AA6 is such that there is a level of certainty that some of the non-variable operating and capital costs (as opposed to only incremental expenditure such as system use gas expenditure) should be recovered from the provision of these services.
- The allocation of costs to the provision of these services should ensure that the reference service cost base (for AGIG’s proposed suite of reference services) is not wholly or partly subsidising these services and burdening Reference Service users with the cost.
- In relation to the Peaker Service:
 - o it will require substantial line packing by running compressor stations for extended periods before and after peaks. Not only will this lead to the need to incur additional system use gas to run compressor units, the additional starts and running hours for the compressor stations will have a maintenance cost in addition to the fuel gas used which must be appropriately allocated to the Peaker Service.
 - o The ERA should investigate (with the assistance of its expert consultants) the extent to which the items of expenditure forecast to be incurred during AA6 relating to the operation and

maintenance of compressors (particularly those at compressor stations 7-10) are attributable to the provision of the peaker service. Given the forecast decline in demand for the T1 and P1 reference services, it would seem that compressors are less likely than before to be required to provide these reference services. But the increase in demand for the Peaker Service would seem to be the main reason for requiring the use of compressor facilities. As a result, the compression related costs would seem to be directly attributable to the provision of the Peaker Service and should not be allocated to the T1, B1 or P1 reference services, such as:

- The project to replace obsolete compressor unit control systems which are over 15 years old and no longer supported by the manufacturer.
 - The project to replace some of the original accommodation facilities at compressor stations. A portion of these costs should be related to the operation of compressor facilities.
 - Expenditure for GEA/Turbine overhauls (\$32.8m – see Figure 8.3 of the AA6 proposal)
 - The change in assumption in the use of CS10 (from 0.3 to 0.5) in order to determine the amount of SUG required (and therefore the total SUG expenditure allowed seems to be directly related to a change in demand for the Peaker Service given the decline in usage of the T1 reference service (which should require less use of compression as opposed to more compression facilities)
 - It is noted that AGIG has decided to defer its previously proposed compression reduction project. There is a sound case for allocating to the Peaking Service (and the Ullage Service) the expenditure that would otherwise have not been incurred had this project been implemented, particularly given the forecast reduction in demand for the T1 and P1 reference services.
- In relation to the Ullage Service:
- use of this service will be highly beneficial to the efficient operation of the pipeline. Note that the backflow is virtual and no gas physically flows north, reducing the need for gas to flow south from the Carnarvon Basin producers. Injecting 250TJ/d of gas downstream of compressor station 7 will drastically reduce the running hours and fuel gas use for compressor stations 2 to 7 (by approximately 40 per cent, in effect reducing the need to push 40 per cent of the gas through the pipe for 700km). The value of these savings need to be recognised along side the revenue generated for the Ullage Service.
 - The ERA should investigate (with the assistance of its expert consultants) the extent to which the following cost items forecast to be incurred during AA6 should be allocated to the provision of the Ullage Service (whether or not this service is a reference service). The use

of the Ullage Service should be translating into a reduction in the level of compression related expenditure (when compared to the level of these costs from AA5) and, in turn, the portion of the costs that are allocated to the T1 and P1 reference services. However, this is not apparent in AGIG's proposed AA6. These types of costs should be apportioned to the Ullage Service:

- Some of the costs of repairs and maintenance of the compressors and associated facilities, especially those from CS2 to CS7; and
 - At least some of the costs to upgrade the accommodation facilities at these sites.
- In relation to both the Ullage Service and the Peaker Service, it would seem consistent with the following relevant revenue and pricing principles for the above costs and a portion of the corporate operating expenditure to be allocated to these services:
- It would still allow AGIG to be provided with a reasonable opportunity to recover at least the efficient costs it incurs in providing the services
 - AGIG would still be provided with effective incentives in order to promote economic efficiency with respect to reference services AGIG provides;
 - It has regard to the economic costs and risks of the potential for under and over investment by a scheme pipeline service provider in a pipeline with which the service provider provides pipeline services; and
 - It has regard to the economic costs and risks of the potential for under and over utilisation of a pipeline with which a scheme pipeline service provider provides pipeline services.
- d) If the ERA does not accept the above submissions and these services are to remain as rebateable non reference services, the portion of revenue from the sale of these services which is to be retained by AGIG (Non Rebateable Portion) warrants a thorough review for AA6. This is so for a number of reasons:
- AGIG has relied on the reasoning adopted by the ERA in its assessment of the AA5 proposal to justify the Non Rebateable Portion of 30 per cent in its AA6 Proposal. That reasoning focused on the circumstances that applied to the AER's final decision for the Roma to Brisbane Gas Pipeline Access Arrangement (RBPAA). Circumstances have changed significantly since then (as outlined above) and therefore it is not apparent that they are relevant justifications for continuing with a Non Rebateable Portion of 30 per cent for each rebateable service in AA6. The ERA should assess whether the AER's reasoning in the RBPAA is still relevant to the AA6 proposal.
 - While the principles of recovering cost and having an incentive to provide the service are acknowledged, information is not available to determine the costs of providing these services and whether the retention of 30 per cent is appropriate, particularly in the case of the Peaker Service and the Ullage Service.

- There is also a case for having different rebate portions for each specific non reference service, particularly the Ullage Service. This service reduces a substantial amount of operational cost and as such, there is a case for a much lower Non Rebateable Portion.

2. Depreciation

- a) WesCEF notes that AGIG is not proposing to change the standard asset lives (and therefore accelerating even further the depreciation schedule used in the total revenue calculation) in AA6. Nonetheless, there are a number of points to be made in relation to AGIG's proposed approach to depreciation.
- b) It would appear that AGIG's modified approach to determining depreciation in AA6 has not followed and applied the criteria established by the AER in its information paper and used in other access arrangements as the proxy test for allowing earlier depreciation. Consistency in regulatory approaches is important for regulatory and investment certainty. The ERA should therefore investigate whether a change in approach is warranted in this instance. In particular it is not clear why AGIG does not appear to have assessed whether other aspects of the AA6 Proposal warrant a change in approach if there has been an increased risk in asset stranding such as adjusting the approach to maintenance, repair and operation of the pipeline that determines the level of capital and operating expenditure required – instead continuing with a “BAU” approach, notwithstanding the recognition that asset lives are expected to be shorter.
- c) Leaving this issue aside, while it may make sense for AGIG to have changed its modelling approach to determine the depreciation schedule to adopt for AA6 (with the changes described in section 6.6 of AGIG's AA6 Proposal) and to assume that gas remains the more logical and economical source of energy to generate firming capacity in the SWIS, the ERA should investigate the extent to which the significant increase in the level of the reference tariffs being proposed by AGIG in AA6 may undermine the reasonableness of these changes in approach or assumptions. This is particularly relevant given that AGIG's own approach on the future of gas (which drives its approach to depreciation):
 - has focused on the impact of transportation prices over time to assess the likelihood of shippers taking up substitutes other than gas and it has assumed that more gas will be needed for firming power given the AEMO forecasts of increase in electricity demand. AGIG's own analysis shows (see Figure 6.1 of its AA6 Proposal) that demand declines in all circumstances where the price is less than what has been proposed in the AA6 proposal. It therefore follows that the level of the reference tariff proposed for AA6 may act as a catalyst to force shippers to move away from the use of gas earlier than might otherwise be the case; and
 - AGIG's assumed role of gas in providing firming capacity. The proposed increase may drive

changes in investment incentives for firming capacity that causes investors to move away from gas fired firming infrastructure earlier.

- d) WesCEF notes that AGIG does not appear to have considered in its scenario analysis an outlook of WA's energy landscape that could include other prevailing technologies such as the large-scale development of carbon capture and storage capability. This would, in this case, have the effect of significantly altering AGIG's view of the DBNGP's economic life.
- e) Also, given that a significant part of the increase in the reference tariff is attributable to the changes to the market derived parameters in the rate of return calculation and depreciation is a large building block in the setting of the total revenue (and therefore the reference tariffs) – in AA5 it was the second largest building block and in the AA6 proposal, it is the third largest building block – focusing on the depreciation schedule as a tool to reduce price shocks from one AA period to the next is important. This should cause the ERA to particularly focus on the proposal to include the amount of deferred depreciation from AA5 in the first year of the depreciation profile for AA6.
- f) The NGR requires the depreciation schedule to lead to tariffs varying, over time, in a way that promotes efficient growth in the market for reference services⁹. WesCEF has not been able to find any evidence in AGIG's proposal or its supporting submissions to the effect that the retention of the shorter asset lives than occurred in AA4 and the resultant increase in reference tariffs that would occur would result in reference tariffs for the DBNGP being set in a way that promotes the efficient growth in the market for pipeline services during AA6. To the extent that the asset lives being proposed do not reflect the expected economic life of the DBNGP, the resultant reference tariffs are being set at a level that is above the efficient cost for providing reference tariffs in the access arrangement period. It follows therefore that these inefficient tariffs could potentially result in inefficient utilisation, investment and asset management incentives.
- g) Consideration should also be given by the ERA to:
- including a mechanism whereby some of the funds from this earlier recovery of capital are retained for the purposes of ensuring there is funding available to fund future operations, repairs and maintenance and sustaining capex that is needed at a point in time where the service provider may not be incentivised to provide the funding itself;
 - capping the amount of depreciation that does not give rise to an unacceptable price shock; and
 - ensuring the recovery of the depreciation is weighted more so towards the end of the AA6 period to offset the impact of the deferred depreciation amount from AA5. In fact, in relation to the amount of deferred depreciation from AA5, it should be spread out over several AA periods instead of just AA6, particularly given the increase being proposed in the reference tariffs.

⁹ Rule 89(1)(a) NGR

- h) In light of the above, it is not yet apparent that AGIG's proposed depreciation schedule used to determine the total revenue in AA6 would result in a depreciation schedule which meets the depreciation criteria required by the NGR¹⁰ or that complies with the National Gas Objective.

3. Reference Tariff structure

- a) WesCEF notes that AGIG is proposing a change to the ratio of the capacity and commodity components of its reference tariffs for each reference service (from 96:4 in AA5 to 95:5 in AA6). AGIG has explained this change in its AA6 Proposal as a result of the non SUG costs increasing at a faster rate than SUG costs (which are the only costs recovered from the commodity charge for each of the reference services).
- b) However, consistent with the arguments outlined in section 1 of this submission as to the costs that are attributable to rebateable services (or the additional reference services if these submissions are to be accepted by the ERA), there are other costs than SUG costs which are variable costs and which therefore should be recovered through the commodity charge.
- c) WesCEF observes AGIG's assumption that System Usage Gas (SUG) is the only variable cost attributable to the Commodity portion of the tariff. This assertion should be tested including whether or not there are rotating equipment costs, both capex and opex, that are determined as a function of the throughput in the pipeline. WesCEF has identified the following variability in AGIG's costs:
- **Turbine and GEA overhauls:** AGIG notes that these costs are a function of unit run hours and therefore, a function of the throughput in the DBNGP.
 - **Compressor stations:** AGIG notes that these assets are "run based on the requirements of our customers and must be ramped up or down quickly to meet these needs". The ERA had concluded in its technical paper on short run marginal costs in the electricity industry¹¹ that "where output causes a costly deterioration of equipment, wear and tear can be thought of as a productive input, and thus can be described by an input-output curve similar to that of fuel."

WesCEF believes the large deviation between actual and forecasted costs of maintenance of the items listed above highlights the need to reflect this variable cost back to AGIG's customers.

4. Demand Forecasts

- a) WesCEF believes that the information that has been included in the public version of the AA6 proposal by AGIG in support of the demand forecasts makes it difficult for stakeholders like

¹⁰ Rule 89(1)(a)-(c) NGR

¹¹ Portfolio Short Run Marginal Cost of Electricity Supply in Half Hour Trading Intervals Technical Paper Author: Adam McHugh, 11 January 2008.

WesCEF to be able to form an opinion on whether the demand forecasts included in AA6 meet the requirements of the NGR. It is noted that two confidential submissions have been made to the ERA by AGIG to support the demand forecasts. One appears to be a reconciliation of the AA6 throughput forecasts with the forecasts in the AEMO's GSOO. Given the public nature of the GSOO, there would appear to be a strong case for a public version of this submission to be made available.

- b) The public disclosure of information to substantiate the demand forecasts is even more important given that demand forecasts are central to the methodology adopted by AGIG in the setting of the depreciation schedule in its future of gas scenario analysis and in relation to the issue of whether certain services should be rebateable or reference services.
- c) In deriving any forecast to be used in the access arrangement proposal, for it to best meet the relevant requirements under the NGR (in the case of demand forecasts, this is NGR74(2)(b)), regard should be had to a variety of data sets (rather than just one of the data sets) and a transparent methodology for the use of these data sets to establish the set of forecasts. It is not apparent that this has occurred with respect to AGIG's forecasts for AA6.
- d) In relation to the data sets, it is noted that AGIG has:
 - relied on the most recent information predominantly set out in contracts and the recent utilization of their reserved capacity to derive its forecast of demand; and
 - in relation to demand for customers who participate in the electricity generation sector – it has checked against the most recent GSOO forecasts.
- e) It is also not apparent the extent to which AGIG has taken into account recent policy developments and their impact on forecasts (which would not be reflected in the 2024 GSOO), such as:
 - the Commonwealth released its Future Gas Strategy in April 2024. Key principles of this strategy are to ensure there are continued gas field developments out to 2050 together with more flexible gas infrastructure to meet demand and keep the costs down as we transition to net zero. In addition, the government will be promoting the geological storage of CO₂ and continue with the development of regional hydrogen hub programs. This points to the possibility of an ongoing role for gas and the usage of networks for some time which potentially points to a more optimistic forecast than prior to the release of the strategy
 - the WA domestic gas policy was modified in September 2024 which (as noted earlier), will allow for up to 20 per cent of gas produced from new onshore gas reserves to be exported to markets other than the local gas market. This change in policy could facilitate the commercialisation of additional on shore gas reserves, therefore increasing the volume of gas available to be transported on the DBNGP (regardless of whether it is to be sold into the local market or exported, for the reasons outlined earlier in this submission).

f) Specifically, the gaps that WesCEF believe exist with respect to AGIG's demand forecasts are as follows:

- The forecasts for each of the proposed non-reference services that are to be rebateable services. As mentioned in section 1 of this submission, further information should be provided on the forecasts for each rebateable non reference service, particularly given WesCEF's own forecasts. This is reinforced by the requirements in the following rules of the NGR:
 - o NGR 42 – which specifies that an access arrangement information for an access arrangement or an access arrangement proposal must contain information that is reasonably necessary for users and prospective users:
 - to understand the background to the access arrangement or the access arrangement proposal; and
 - to understand the basis and derivation of the various elements of the access arrangement or the access arrangement proposal.
 - o NGR 72(1)(d) - which specifies that the access arrangement information must, to the extent it is practicable to forecast pipeline capacity and utilisation of pipeline capacity over the access arrangement period, contain a forecast of pipeline capacity and utilisation of pipeline capacity over that period and the basis on which the forecast has been derived;
 - We also would support giving greater weight to data sets that are derived from independent sources. This only appears to have occurred with respect to demand forecasts for electricity generation shippers (where AGIG has relied on AEMO forecasts).
- g) As a final point, given the uncertainty associated with demand forecasting and the impact that demand forecasting has on the level of the reference tariffs payable by the consumers, the ERA should consider including either of the following in the AA6:

- A trigger event mechanism to the extent that the actual demand in any year of AA6 is above the approved forecasts by, say, 10 per cent. This is consistent with trigger event mechanisms that the ERA's predecessor adopted for the Parmelia Pipeline access arrangement when there was a significant uncertainty associated with forecast demand.
- A tariff variation mechanism that requires AGIG to revisit its demand forecasts for reference services each year and, to the extent that the updated demand forecasts are above the approved AA6 forecasts for the relevant year by, say, 10 per cent, this will require the reference tariff to be amended.

If the ERA were to agree to this proposal, either (or both) of these mechanisms would only need to be asymmetrical in nature (i.e. they only need to operate if the actual forecasts (or revised forecasts, as the case may be) are higher than the originally approved forecasts) because, if the actual (or revised forecast) demand is lower than the originally approved forecasts, AGIG:

- can voluntarily submit a revised access arrangement at any point in time during AA6; and
- should be financially incentivised to submit a revised access arrangement proposal given the price cap form of regulation that applies under the NGR.

5. Capital Expenditure Forecast

In addition to the points made earlier in this submission concerning the allocation of expenditure to the correct services, WesCEF makes the following submissions in relation to AGIG's forecast capital expenditure in AA6:

- It is noted that the level of capex proposed for AA6 is more than 35 per cent higher than for AA5. In times where a significant increase in the level of the reference tariff is being proposed and where there is increased uncertainty as to the future of gas, the ERA should satisfy itself that:
 - there are no discretionary type items of capex being proposed;
 - all effort has been made to defer (or better stage) capex items until later periods (where there may be more certainty as to the future of gas).
- This is particularly relevant to the following items of capex being proposed in AA6:
 - Replacement of compressor unit control systems (\$16 million)
 - The installation of gas chromatographs at six inlet stations (\$6 million) – the justification for including this item in the capex forecast is also questionable in circumstances where this expenditure is relevant to managing gas quality specification issues. Yet, the position on gas quality liability being proposed by AGIG is such that the risk for liability for out of specification gas is proposed to sit entirely with Shippers.
 - Many of the items included in the digital strategy
 - The accommodation replacement program for two compressor station sites (\$6 million per site)
- The ERA should also investigate whether the expenditure involved in the proposal to install new gas chromatographs at CS1 and CS2 (\$1.5m) should not be fully allocated to the provision of the Pilbara Service given it would appear to be directly benefitting that service only.

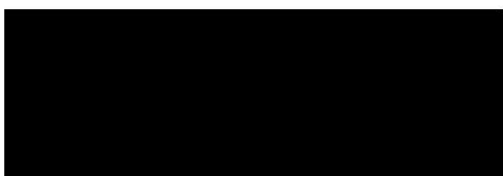
Conclusion

With regard to the stakeholder consultation process, WesCEF found the approach beneficial and commends AGIG's efforts. It is important to note that the comments above have been provided in good faith and reflect WesCEF's broad view on the proposed DBNGP AA6. They are not intended to be used as expert technical advice; but to provide comments for consideration by the ERA in reviewing the proposal.

Finally, WesCEF has commented only on certain issues arising from the ERA Issues Paper, and the absence of a comment on any specific issue should not be taken to indicate that WesCEF supports, or does not support, that particular issue. This is particularly important given that, if the ERA accepts WesCEF's submissions in relation to rebateable services and reference services, consequential changes will need to be made to a number of other aspects of the AA6 Proposal, such as cost allocation and potentially the reference tariff structure.

Should you wish to discuss any points raised in this submission please contact the undersigned.

Yours sincerely,



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