Economic Regulation Authority

Draft decision on revisions to the access arrangement for the Dampier to Bunbury Natural Gas Pipeline (2026 to 2030)

Attachment 6: Depreciation

7 July 2025

D293487

Acknowledgement of Country

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We acknowledge their continuing connection to culture and community, their traditions and stories. We commit to listening, continuously improving our performance and building a brighter future together.

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Note

This attachment forms part of the ERA's draft decision on the proposed revisions to the access arrangement for the Dampier to Bunbury Natural Gas Pipeline. It should be read in conjunction with all other parts of the draft decision, which is comprised of the following document and attachments:

- Draft decision on revisions to the access arrangement for the Dampier to Bunbury Natural Gas Pipeline - Overview, 7 July 2025
  - Attachment 1: Access arrangement and services
  - Attachment 2: Demand
  - Attachment 3: Revenue and tariffs
  - Attachment 4: Regulatory capital base
  - Attachment 5: Operating expenditure
  - Attachment 6: Depreciation (this document)
  - Attachment 7: Return on capital, taxation, incentives
  - Attachment 8: Other access arrangement provisions
  - Attachment 9: Service terms and conditions

Attachment 6. Summary

Depreciation of the capital base is one revenue component of the total revenue "building block" and allows for the recovery of approved capital expenditure over time.

DBP's proposed approach to calculating depreciation for the sixth access arrangement (AA6) includes two parts:

- *Base depreciation allowance*: DBP proposed that the current depreciation approach used in the previous access arrangement (AA5) be maintained. This approach continued the straight-line depreciation of assets, where the pipeline asset classes were subject to an economic asset life cap of 2063. This proposed base allowance was a total of $741.0 million (real 2024) over the AA6 period.
- *Deferred depreciation allowance*: DBP proposed that $81.2 million (real 2024) be included in the first year of AA6 due to the restructure of the regulated asset base in AA5.

The ERA has considered and accepted DBP's approach to calculate base depreciation. DBP has analysed a range of credible scenarios that indicate that the 2063 economic life date is still capable of balancing the risks between DBP and shippers given current information.

Accordingly, we have allowed for a total of $710.5 million (real 2024) for base depreciation over AA6, which varies from DBP's proposed amount due to the ERA's approved capital expenditure levels in this draft decision.

We have not accepted DBP's proposed deferred depreciation approach that front loads deferred depreciation into the first year of the access arrangement. We have accepted the deferred depreciation amount, but we have spread the deferred depreciation over the five years of the access arrangement.

This results in $81 million (real 2024) of deferred depreciation being provided over AA6.

Summary of Required Amendments

Required Amendment 6.1

DBP must amend the regulatory depreciation amounts for 2026 to 2030 to reflect the amounts in Table 6.8 of Draft Decision Attachment 6.

Regulatory requirements

1. The *National Gas Access (WA) Act 2009* implements a modified version of the National Gas Law (NGL) and National Gas Rules (NGR) in Western Australia. The rules referenced in this decision are those that apply in Western Australia.[1]

2. Depreciation on the capital base is one of the components (building blocks) for determining the service provider's total revenue requirement using the "building block" approach, which is required by the NGR.[2] The total revenue requirement is the amount that is needed by the service provider to recover the efficient costs incurred in operating the pipeline (the service provider's cost of service).

3. Rules 88 to 90 set out the following provisions for depreciation:

Depreciation schedule (rule 88):

The depreciation schedule sets out the basis on which the pipeline assets that form the capital base are to be depreciated for the purpose of determining a reference tariff. The schedule may consist of several separate schedules that each relate to a particular asset or class of assets.

Depreciation criteria (rule 89):

The depreciation schedule should be designed:

- So that reference tariffs will vary, over time, in a way that promotes efficient growth in the market for refence services.
- So that each asset or group of assets is depreciated over the economic life of that asset or group of assets.
- To allow, as far as reasonably practicable, for adjustments that reflect changes in the expected economic life of a particular asset or group of assets.
- So that, subject to the rules about capital redundancy, an asset is depreciated only once.
- To allow for the service provider's reasonable needs for cash flow to meet financing, non-capital and other costs.
- Compliance with the depreciation criteria may involve the deferral of a substantial proportion of depreciation, particularly where the present market for pipeline services is immature; the reference tariffs have been calculated on the assumption of significant market growth; and the pipeline has been designed and constructed to accommodate future growth in demand.

Calculation of depreciation for rolling forward the capital base from one access arrangement period to the next (rule 90):

An access arrangement must contain provisions that govern the calculation of depreciation for establishing the opening capital base for the next access arrangement period. These provisions must resolve whether depreciation of the capital base is to be based on forecast or actual capital expenditure.

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1 The current rules that apply in Western Australia are available from the Australian Energy Market Commission: AEMC, 'National Gas Rules (Western Australia)' (online) (accessed July 2025). At the time of this decision, *National Gas Rules – Western Australia version 12 (1 February 2024)* was in effect.

2 NGR, rule 76.

DBP proposal

4. DBP's proposed depreciation approach is presented in Table 6.1 and consists of:

   - *Base deprecation allowance*: Continues the use of straight-line depreciation, which recovers equal annual depreciation payments over an asset's life and maintains the approach to capping asset lives to 2063 which was established in AA5.

   - *Deferred deprecation allowance*: The amount of depreciation that is included in the first year of AA6 due to the restructure of the regulated asset base in AA5.

5. As per the NGR, DBP has detailed the forecast depreciation approach used for calculating the opening capital base for AA7. DBP's proposed depreciation is set out in Table 6.1.

Table 6.1: DBP AA6 proposed regulatory depreciation ($ million December 2024)

	2026	2027	2028	2029	2030	Total
Base depreciation	146.6	148.1	149.2	147.3	149.8	**741.0**
Deferred depreciation	81.2	–	–	–	–	**81.2**
Regulatory depreciation	**227.8**	**148.1**	**149.2**	**147.3**	**149.8**	**822.2**

Source: DBP, Final Plan 2026-2030, January 2025, Table 10.5, p.111.

6. In preparation for AA6, DBP consulted with its shippers in multiple stakeholder forums, along with presenting aspects of the modelling approach for the future of gas to the ERA. A summary of stakeholder feedback and DBP's response is provided in its Final Plan.[3]

7. DBP initially discussed the potential need for accelerated depreciation for AA6. However, DBP's final stakeholder update maintained the 2063 economic life cap from AA5 and included no accelerated depreciation.

8. DBP has calculated the base depreciation with the straight-line approach as set out in Table 6.2.

[3] DBP, *Final Plan 2026-2030*, January 2025, p. 54.

Table 6.2: DBP AA6 proposed base depreciation ($ million December 2024)

	2026	2027	2028	2029	2030	Total
Pipeline	84.9	84.9	84.9	84.9	84.9	**424.6**
Compression	24.9	25.1	25.4	25.6	25.8	**126.8**
Metering	2.4	2.7	3.0	3.1	3.3	**14.4**
Other depreciable	3.3	3.2	2.7	2.6	2.4	**14.2**
Computers and motor vehicles	14.4	15.1	14.9	10.8	12.0	**67.2**
Cathodic/Corrosion protection	5.5	4.5	4.3	4.4	4.6	**23.4**
SCADA , ECI and comms	10.4	11.5	12.4	13.6	14.6	**62.5**
Building	0.1	0.3	0.8	1.1	1.3	**3.5**
Cost of raising equity	0.2	0.3	0.3	0.4	0.4	**1.6**
BEP Lease	0.5	0.5	0.5	0.5	0.5	**2.7**
Base depreciation	**146.6**	**148.1**	**149.2**	**147.3**	**149.8**	**741.0**

Source: DBP, Final Plan 2026-2030, January 2025, Table 10.5, p.111.

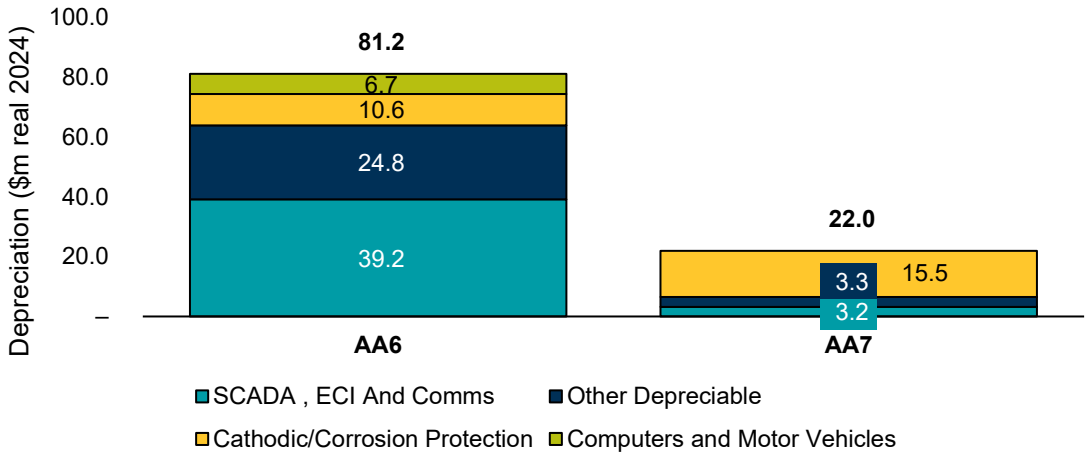
Deferred depreciation

9. As indicated in Table 6.1, DBP's proposed depreciation amount for 2026 is around 54 per cent higher than every other AA6 year (2027 to 2030) due to deferred depreciation arrangements from AA5. This deferred depreciation resulted from asset re-categorisation that occurred in AA5, where existing assets were reclassified into new asset categories that were more representative of their asset life than their pre-AA5 categories.[4]

10. DBP has proposed that the remaining deferred depreciation be provided for in a transition profile illustrated by Figure 6.1, where full recovery occurs in the first year of the access arrangement period.

[4] For example, DBP previously classified computers and motor vehicles into the "Other" asset category, where the AA5 re-categorisation moved this to the new category of "Computers and motor vehicles".

Figure 6.1: Recovery profile for deferred depreciation from AA5 ($m real December 2024)



Note: SCADA, ECI and Comms refers to Supervisory Control & Data Acquisition, Electrical, Control & Instrumentation and Communications assets.

Source: ERA analysis of DBP, Final Plan 2026-2030, January 2025, Tariff Model.

Updated modelling approach on the future of gas

11. To support the continuation of an economic life cap of 2063, DBP and its consultants (CarbonTP) modelled future scenarios for demand, revenues, depreciation and prices in an environment of future uncertainty. DBP concluded that the current AA5 approach of an economic life cap of 2063 was sufficient to avoid price shocks and provides an appropriate balance of risk between itself and its shippers.

12. DBP's AA5 proposal was based on an approach that analysed the competitiveness of gas compared with alternatives under a modified Window of Opportunities Past model. This identified a point in time where gas might be uncompetitive post 2060. The ERA's AA5 final decision accordingly applied an economic life cap of 2063.

13. For AA6, DBP has reviewed and updated its modelling approach to model its major shipper segments in a more granular way, while considering the requirements of the wider energy system. Modelling was performed to understand demand, revenue, depreciation and prices across multiple scenarios. DBP stated that its guiding principle for the future of gas was to estimate the appropriate amount of depreciation that results in an expected price path that does not result in price shocks and has a constant relationship to the price of gas substitutes.[5]

14. DBP concluded that the continuation of the AA5 approach of using the 2063 economic life date was still appropriate for AA6, resulting in the economic lives remaining unchanged as set up in Table 6.3.

[5] DBP, *Final Plan 2026-2030, Attachment 6.1: Future of Gas Rationale and Modelling*, January 2025, p.16.

Table 6.3: DBP AA6 proposed asset lives (years)

Asset categories	AA5	AA6 proposal
Pipeline	Capped at 2063	Capped at 2063
Compression	30	30
Metering	30	30
Other depreciable	10	10
Computers and motor vehicles	5	5
Cathodic/Corrosion protection	15	15
SCADA, ECI and comms	10	10
Building	50	50
Cost of raising equity	38	38

Source: ERA analysis of DBP, Final Plan 2026-2030, January 2025, Tariff Model.

Submissions

15. Submissions from Alinta Energy, Horizon Power, NewGen Power Kwinana and Wesfarmers Chemicals, Energy and Fertilisers (WesCEF) addressed DBP's future of gas and deferred depreciation approaches.

    - Alinta supported retaining the 2063 economic life case to provide certainty. NewGen also supported retaining the current economic life as forecasting the energy transition was a "fraught exercise".[6, 7]

    - Horizon Power did not support the approach, noting the potential slowdown of the energy transition due to policy changes in the United States.[8]

16. WesCEF stated that the ERA should: [9]

    - Apply the approaches developed by the Australian Energy Regulator for future of gas proposals.

    - Consider the consistency of the future of gas approach with other components of DPB's AA6 proposal.

    - Consider various other mechanisms such as fund retention and capping depreciation to avoid unacceptable price shocks.

17. Most submissions did not support DBP's approach of recovering deferred depreciation in the first AA6 year:

    - WesCEF requested that the ERA consider how the depreciation schedule can be used to reduce price shocks from one access arrangement to another, where the deferred amount for the first AA6 year could be spread towards the end of the AA6 period (if not across several AA periods).[10]

    - NewGen stated that the approach of recovering deferred depreciation in the first year be rejected as it materially contributed to one-off price shocks, was avoidable and recovery across multiple AA periods was reasonable.[11]

    - Horizon Power requested that the ERA ensure that DBP's proposed AA6 revenue is reasonable in light of material tariff increases.

18. Alinta disagreed with other submissions, stating that the "depreciation glide path" was determined in AA5 and certainty would be undermined if it were to be changed in AA6.[12]

19. Details of the matters raised in submissions are discussed as part of the ERA's draft decision considerations.

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6 Alinta Energy, *Submission in response to DBP proposal and/or ERA issues paper*, 1 April 2025.

7 NewGen Power, *Submission in response to DBP proposal and/or ERA issues paper*, 31 March 2025.

8 Horizon Power, *Submission in response to DBP proposal and/or ERA issues paper*, 26 March 2025.

9 Wesfarmers Chemicals, Energy & Fertilisers, *Submission in response to DBP proposal and/or ERA issues paper*, 31 March 2025.

10 Wesfarmers Chemicals, Energy & Fertilisers, *Submission in response to DBP proposal and/or ERA issues paper*, 31 March 2025.

11 NewGen Power, *Submission in response to DBP proposal and/or ERA issues paper*, 31 March 2025.

12 Alinta Energy, *Submission in response to DBP proposal and/or ERA issues paper*, 1 April 2025.

Draft decision

20. Regulatory depreciation is one revenue component ("building block") of total revenue allowed under the national gas framework. Regulatory depreciation accounts for the recovery of previously approved capital expenditure that has been incorporated into the regulatory asset base.

Depreciation arrangements arising from the AA5 final decision

Deferred depreciation arrangements

21. Deferred depreciation results from the asset re-categorisation that occurred in AA5, where existing assets were reclassified into new asset categories that were more representative of their asset life than their pre-AA5 categories.[13]

22. The full recognition of that depreciation from asset re-categorisation during AA5 would have adversely affected tariffs. Therefore, in the AA5 final decision the ERA determined the deferral of under-depreciated assets to future access arrangements.[14]

Asset life cap of 2063

23. AA5 introduced an economic life cap of 2063 for all DBP assets except for buildings.

24. Prior to AA5, the regulatory lives of DBP's pipeline assets had meant that new pipeline assets (with 70-year economic lives) undertaken in AA5 would only be fully recovered in 2091; while existing pipeline assets associated with major expansions would be fully depreciated between 2077 and 2081.[15]

25. DBP proposed an economic life cap due to a possible diminishing market for gas transmission due to technological and policy change which resulted in uncertainty for the future of gas. The economic life need not match the technical life of the asset – a pipeline that is technically sound may have no economic worth if there is no demand for its services at a price that covers its operating costs, or if the upstream supply of gas is no longer available.

26. The AA5 final decision accepted that DBP had established that the expected economic life of the DBNGP would decline such that its economic life would be less than its technical life. The ERA considered that adjustment of depreciation schedules based on a capped economic life of 2063 was consistent with the requirements of the regulatory framework. Given uncertainties, the range of potential economic lives of the DBNGP was wide, and DBP's proposed economic end life of 2063 sat within a range of plausible outcomes.[16]

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13 For example, DBP previously classified computers and motor vehicles into the "Other" asset category, where the AA5 re-categorisation moved this to the new category of "Computers and motor vehicles".

14 ERA, *Final decision on proposed revisions to the Dampier to Bunbury Natural gas Pipeline access arrangement 2021 to 2025*, 1 April 2021, pp. 339, 342.

15 ERA, *Final decision on proposed revisions to the Dampier to Bunbury Natural gas Pipeline access arrangement 2021 to 2025*, 1 April 2021, p. 339.

16 ERA, *Final decision on proposed revisions to the Dampier to Bunbury Natural gas Pipeline access arrangement 2021 to 2025*, 1 April 2021, pp. 350 - 357.

Changes since the AA5 final decision

27. The policy environment has evolved significantly since the ERA's AA5 final decision in April 2021 with Australia's adoption of net zero targets across various jurisdictions. The Commonwealth Government has established a 2030 target to reduce emissions by 43 per cent below 2005 levels and for net zero emissions by 2050.[17] The Commonwealth has also released the Future Gas Strategy, which were based on emissions policies.[18] Notably, the DBNGP and many of its shippers are subject to the Safeguard Mechanism. The Safeguard Mechanism places obligations on liable parties to reduce carbon emissions on a path to net zero by 2050.

28. To achieve net zero by 2050 the Western Australian Government released the Sectoral Emissions Strategy that outlines the transition plan with a significant expected decline in natural gas usage.[19]

DBP's future of gas analysis

29. For AA6, DBP has reviewed and updated its approach which uses more granular modelling of major shipper segments in addition to the requirements of the wider energy system. DBP has also modelled gas demand using three new scenarios that it developed with its consultant as described in Table 6.4. Further information regarding the scenarios is presented in DBP's Final Plan: Attachment 6.2.

Table 6.4: DBP AA6 future of gas modelling scenarios

	Base	Medium	Accelerated
Growth of renewables to 2049 (% per year)	6.5	7.2	7.6
2050 percentage of electricity generated by renewables for SWIS (%)	70	80	90
Percentage of electricity generated by gas for SWIS	30	20	10
Domestic Gas Policy outcome	Success	Partial success	Failure
Gas price mean value	Low ($5/GJ)	BAU ($9/GJ)	LNG netback ($13+/GJ)

Source: ERA analysis of DBP Final Plan Attachment 6.1 (page 17) and Attachment 6.2.

30. DBP has adopted a granular approach in modelling future individual shipper demand in key industries, which were judged to be alumina refining, chemicals and gas processing. The general modelling logic is that each shipper has some technology available to move away from gas, which depends on the technology's technical and commercial viability. DBP intends that at each access arrangement period, the technology will be tested for adoption. For example, for DBP's largest shipper customer segment, alumina, the adoption of mechanical vapour recompression for the electrification of alumina would have a significant effect on the demand for gas should it be deployed.

17 AEMC, *Emissions targets statement under the national energy laws*, June 2024.

18 Australian Government, *Future Gas Strategy*, May 2024.

19 WA Government, *Sectoral emissions reduction strategy for Western Australia*, December 2023.

31. For the gas-powered generation estimates, DBP has relied upon on an external model called GridCog that simulates electricity system dynamics to determine gas demand exclusive of the demand modelled from shippers in the Southwest Interconnected System (SWIS). Details regarding the operation of this model is provided in DBP's Final Plan: Attachment 6.2. The remaining shipper load due to gas powered generation is estimated by DBP.

32. Additionally, DBP analysed the use of both changing economic lives and applying a tilt to vary depreciation profiles.[20] DBP analysed how these two methods could be used separately or together in calculating depreciation payments to see how consistent the methods were with DBP's new proposed depreciation goal.

33. DBP then combines these models to estimate:[21]

- Future shipper demand based on their alternatives to gas and operational activities in the presence of a carbon price.
- The price impact of reducing demand of one shipper on remaining shippers.
- Possible depreciation pathways that could avoid price shocks for remaining shippers due to the above.

Long run demand

34. DBP estimated long run gas demand for both capacity and throughput under the three scenarios, where the resulting long-term forecasts are presented in Figure 6.2 (below).[22] DBP's modelling includes numerous parameters that can vary demand, but ERA analysis indicates that most of the variation in DBP's modelled demand is driven by the choice of scenario and whether alumina production is assumed to continue.

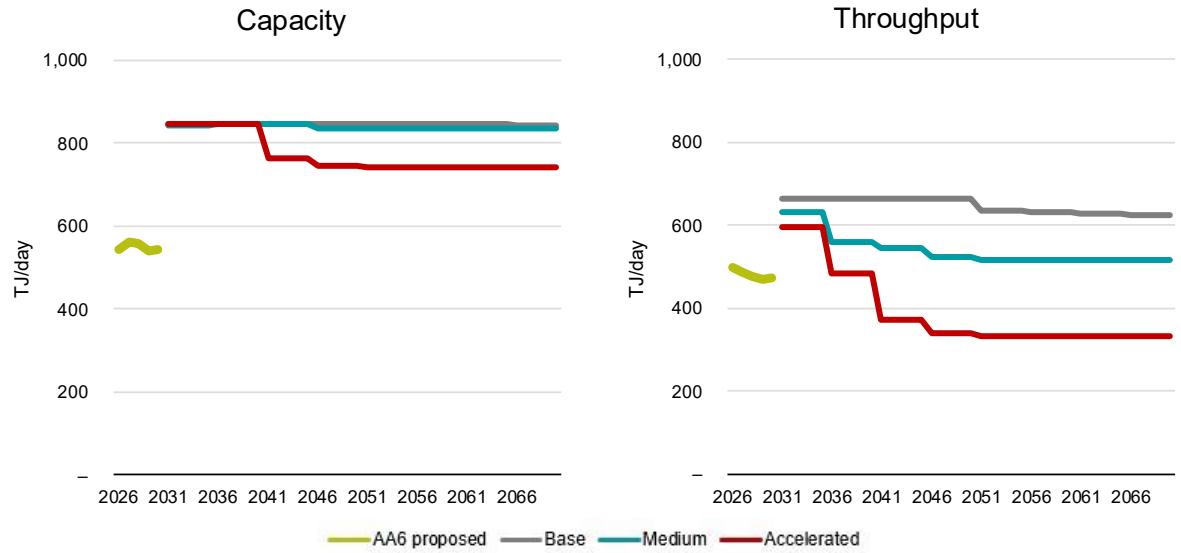
35. It is important to note that DBP's assumptions, including the further development of renewables and storage and the decarbonisation of alumina, remain constant post 2050. Therefore, DBP's forecast long term demand remains constant in the backend of the modelled period.

[20] A tilt is used to provide for a depreciation payment profile that may be accelerated. For example, a 2 per cent tilt results in payments that decrease by 2 per cent a year, which is accomplished by increasing initial payments such that it can decline by the tilt factor and ensure all capital is recovered by the end of the economic life.

[21] DBP, *Final Plan 2026-2030*, January 2025, p. 53.

[22] The effect of the alumna decarbonisation is not presented in Figure 6.2.

Figure 6.2: Forecast DBNGP capacity and throughput (TJ/day)



Source: ERA analysis of DBP's Final Plan Attachment 6.3 and Attachment 14.1.

Note: The different lines represent the three different scenarios along with the AA6 proposal. Assumes that alumina production continues in the modelled period.

36. DBP's proposal estimates that current shipper demand (which is further considered in Draft Decision Attachment 2) is expected to decrease for both capacity and throughput. However, DBP's analysis also indicates that under all scenarios, forecast demand and throughput for AA7 is higher than the current AA6 proposal due to gas powered generation. Beyond AA7, the forecasted demand continues due to gas-powered generation expectations for the base and medium scenarios. The accelerated scenario expects that gas demand due to gas powered generation increases capacity but decreases throughput. It is noted that the results for gas powered generation come from the external GridCog model, where only the outputs were made available to the ERA.

37. DBP's expectations for gas powered generation were informed by advice from consultant CarbonTP. CarbonTP considered that the role of the DBNGP would change over time driven by policy and market factors, but the pipeline would be an integral part of the Western Australian energy transition by providing fuel for gas-powered generators in the SWIS. Initially, the retirement of coal from the SWIS will create baseload demand for gas, before progressively returning to a peaking service to assist with the management of renewable intermittency. Further, electrification of industry will also change the demand for gas. Similarly, the size and speed of future renewable energy and storage development will affect the level of both long-term capacity and throughput requirements of gas generation.

Long run tariffs

38. Conceptually, DBP's forecast tariff is determined by estimates of long run demand and cost of service. DBP applied the long run demand from each scenario as described above to its estimate of long run cost of service to provide forecast tariffs to assess against its stated criterion of avoiding price shocks. The long run cost of service estimate includes the depreciation component that applies DBP's selected depreciation profile. DBP's modelling results in the forecast tariff profiles are shown in Figure 6.3.

Figure 6.3: Forecast tariffs by scenarios ($/GJ real Dec 2024)

Source: ERA analysis of DBP's Final Plan Attachment 6.3 and Attachment 14.1.

Note: Base, Medium and Accelerated refer to the scenarios proposed by DBP. Alumina On refers to the scenario where alumina production occurs over the modelled period. Carbon prices are either from Reputex or the AER's VER estimates. The selected depreciation profile maintains the asset life cap of 2063 from AA5. Forecast tariffs are stated in effective terms that scales the capacity reservation charge by the ratio of capacity reservation to commodity demand, which is added to the commodity component.

39. Figure 6.3 demonstrates that maintaining the depreciation approach of capping asset lives at 2063 avoids future price shocks for all scenarios when alumina production is assumed to continue. Further, the approach is also capable of resulting in decreasing future tariffs for the base and medium scenarios. These forecast prices are below that of the AA6 proposal, which is driven by higher gas demand due to gas powered generation and lower capital payments. However, this is not the case for the accelerated scenario where prices are more volatile, initially decreasing from AA6 proposed levels before rising and falling.

40. DBP has also analysed a scenario where alumina production ceases during the modelled period (the orange lines in Figure 6.3). It should be noted that DBP's consultant did not see sufficient evidence for the cessation of alumina prior to 2050, but DBP maintains that a loss of social licence could occur nonetheless.[23] Alumina production is a material assumption that affects both capacity and throughput. If alumina production ceases (whether from curtailment or electrification), a tariff shock would be experienced across all scenarios, with the shock being greater for the medium and accelerated scenarios.

41. However, capping asset lives allows for the management of demand risk in the sense that prices do not remain elevated except for the accelerated scenario. The accelerated scenario is the worst case modelled by DBP, where the combination of lower general gas demand and the loss of alumina production results in highly volatile tariffs.

42. DBP's proposal for the depreciation profile appear effective in mitigating price shocks under most conditions without requiring any additional changes to the AA5 approach.

[23] DBP, *Final Plan 2026-2030, Attachment 6.1: Future of Gas Rationale and Modelling*, January 2025, p. 22.

ERA draft decision

Base depreciation

43. The ERA has accepted DBP's approach to calculate its base level of depreciation, which is consistent with its existing approach. The depreciation amounts have been updated with the draft decisions on capital expenditure which are detailed in Draft Decision Attachment 4.

44. The ERA has reviewed and considered the proposal for the continuation of the 2063 economic life cap. At this stage we consider that the 2063 date represents a credible end date and have not been provided with evidence to the contrary.

45. The submissions received regarding DBP's future of gas approach from NewGen and Alinta supported the retention of the 2063 economic life date on the basis of certainty and that forecasting the energy transition was difficult.

46. The ERA agrees that forecasting the energy transition is difficult, but nonetheless necessary and should be based on plausible scenarios for potential states of the world. The analysis by DBP has largely achieved this, where they demonstrate that the 2063 economic life date is robust enough to handle a variety of scenarios whereby gas usage ranges from historic numbers to substantial reductions due to decarbonisation.

47. It is noted that no stakeholders have proposed a date different to 2063 or have otherwise articulated a change in method supported by theory or empirical evidence. Horizon Power pointed to a potential slowdown in the energy transition due to United States policy changes. This effect is highly uncertain and cannot be quantified and, in any case, is likely captured in the range of carbon prices adopted by the future of gas modelling.

48. WesCEF suggested that the ERA consider the following matters:

- Why DBP did not follow the Australian Energy Regulator's information paper on uncertainty.
  - The ERA notes that DBP is not required to follow the AER's information paper as this does not apply in Western Australia. The ERA is aware of the AER's information paper and considers that other regulatory approaches are relevant.
- DBP does not appear to have assessed whether other aspects of its proposal are consistent with the potential for reducing demand.
  - As part of the access arrangement determination, the ERA specifically checks for consistency between different building blocks for the five-year period of the access arrangement such as demand, operating expenditure and capital expenditure, which are discussed in the respective draft decision attachments.
- Other mechanisms for depreciation should be considered, including the retention of revenue to fund the future operations of the pipeline.
  - The ERA has considered alternative mechanisms but is not convinced at this stage that these mechanisms are required or permissible under the current regulatory framework. The purpose of depreciation is to recover past efficient capital expenditure.

49. The base depreciation amounts are detailed in Table 6.5 and are based on the economic lives of Table 6.6.

50. The ERA also accepted DBP's proposal that the forecast depreciation approach be used for calculating the opening capital base for AA7.

Table 6.5: AA6 draft decision base depreciation ($ million December 2024)

	2026	2027	2028	2029	2030	Total
Pipeline	84.8	84.8	84.8	84.8	84.8	424.0
Compression	24.8	25.0	25.2	25.4	25.5	125.9
Metering	2.3	2.4	2.5	2.7	2.8	12.7
Other depreciable	3.2	3.1	2.6	2.5	2.3	13.7
Computers and motor vehicles	3.5	10.4	10.5	8.7	9.5	42.6
Cathodic/Corrosion protection	5.5	4.4	4.2	4.3	4.4	22.8
SCADA , ECI and comms	10.5	11.6	12.4	13.6	14.5	62.6
Building	0.0	0.2	0.5	0.6	0.8	2.1
Cost of raising equity	0.2	0.3	0.3	0.4	0.4	1.6
BEP Lease	0.5	0.5	0.5	0.5	0.5	2.5
Base depreciation	**135.3**	**142.7**	**143.5**	**143.5**	**145.5**	**710.5**

Table 6.6: AA6 draft decision economic lives (years)

Asset categories	AA5 approved	AA6 DBP proposal	AA6 ERA draft decision
Pipeline	Capped at 2063	Capped at 2063	Capped at 2063
Compression	30	30	30
Metering	30	30	30
Other depreciable	10	10	10
Computers and motor vehicles	5	5	5
Cathodic/Corrosion protection	15	15	15
SCADA, ECI and comms	10	10	10
Building	50	50	50
Cost of raising equity	38	38	32.6

Decision on deferred depreciation from AA6

51. The AA5 final decision included an asset re-categorisation to more accurately allocate existing assets to appropriate asset categories. This asset re-categorisation included moving some assets that were no longer in-service, or that were close to their decommissioning date, from longer economic life asset categories.[24] This led to a large catch-up amount of depreciation to properly account for assets no longer in service.

52. The full recognition of that depreciation from asset re-categorisation would have increased tariffs. The AA5 final decision deferred under-depreciated assets to future access arrangements.[25] DBP's proposed transition for the catch-up for depreciation provided some general guidance for future access arrangement, but did not explicitly state the amount or timing of these depreciation deferrals.[26]

53. Continuing the transitional approach, DBP has proposed that the deferred depreciation be recovered across AA6 and AA7, with payments of $81.2 million and $22.0 million ($ real December 2024) respectively. These payments all occur in the first year of the respective access arrangements.

54. We consider that the provision of deferred depreciation is guided by the Revenue and Pricing Principles and that changes in asset lives are allowed for in the depreciation criteria of NGR. While DBP should be provided with a reasonable opportunity to recover efficient capital expenditure, this is balanced by the need for tariffs that promote economic efficiency in consumption and use.

55. We do not agree with DBP's proposal to recover all deferred amounts in the first year of an access arrangement as this places further upward pressure on AA6 tariffs. Most stakeholders did not support this approach; but rather that recovery be spread across annual payments.

56. In the revenue model, the ERA has simplified the deferred depreciation approach by separating out deferred depreciation into a new asset category of "Out of Service Assets".[27] This increases the transparency of the deferred depreciation amount and facilitates its recovery profile to be changed.

57. Deferred depreciation will be recovered on a straight-line basis, thereby allowing equal annual payments over a 5 year access arrangement and smoothing of tariff impacts. We consider that this is a practical approach for the recovery of deferred depreciation.

58. The deferred depreciation approach in AA6 recognises the deferral amounts from AA5, maintains net present value neutrality and smooths tariff increases.

59. The deferred depreciation amounts are detailed in Table 6.7.

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24 For example, DBP previously classified computers and motor vehicles into the "Other" asset category (with a 30 year economic life), where the AA5 re-categorisation moved this to the new category of "Computers and motor vehicles" (with a 5 year economic life).

25 ERA, *Final decision on proposed revisions to the Dampier to Bunbury Natural gas Pipeline access arrangement 2021 to 2025*, 1 April 2021, pp. 339, 342.

26 ERA, *Final decision on proposed revisions to the Dampier to Bunbury Natural gas Pipeline access arrangement 2021 to 2025*, 1 April 2021, p. 342.

27 The ERA has also identified that there were depreciation amounts for non-depreciable assets, which has been corrected in the Draft Decision Tariff Model.

Table 6.7: AA6 draft decision deferred depreciation ($ million December 2024)

	2026	2027	2028	2029	2030	Total
Deferred depreciation	16.2	16.2	16.2	16.2	16.2	81.0

Total forecast depreciation

60. The ERA has accepted DBP's approach to calculate its base level of depreciation, which is consistent with its existing approach. However, we do not accept DBP's proposed profile for the deferred depreciation.

61. The ERA's forecast regulatory total depreciation allowance is detailed in Table 6.8.

Table 6.8: AA6 draft decision total forecast depreciation ($ million December 2024)

	2026	2027	2028	2029	2030	Total
Pipeline	84.8	84.8	84.8	84.8	84.8	424.0
Compression	24.8	25.0	25.2	25.4	25.5	125.9
Metering	2.3	2.4	2.5	2.7	2.8	12.7
Other depreciable	3.2	3.1	2.6	2.5	2.3	13.7
Computers and motor vehicles	3.5	10.4	10.5	8.7	9.5	42.6
Cathodic/Corrosion protection	5.5	4.4	4.2	4.3	4.4	22.8
SCADA , ECI and comms	10.5	11.6	12.4	13.6	14.5	62.6
Building	0.0	0.2	0.5	0.6	0.8	2.1
Cost of raising equity	0.2	0.3	0.3	0.4	0.4	1.6
BEP Lease	0.5	0.5	0.5	0.5	0.5	2.5
Out of service assets in AA5 (deferred depreciation)	16.2	16.2	16.2	16.2	16.2	81.0
Forecast depreciation	**151.5**	**158.9**	**159.7**	**159.7**	**161.7**	**791.5**

Required Amendment 6.1

DBP must amend the regulatory depreciation amounts for 2026 to 2030 to reflect the amounts in Table 6.8 of Draft Decision Attachment 6.

Appendix 1 List of Tables

Appendix 2 List of Figures