

Revised Final Plan
Attachment 6.4

Response to Future of Gas and Depreciation

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PUBLIC



Dampier Bunbury
Pipeline

1 Response to Draft Decision on Future of Gas and Depreciation

Depreciation represents the return of previously invested capital to investors in the building block model. It is also a key mechanism by which we manage aspects of future demand risk.

1.1 Overview

This attachment sets out our response to the ERA's Draft Decision on the future of gas and depreciation. In particular we are responding to:

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.

We note that the Future of Gas discussion was contained in Chapter 6 of our Final Plan, whilst the deferred depreciation from our AA5 recategorisation of our asset base was dealt with in Chapter 10, which also included the depreciation amounts. The ERA includes all three in the same attachment of its Draft Decision, which we also do here. Note that Table 5 from this response is replicated in Attachment 10.1, which deals with the rest of our capital base issues.

1.2 ERA Draft Decision

There are three components to the ERA's Draft Decision leading to Amendment 6.1, being:

- the discussion about the future of the gas sector, which leads to conclusions about regulatory asset life caps;
- the ERA's conclusions in respect of appropriate regulatory asset lives; and
- the ERA's conclusions in respect of our approach to deferred depreciation stemming from the AA5 recategorisation of our asset base.

We summarise these three aspects, as well as the ERA's conclusions in respect of the final amount for depreciation in Table 1-1.

Table 1-1: Summary of ERA's Draft Decision on the Future of Gas and Depreciation

	ERA Draft Decision	ERA Comment
Future of gas and 2063 asset life cap	Accept	The 2063 asset cap represents a credible end date and the ERA has not been presented with evidence to the contrary. ¹ The ERA agrees that forecasting the energy transition is challenging, requiring consideration of a number of different scenarios. DBP has largely achieved this and demonstrated that the 2063 end date is robust enough to handle a variety of scenarios with very different gas demand. ²
Asset lives	Accept	The ERA has made no specific comment on asset lives, save to summarise them in Table 6.6 of the Draft Decision.
AA5 deferred depreciation	Modify	The ERA considers that the provision of deferred depreciation if guided by the Revenue and Pricing Principles, and that changes in asset lives are allowed in the depreciation criteria of the National Gas Rules. However, while DBP should be given a reasonable opportunity to recover efficient capex, this is balanced by a need for tariffs which promote efficient use of the pipeline. For this reason, the ERA does not approve DBP's approach to recover all of the deferred revenues in the first year of the tariff model, but rather requires that the deferred depreciation be smoothed over the five years, with an equal amount recovered in each year in the tariff model. The ERA also simplified the approach by separating out a new asset category called "out of service assets" to increase transparency. ³
Depreciation amounts (Amendment 6.1)	Modify	The ERA accepts DBP's approach to calculating "base depreciation" (that is, everything except the deferred depreciation from AA5 noted above), and using the ERA's preferred approach to deferred depreciation, provides the figures for overall depreciation shown in Table 6.8 of the Draft Decision. ⁴

Note: In this 'traffic light' table, green shading represents the ERA's acceptance of our Final Plan, orange represents the ERA's modification of our Final Plan and red shading represents the ERA's rejection of our Final Plan.

1.3 Our Response to the Draft Decision

Methodologically speaking, we have no issues with the ERA's Draft Decision as it pertains to depreciation. There are two reasons why we are not able to accept the ERA's Amendment 6.1, being:

- The asset life for the cost of equity is an output in the tariff model, which is dependent on the value of the various assets which go into the weighted average formula for this asset life. These asset lives themselves depend upon future capex, and we have some changes in Attachment 9.11 in respect of the ERA's Draft Decision on capex.
- The total amount of the depreciation building block is likewise dependent upon the value of future capex, and we propose some changes to the ERA's Draft Decision in respect of capex in Attachment 9.11.

Since neither of these issues reflect the methodology the ERA has used, but are rather driven by differences in another area (namely capex) we label our response as "modify" rather than "reject". If we were aligned on capex, we would be aligned on depreciation issues. Further details in respect of these issues, and other components of our response on the future of gas and depreciation are outlined in Table 1-2. The numbers we propose,

¹ ERA Draft Decision Attachment 6 [44]

² ERA Draft Decision Attachment 6 [46]

³ ERA Draft Decision Attachment 6 [54] to [57].

⁴ ERA Draft Decision Attachment 6 [61]

along with the ERA's Draft Decision numbers in each case, are shown in Table 1-3 to Table 1-5.

Table 1-2: Summary of our response to the ERA's Draft Decision on the future of gas and depreciation

	ERA Draft Decision	Our Response	Our Comment
Future of gas and 2063 asset life cap	Accept	Accept	We agree with the ERA in respect of the challenges of forecasting the future of the energy transition, and accept its conclusion that our approach represents a robust solution over a wide range of potential future scenarios, based on the information which is currently available. We therefore accept the ERA's agreement that an end date of 2063 should continue as a risk mitigation measure.
Asset lives	Modify	Accept	We accept the ERA's proposed asset lives. Note that we have re-calculated the asset life used for the cost of raising equity based on our preferred capex, but this does not change the result provided in the Draft Decision.
AA5 deferred depreciation	Modify	Accept	We accept the ERA's modification to our approach. We appreciate the improved transparency that comes from the additional asset class, and the clarity that comes from having the AA7 and AA8 amounts specified in the tariff model (cells AM19 and AR 19 of the "asset" tab respectively). ⁵
Depreciation amounts (Amendment 6.1)	Modify	Modify	We do not accept the values contained in Table 6.8 of the Draft Decision. This is due to differences in other aspects of our Revised Final Plan, compared to the ERA's Draft Decision, which feed through into the depreciation allowance. Our preferred amounts are shown in Table 1-5. Note that we accept the depreciation approach which leads to the numbers.

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

The results of our modifications to the ERA's Draft Decision are shown in the tables below.

⁵ For AA7, the ERA has allocated \$21.794 million and for AA8 it has allocated \$1.307 million, which we accept. We note that these figures are in dollars of December 2024, and will be re-based at the start of AA7. We note further that we may, at the start of AA7, propose to roll the small amount of deferred depreciation from AA8 into AA7 to simplify the future, but that this will be for discussion with the ERA at the start of AA7.

Table 1-3: Economic lives*

	AA5 Approved	Final Plan (Table 10.3)	Draft Decision (Table 6.6)	Revised Final Plan
Pipeline	Capped at 2063	Capped at 2063	Capped at 2063	Capped at 2063
Compression	30	30	30	30
Metering	30	30	30	30
Other depreciable	10	10	10	10
Computers and motor vehicles	5	5	5	5
Cathodic/Corrosion protection	15	15	15	15
SCADA, ECI and comms	10	10	10	10
Building	50	50	50	50
Cost of raising equity	38	38	32.6	32.6

**We note that Table 6.6 in the ERA's Draft Decision does not contain an asset life for the BEP lease. It is unclear whether this is an omission, or has been excluded because it is a lease. Regardless, for completeness, we note that the BEP lease has 42 years as an asset life in the tariff model in our proposal and 42 years in the tariff model in the ERA's Draft Decision, which we accept in the tariff model of this Revised Final Plan. We note further that there is an error in Table 10.3 of the Final Plan, which shows the total life of the BEP lease, rather than the life remaining at present.*

Table 1-4: Deferred depreciation from AA5 (\$ mil December 2024)

	2026	2027	2028	2029	2030	Total
<i>ERA Draft Decision (Table 6.7)</i>						
Deferred depreciation	16.2	16.2	16.2	16.2	16.2	81.0
<i>Response</i>						
Deferred depreciation	16.2	16.2	16.2	16.2	16.2	81.0

Table 1-5: Total Forecast Depreciation (\$ mil December 2024)

	2026	2027	2028	2029	2030	Total
<i>ERA Draft Decision (Table 6.8)</i>						
Pipeline	84.8	84.8	84.8	84.8	84.8	424.0
Compression	24.8	25	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
<i>Response</i>						
Pipeline	84.8	84.8	84.8	84.8	84.8	423.9
Compression	24.8	25.0	25.2	25.5	25.6	126.2
Metering	2.4	2.5	2.6	2.8	2.9	13.2
Other depreciable	3.2	3.1	2.6	2.5	2.3	13.7
Computers and motor vehicles	13.1	14.5	14.2	10.1	11.3	63.3
Cathodic/Corrosion protection	5.5	4.4	4.3	4.4	4.6	23.2
SCADA, ECI and comms	10.5	11.6	12.4	13.6	14.5	62.7
Building	0.0	0.3	0.7	1.1	1.2	3.38
Cost of raising equity	0.2	0.3	0.3	0.4	0.4	1.7
BEP Lease	0.5	0.5	0.5	0.5	0.5	2.7
Out of service assets in AA5 (deferred depreciation)	16.2	16.2	16.2	16.2	16.2	81.0
Forecast depreciation	161.3	163.2	164.0	161.9	164.5	814.9

