

Revised Final Plan
Attachment 11.1

Response to Draft Decision on Financing Costs

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PUBLIC



Dampier Bunbury
Pipeline

1 Response to Draft Decision on Financing Costs

We incur financing costs to fund our ongoing operation of the DBNGP. This includes the return required by our equity and debt holders, as well as a cost of taxation.

1.1 Overview

This attachment sets out our response to the ERA's Draft Decision on financing costs. In particular we are responding to:

Required Amendment 7.1

Subject to the nomination of a final averaging period, DBP must update its rate of return to be consistent with Table 7.8 of Draft Decision Attachment 7.

Required Amendment 7.2

The estimated cost of corporate income tax must be amended in accordance with Table 7.11 of Draft Decision Attachment 7.

We note that the chapter of the Draft Decision containing these amendments also has four more amendments, dealing with aspects of our incentive regime. We deal with these in Attachment 12.2.

1.2 ERA Draft Decision

In determining the rate of return, both we and the ERA have followed the ERA's Rate of Return Instrument of 2022 (available [here](#)). We are both required to do this, and the ERA has accepted our use of its Rate of Return Instrument. In respect of tax, we used a tax rate of 30 percent, and tax asset lives based on the same method as AA5, which the ERA has also accepted.

We note that the ERA has made a decision in respect of the tax asset base (see Tables 7.9 and 7.10 in Attachment 7 of the Draft Decision) but has not attached a specific amendment to these components of the Draft Decision. We assume this is an unintentional oversight.

Table 1.1: Summary of ERA's Draft Decision on Financing Costs

	ERA Draft Decision	ERA Comment
Rate of Return Approach (Amendment 7.1)	Accept	DBP's rate of return and inflation estimates were consistent with the methods in the ERA's Rate of Return Instrument. ¹ DBP's use of 0.5 for gamma in forming the cost of tax is also in accordance with the Rate of Return Instrument. ²
Rate of return values (Amendment 7.1)	Modify	The ERA has changed the values used in our Final Plan due to its use of a different averaging period.
Tax allowance approach (Amendment 7.2)	Accept	DBP's use of a tax rate of 30 percent is acceptable. ³
Tax allowance (Amendment 7.2)	Modify	The ERA has followed the same approach we followed to determine our tax allowance but, due to changes in other inputs in the building block model, derives different results
Tax asset lives	Accept	The ERA accepts DBP's use of the same tax asset lives as shown in Table 7.3 of the Draft Decision. ⁴
Tax asset base approach*	Accept	DBP has used a methodology for determining tax asset lives which is consistent with the methodology approved for AA5. DBP continues to apply the diminishing value method to determine tax depreciation for assets purchased from January 2021. The ERA accepts that DBP has used the roll forward method to establish the opening value for the tax asset base in each year and the approved AA5 approach for the closing asset value, and the ERA has followed the same approach in its Draft Decision. ⁵
Tax asset base values*	Modify	The ERA has followed the same approach we followed to determine our tax allowance but, due to changes in other inputs in the building block model, derives different results.

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.

* These components of the ERA's Draft Decision do not have a specific amendment attached, but the ERA's requirements are outlined in Tables 7.9 (for AA5) and 7.10 (for AA6) respectively

1.3 Our Response to the Draft Decision

Methodologically speaking, we have no disagreements with the ERA on the allowed rate of return or the cost of tax. However, the wording of the relevant amendments requires us (for tax at least) to accept values in a table in the Draft Decision, and since tax is a consequence of numerous other parts of the Draft Decision (like capex and opex, for example) we cannot accept the values proposed because the use of different inputs into the tax calculation results in different values for the tax allowance. We note that this would occur regardless of whether we agreed with all other aspects of the ERA's Draft Decision as a change in the allowed rate of return to update for different interest rates would lead to differences in the values of the tax allowance. Our summary below reflects this distinction for each of the amendments above.

¹ ERA Draft Decision Attachment 7 [8]

² ERA Draft Decision Attachment 7 [97]

³ ERA Draft Decision Attachment 7 [97]

⁴ ERA Draft Decision Attachment 7 [100] and [101]

⁵ ERA Draft Decision Attachment 7 [102] to [106]

We have also included our response on tax asset lives, even though there is no specific amendment applied to them, as noted above.

Table 1.2: Summary of our response to the ERA's Draft Decision on financing costs

	ERA Draft Decision	Our Response	Our Comment
Rate of Return Approach (Amendment 7.1)	Accept	Accept	We accept the approach used by the ERA to formulate the components in our allowed rate of return, as per the Rate of Return Instrument.
Rate of return values (Amendment 7.1)	Modify	Modify	The ERA has used the 20 days to April 30 2025 for its Draft Decision. We have used the 20 days to August 1, as this represents more updated information. We note that the actual values will be determined as part of the ERA's Final Decision.
Tax allowance approach (Amendment 7.2)	Accept	Accept	We accept the ERA's approach to estimating the cost of tax, which is consistent with the approach we used in our Final Plan.
Tax allowance (Amendment 7.2)	Modify	Modify	We do not accept the value contained in Table 7.11 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 tax allowance.
Tax asset lives	Accept	Accept	We accept the ERA's decision on tax asset lives, which is consistent with our Final Plan.
Tax asset base approach*	Accept	Accept	We accept the ERA's approach to estimating the cost of tax, which is consistent with the approach we used in our Final Plan.
Tax asset base values*	Modify	Modify	We do not accept the value contained in Tables 7.9 and 7.10 of the Draft Decision. This is due to differences in other aspects of our Revised Final Plan (chiefly capex), compared to the ERA's Draft Decision, which feed through into the tax asset base.

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

* These components of the ERA's Draft Decision do not have a specific amendment attached, but the ERA's requirements are outlined in Tables 7.9 (for AA5) and 7.10 (for AA6) respectively

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

Table 1.3: Allowed rate of return estimate

	AA5 Approved	Final Plan	Draft Decision	Revised Final Plan
<i>Return on debt (%)</i>				
5-year interest rate swap (effective yield)	0.295	3.759	3.776	3.787
Debt risk premium (10-year average)	2.259	1.823	1.860	1.870 ⁶
Debt issuing cost	0.1	0.165	0.165	0.165
Debt hedging cost	0.114	0.123	0.123	0.123
<i>Nominal return on debt</i>	<i>2.768</i>	<i>5.871</i>	<i>5.924</i>	<i>5.945</i>
<i>Return on equity</i>				
Nominal risk free rate (%)	0.29	3.96	4.32	4.367
Market risk premium (%)	6	6.1	6.1	6.1
Equity beta	0.7	0.7	0.7	0.7
Nominal return on equity (%)	4.49	8.23	8.59	8.64
<i>Other parameters</i>				
Debt proportion(%)	55	55	55	55
Inflation rate (%)	1.15	2.18	1.90	2.06
Corporate tax rate (%)	30	30	30	30
Franking credits	50	50	50	50
Nominal after-tax WACC (%)	3.53	6.93	7.12	7.16
Real after tax WACC (%)	2.37	4.65	5.13	4.99

⁶ Note that, for the 2026 tranche, which will be estimated prior to the publication of the Final Plan, we have used an average of the previous 10 years, being 1.938% as a holding value.

Table 1.3: Corporate income tax AA6 (\$ mil nominal)

	2021	2022	2023	2024	2025
<i>ERA Draft Decision</i>					
Unsmoothed revenue	466.2	486.4	488.8	490.7	498.4
<i>Tax Expenses</i>					
Operating Expenditure	(109.8)	(117.3)	(117.4)	(113.7)	(118.6)
Debt servicing costs	(113.7)	(112.4)	(110.9)	(109.0)	(107.0)
Tax depreciation	(126.9)	(112.4)	(113.4)	(82.3)	(83.5)
Total Tax Expenses	(350.5)	(342.2)	(341.7)	(305.0)	(309.2)
<i>Tax</i>					
Estimated taxable income	115.8	144.3	147.1	185.7	189.3
Carried forward losses	0	0	0	0	0
Estimated taxable income (net of tax loss)	115.8	144.3	147.1	185.7	189.3
Estimated cost of corporate income tax	(33.2)	(41.5)	(42.7)	(53.4)	(54.2)
Value of imputation credits	16.6	20.8	21.3	26.7	27.1
Estimated cost of corporate income tax	(16.6)	(20.8)	(21.3)	(26.7)	(27.1)
<i>Response</i>					
Unsmoothed revenue	487.6	508.4	513.1	514.1	524.7
<i>Tax Expenses</i>					
Operating Expenditure	(123.0)	(137.8)	(138.3)	135.2)	(141.3)
Debt servicing costs	(115.0)	(113.7)	(112.7)	(111.4)	(109.6)
Tax depreciation	(128.7)	(115.2)	(116.7)	(85.9)	(87.5)
Total Tax Expenses	(366.6)	(366.7)	(367.8)	(332.4)	(338.4)
<i>Tax</i>					
Estimated taxable income	121.0	141.7	145.3	181.7	186.2
Carried forward losses	0	0	0	0	0
Estimated taxable income (net of tax loss)	121.0	141.7	145.3	181.7	186.2
Estimated cost of corporate income tax	(34.8)	(39.7)	(42.1)	(52.2)	(53.2)
Value of imputation credits	17.4	19.8	21.1	26.1	26.6
Estimated cost of corporate income tax	(17.4)	(19.8)	(21.1)	(26.1)	(26.6)

Table 1.3: Tax asset base AA5 (\$ mil nominal)

	2021	2022	2023	2024	2025
<i>ERA Draft Decision</i>					
Opening Asset Base	945.0	868.3	793.4	717.8	631.5
Capital Expenditure	33.3	40.4	44.3	38.7	37.6
Asset disposals	0	0	0	0	0
Tax depreciation	110.0	115.3	119.9	125.0	127.7
Closing value	868.3	793.4	717.8	631.5	541.4
<i>Response</i>					
Opening Asset Base	934.3	864.5	790.0	721.5	632.6
Capital Expenditure	39.2	42.1	52.3	39.5	38.7
Asset disposals	0	0	0	0	0
Tax depreciation	(109.0)	(116.6)	(120.9)	(128.5)	(129.4)
Closing value	864.5	790.0	721.5	632.6	541.8

Table 1.3: Tax asset base AA6 (\$ mil nominal)

	2026	2027	2028	2029	2030
<i>ERA Draft Decision</i>					
Opening Asset Base	541.4	465.1	409.0	344.6	313.3
Capital Expenditure	50.6	56.3	49	51	36.6
Asset disposals	0	0	0	0	0
Tax depreciation	126.9	112.4	113.4	82.3	83.5
Closing value	465.1	409.0	344.6	313.3	266.4
<i>Response</i>					
Opening Asset Base	541.8	471.2	429.6	379.0	349.9
Capital Expenditure	57.0	72.7	65.1	55.8	40.2
Asset disposals	0	0	0	0	0
Tax depreciation	(127.7)	(114.2)	(115.7)	(84.9)	(86.5)
Closing value	471.2	429.6	379.0	349.3	303.5