



Economic Regulation Authority

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## NOTICE

### Goldfields Gas Pipeline Proposed Revised Access Arrangement

#### DRAFT DECISION

The Economic Regulation Authority today issued its [draft decision](#) not to approve the proposed revisions to the Goldfields Gas Pipeline (GGP) access arrangement. The reasons for the Authority's decision are set out in the draft decision.

The proposed revisions to the GGP access arrangement were submitted by Goldfields Gas Transmission (GGT) Pty Ltd, on behalf of Southern Cross Pipelines Australia Pty Ltd, Southern Cross Pipelines (NPL) Australia Pty Ltd and Alinta DEWAP Pty Ltd under the *National Third Party Access Code for Natural Gas Pipeline Systems (Code)*.

The Authority also issued GGT with a notice today under section 42 of the *Gas Pipeline Access (Western Australia) Act 1998* (GPA) stating that it wishes to disclose certain information provided confidentially by GGT. Further detail on this matter is provided below.

Small gas customers such as households and small businesses at Kalgoorlie and Esperance are unlikely to be significantly impacted by the draft decision, which covers the transportation of gas and is only a small part of the cost of gas to these customers.

The Authority has set out, in its draft decision, 45 required amendments to the proposed GGP access arrangement revisions.

#### Confidential information

On 26 May 2009 the Authority issued a notice under section 41 of the *Gas Pipeline Access (Western Australia) Act 1998* (GPA) requiring more detailed information from GGT. GGT responded to this notice on 5 June 2009, providing the information sought by the Authority on a confidential basis.

The Authority has, in making its draft decision, considered the confidential information provided to it by GGT. The Authority considers that the public benefit of releasing, in an aggregated format, information provided by GGT in response to the Authority's section 41 notice of 26 May 2009 outweighs the detriment that may be caused to GGT's business interests.

Section 42 of the GPA requires the Authority to issue GGT with a notice if the Authority wishes to release confidential information received under section 41 of this Act. The Authority has today issued GGT with a notice under section 42 of the GPA stating that it wishes to disclose this information in aggregated format. Under section 43 of the GPA, GGT has seven days to apply to the Gas Review Board (GRB) if it wishes to have the Authority's decision to release this information reviewed.

The draft decision released today excludes the confidential information outlined above. If GGT does not apply to the GRB to have a review of the Authority's decision to release this

confidential information, a non-redacted version of the draft decision will be issued in the near future.

## **Background**

The GGP runs from compressor station 1 on the Dampier to Bunbury Natural Gas Pipeline at Yarraloola to Kalgoorlie via the East Pilbara and the North East Goldfields region. The access arrangement sets out the terms and conditions, including price, under which GGT will provide access to the GGP for third party users. Third party access to the GGP is provided for under the Code.

The GGP provides gas predominantly to the mining industries in the East Pilbara and the North East Goldfields region. The GGP also provides gas used to service households and small businesses in Kalgoorlie and Esperance.

Regulated gas pipelines in the Eastern States operate under the *National Gas Law* which came into effect in July 2008. In Western Australia, legislation of a similar nature, the *National Gas Access (Western Australia) Act 2009*, came into effect on 1 September 2009. However, only Sections 1 and 2 the Act were proclaimed at that time, with the remainder of this Act and associated regulations expected to come into force by the end of this year.

As GGT's proposed revisions to the GGP access arrangement were submitted under the Code, the revised GGP access arrangement will be administered under the Code even if the Code is repealed in the future. It is anticipated that at the time that GGT lodges its revisions to the revised GGP access arrangement in the future, the remaining elements of the *National Gas Access (Western Australia) Act 2009* and the associated regulations will be in force with the result that such revisions would come under this Act.

As mentioned, small gas customers such as households and small businesses at Kalgoorlie and Esperance are unlikely to be significantly impacted by the draft decision, as the gas transportation cost is a relatively small component of the retail tariffs. In any case, the retail tariffs for Kalgoorlie are set by the Government and usually vary on July 1 each year and are linked by government regulation to the Consumer Price Index (CPI).

## **Proposed revisions**

On 23 March 2009, GGT submitted proposed revisions to the GGP access arrangement and access arrangement information under the Code. GGT subsequently provided further information in public submissions. These documents are available on our [web site](#).

On 2 April 2009, the Authority published a notice seeking public submissions on GGT's proposed revisions. As part of this process, the Authority published an issues paper to assist interested parties in making submissions. Submissions were received from BHP Billiton Nickel West, BHP Billiton, Synergy, Apex Minerals, Jabiru Metals, Murrin Murrin Operations, St Barbara and Xstrata Nickel Australasia. GGT also made a further public submission. These [submissions](#) and the Authority's [issues paper](#) are available on our web site.

## **Key issues in the draft decision**

### **Reference tariff**

The draft decision requires GGT's proposed firm service reference tariff to be significantly reduced. On the basis of a discounted weighted average tariff calculated at Kalgoorlie, this reduction to GGT's proposed tariff amounts to about 40 per cent. Based on a comparison with the present firm service reference tariff at Kalgoorlie under the current access

arrangement, the draft decision amounts to a reduction of about 20% at the commencement of the forthcoming access arrangement.

The draft decision, shown below, sets out the differences in GGT's proposed reference tariff charges and the reference tariff charges required by the Authority. The principal reasons for the Authority's reduction to GGT's proposed reference tariff in the draft decision are the requirements to model all the costs of the GGP over the entire capacity of this pipeline (including uncovered capacity), to apply the Authority's rate of return to the entire capital base of the GGP and to model the costs of the GGP on a quarterly rather than annual basis.

### Reference Tariff Charges

Tariff Component	GGT Oct - Dec 09	GGT Proposal <sup>1</sup>	Draft Decision
Toll charge [\$ per GJ of MDQ]	0.279112	0.311318	0.185260
Reservation charge [\$ per GJ*km of MDQ]	0.001595	0.001915	0.001278
Throughput charge [\$ per GJ*km of Q]	0.000414	0.000515	0.000362

<sup>1</sup> GGT proposed quarterly CPI based tariff increases. The Authority Draft Decision is that tariffs are to remain constant in nominal terms for the period of the forthcoming Access Arrangement.

### Uncovered expansions of capacity

GGT proposed in its revisions that the expansions of capacity on the GGP which it elected, under the current GGP access arrangement, to exclude from coverage should not be taken into account for the purpose of calculating the reference tariff. These 'uncovered' expansions of capacity are over 40 TJ/day.

The Authority, in its draft decision, has not accepted GGT's position and requires that all actual and forecast costs, revenues and volumes relating to these uncovered expansions of capacity must be taken into account in determining the reference tariff.

The draft decision is that the effect of GGT's election to exclude these expansions from coverage is that the additional services provided as a result of these uncovered expansions of capacity are not required to be made available as reference services at the reference tariff.

### Rate of return

Under its revisions, GGT has proposed a nominal pre-tax rate of return of 13.5 per cent. GGT's current access arrangement is based on a nominal pre-tax rate of return of 10.6 per cent.

The Authority's draft decision is to not accept GGT's proposed rate of return. The draft decision requires GGT to adopt a nominal pre-tax rate of return of 10.28 per cent.

### Annual verses quarterly modelling

In its revisions, GGT proposed the reference tariff should be calculated using annual modelling. GGT's current access arrangement is based on a quarterly modelling approach for the calculation of the reference tariff.

The Authority's draft decision is not to approve GGT's proposed change from quarterly to annual modelling. The draft decision notes that a move to annual modelling would provide GGT with a gain at the expense of users which could not be addressed, consistent with the principles in the Code, through a retrospective adjustment to the GGP's capital base.

GGT also proposed, under its annual modelling approach, that the reference tariff over the next access arrangement period be adjusted for actual inflation on a quarterly basis. The Authority's position in its draft decision is not to accept adjustments to the reference tariff for actual inflation. The draft decision is that the reference tariff should remain constant in nominal terms throughout the next access arrangement period, subject to adjustment where actual quarterly CPI does not equal forecast quarterly CPI.

## **Expansions policy**

Under the expansions policy in the current GGP access arrangement, GGT has the option to elect to exclude expanded capacity from coverage. GGT has proposed that this policy remain unchanged. As noted above, the effect of this policy under the current access arrangement has been to exclude a significant proportion of the GGP's total capacity from availability to users as reference services at the reference tariff.

The Authority's draft decision is not to accept the expansion policy proposed by GGT in its revisions. The draft decision is that any expansion of capacity during the period of the next access arrangement will be treated as part of the covered pipeline for all purposes under the Code. This would have the effect that additional services provided as a result of expansions of capacity must be made available by GGT to users in accordance with the terms of the access arrangement.

## **Trigger event**

A trigger event in an access arrangement requires the service provider to submit revisions to the access arrangement if a defined event occurs. GGT's current access arrangement does not have a trigger event and GGT has not proposed a trigger event in its proposed revisions.

The Authority's draft decision is to require a trigger event to be included in GGT's proposed revisions with the trigger threshold being based on the total capacity of the GGP increasing by more than 10 per cent, as set out under Required Amendment 45.

## **Public submissions**

Interested parties are invited to make submissions in printed and electronic form on the Authority's draft decision by **4:00pm (WST) on Friday, 27 November 2009**.

Submissions should be sent to:

Goldfields Gas Pipeline  
Gas Access  
Economic Regulation Authority  
PO Box 8469  
Perth BC WA 6849

Electronic submissions should be sent to: [publicsubmissions@era.wa.gov.au](mailto:publicsubmissions@era.wa.gov.au)

In general, all submissions from interested parties will be treated as being in the public domain and placed on the Authority's web site. Where an interested party wishes to make a submission in confidence, it should clearly indicate the parts of the submission for which

confidentiality is claimed, and specify in reasonable detail the basis upon which the claim is made.

The publication of a submission on the Authority's web site shall not be taken as indicating that the Authority has knowledge either actual or constructive of the contents of a particular submission and, in particular, whether the submission in whole or part contains information of a confidential nature and no duty of confidence will arise for the Authority.

## **Public Forum**

The Authority has not scheduled a public forum on this draft decision. However, if a sufficient number of interested parties request the need for such a forum, the Authority will arrange an appropriate forum (which could take the form of a roundtable discussion) before the closing date for submissions.

Parties interested in a public forum on this decision should advise the Authority by no later than 16 October 2009. The Authority will advise such parties through a notice on its web site and by e-mail of the details of this forum, including location and time.

For further information contact:

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LYNDON ROWE  
**CHAIRMAN**

9 October 2009