



SUBMISSION 3: Pipeline Services

Public Version

Date Submitted: 14 April 2010

DBNGP (WA) Transmission Pty Limited
ABN 69 081 609 190
Level 6, 12-14 The Esplanade
Perth WA 6000

Contact: Trent Leach, Manager Regulatory and Government Policy
Telephone: 08 9223 4357
Email: trent.leach@dbp.net.au

TABLE OF CONTENTS

1.	INTRODUCTION	1
2.	NGR REQUIREMENTS FOR PIPELINE SERVICES IN AN ACCESS ARRANGEMENT	2
3.	WHERE DOES THE PROPOSED REVISED AA PROPOSAL MEET THE REQUIREMENTS OF THE NGR THAT RELATE TO PIPELINE SERVICES	3
4.	JUSTIFICATION FOR INCLUDING THE R1 SERVICE AS A REFERENCE SERVICE	5
5.	JUSTIFICATION FOR NOT RETAINING THE REFERENCE SERVICES IN THE CURRENT ACCESS ARRANGEMENT AS REFERENCE SERVICES	7
6.	DELETED	9
7.	DELETED	10

1. INTRODUCTION

- 1.1. On 1 April 2010, DBNGP (WA) Transmission Pty Ltd (DBP) filed the following documents with the Economic Regulation Authority (**ERA**):
 - (a) proposed revised Access Arrangement (Proposed Revised AA); and
 - (b) proposed revised Access Arrangement Information (**Proposed Revised AAI**).
- 1.2. These documents contain the information that the National Gas Access (WA) Act 2009 (**NGA**) (which includes the Western Australian National Gas Access Law text (**NGL**) and the National Gas Rules (**NGR**)) requires to be included in order to enable them to be approved by the ERA.
- 1.3. The ERA also issued a Regulatory Information Notice on 2 March 2010 (**RIN**).
- 1.4. In addition to the Proposed Revised AA and Proposed Revised AAI, a number of additional submissions on key issues will be or are to be filed to assist the Regulator to assess the Proposed Revised AA and to address the categories of information requested in the RIN. These included the following:
 1. Background Information
 2. AA & AAI Compliance Checklist
 3. Pipeline Services (being this submission)
 4. Basis for Total Revenue
 5. Terms and Conditions Justification
 6. Explanation of Queuing Requirements
 7. Capacity and Throughput Forecast
 8. Rate of Return
 9. Justification of Actual expansion Capital Expenditure (2005 – 2010)
 10. Actual Stay-in-Business Capital Expenditure (2005 – 2010)
 11. Forecast Capital Expenditure (2005 – 2010)
 12. Actual Operational Expenditure and Forecast Operational Expenditure
- 1.5. Accordingly, this submission is aimed at supplementing the information in the Proposed Revised AA and Proposed Revised AAI in order to:
 - (a) address the information requested by the ERA in the RIN in relation to pipeline services; and
 - (b) enable the aspects of the Proposed Revised AA relating to pipeline services to be approved by the ERA.

2. NGR REQUIREMENTS FOR PIPELINE SERVICES IN AN ACCESS ARRANGEMENT

- 2.1. The National Gas Rules contain a number of provisions that require information relating to services to be included in an access arrangement.
- 2.2. Rule 48 of the NGR provides that a full access arrangement must:
- “(b) describe the pipeline services the service provider proposes to offer to provide by means of the pipeline; and*
 - (c) specify the reference services; and*
 - (d) specify for each reference service:*
 - (i) the reference tariff; and*
 - (ii) the other terms and conditions on which the reference service will be provided”*
- 2.3. Rule 101 of the NGR provides that:
- (1) A full access arrangement must specify all reference services.*
 - (2) A reference service is a pipeline service that is likely to be sought by a significant part of the market.*
- 2.4. Rule 109 of the NGR provides:
- (1) A scheme pipeline service provider must not make it a condition of the provision of a particular pipeline service to a prospective user that the prospective user accept another non-gratuitous service from the service provider unless the bundling of the services is reasonably necessary.*
 - (2) The description of pipeline services in an access arrangement must conform with this principle.*
- 2.5. The NGL and NGR define the terms “pipeline services” and “reference service” as follows:
- (a) Pipeline services** means
 - “(a) a service provided by means of a pipeline, including:*
 - (i) a haulage service (such as firm haulage, interruptible haulage, spot haulage and backhaul); and*
 - (ii) a service providing for, or facilitating, the interconnection of pipelines; and*
 - (b) a service ancillary to the provision of a service referred to in paragraph (a),*

but does not include the production, sale or purchase of natural gas or processable gas”
 - (b) Reference service** means a pipeline service that is likely to be sought by a significant part of the market.
- 2.6. In assessing the provisions of the access arrangement relating to pipeline services, the ERA is required to ensure that these provisions are consistent with the national gas objective (see Rule 100(a) of the NGR).
- 2.7. The NGRs do not require anything to be included in an access arrangement information in relation to pipeline services.

3. WHERE DOES THE PROPOSED REVISED AA PROPOSAL MEET THE REQUIREMENTS OF THE NGR THAT RELATE TO PIPELINE SERVICES

3.1. Sections 3 and 4 of the Operator's Proposed Revised AA contain the following in order to meet the requirements of the NGL and NGR for reference services (being those requirements outlined in section 2 of this submission):

- (a) Section 3 of the Revised AA Proposal specifies the R1 Service as the one and only reference service – this meets the requirements of Rule 101(2) of the NGR. The reasoning for why it should be a reference service is outlined in section 4 of this submission. The reasoning for why no other service should be a reference service is outlined in sections 5 and **Error! Reference source not found.** of this submission;
- (b) Section 3 specifies the reference tariff for the Reference Service – this meets the requirements of Rule 48(d)(i) of the NGR
- (c) Section 4 specifies the other terms and conditions on which the reference service will be provided by the Operator – this meets the requirements of Rule 48(d)(ii) of the NGR.
- (d) The Operator's Proposed Revised AA no longer includes, as a reference service, the following pipeline services that are specified as reference services in the current Access Arrangement:
 - (i) The reference service known as the T1 Service
 - (ii) The reference service known as the P1 Service
 - (iii) The reference service known as the B1 Service.

The reasoning for why these are not reference services in the Proposed Revised AA is outlined later in this submission (see section 5).

3.2. The requirements of the NGL and NGR for those pipeline services that are not reference services (being those requirements outlined in section 2 of this submission), are met in the Proposed Revised AA as follows:

- (a) Section 3 of the Proposed Revised AA describes all the pipeline services the service provider proposes to offer to provide by means of the DBNGP – this meets the requirements of Rule 48(b) of the NGR.
- (b) Each pipeline service is described in section 3 of the Proposed Revised AA in a way that is consistent with Rule 101(2) – ie no pipeline service is described in a way that makes access to that service conditional upon the shipper accepting another non-gratuitous service from the service provider unless the bundling of the services is reasonably necessary.
- (c) Section 3 of the Proposed Revised AA describes only one pipeline service – the Park and Loan Service – as being conditional upon the shipper for that pipeline service having to accept another non-gratuitous service from the Operator – being any type of haulage service. The Operator submits that it is reasonably necessary to bundle these pipeline services – and therefore Rule 101(2) of the NGR is met. It is reasonably necessary to bundle these pipeline services for the following reasons:
 - (i) To enable gas to be either parked in or loaned from the DBNGP under a Park and Loan Service, it will need to be transported along the pipeline.
 - (ii) It is envisaged that the only entities seeking to access the Park and Loan Service will be shippers with a haulage service.

- (iii) The terms and conditions of the proposed Park and Loan Service do not contain terms and conditions relating to transportation or haulage.
- (d) There is no requirement in the Proposed Revised AA for a shipper seeking access to a haulage service to also have to enter into an access contract for a park and loan service.

4. JUSTIFICATION FOR INCLUDING THE R1 SERVICE AS A REFERENCE SERVICE

- 4.1. The Operator has proposed one pipeline service as a reference service in the Proposed Revised AA – being the R1 Service.
- 4.2. This section of the submission contains the justification for its inclusion as a reference service.
- 4.3. Firstly, the service is a pipeline service as it is a haulage service
- 4.4. Secondly, it is likely to be sought by a significant part of the market.
- 4.5. The term “likely to be sought” refers to services likely to be applied for by prospective shippers and which can become the subject of an executed access contract during the Access Arrangement period. In making this assessment correctly, the ERA must:
 - (a) not have regard to the access contracts that have already been entered and the services to be provided under those contracts (“**pre-existing contracts**”) as an indicator of what might be sought by prospective shippers during the access arrangement period. The existence of these pre-existing contracts, of themselves, is not an indication that the pipeline services that are the subject of these pre-existing contracts are likely to be sought during the access arrangement period;
 - (b) not have regard to any new demand for a pipeline service if that new demand arises from the exercise by a shipper under a pre-existing contract of a right that exists under the pre-existing contract. An example of this is under the proposed non reference service called the T1 Service in the Proposed Revised AA. Under the terms and conditions for that pipeline service, shippers can exercise a right under clause 16 to require the pipeline to be expanded so that additional capacity is created for the shipper of the T1 Service. To the extent that a shipper exercises this right during the course of the access arrangement period is not evidence of the T1 Service being likely to be sought;
 - (c) have evidence before it which shows that that there is a high probability (ie that it is very probable) that the relevant service will be sought and that an access contract will be entered into during the access arrangement period; and
 - (d) have regard to whether there is spare uncontracted capacity on the DBNGP or if there is not, whether there is a likelihood that the capacity of the pipeline will be expanded during the access arrangement period.
- 4.6. In determining the relevant “market”, regard should only be had to the market of prospective shippers for each pipeline service, not:
 - (a) the market of prospective shippers for all pipeline services on the pipeline aggregated together; or
 - (b) the market of existing shippers under pre-existing contracts.
- 4.7. The R1 Service is different from the T1 Service proposed by the Operator in the Proposed Revised AA in that:
 - (a) It does not have the additional behavioral features of the T1 service such as the extended peaking and imbalance rights; and
 - (b) The means for determining the availability of the service is different to that that has been used to determine the level of availability of the T1 Service proposed by the

Operator in the Proposed Revised AA. The methodology for determining the availability and reliability of the T1 Service has been based on the probability of supplying to Kwinana Junction with the most critical compressor off line is no longer relevant, given the extensive expansion of the pipeline.

- (c) Notwithstanding the above, the R1 Service will be curtailed as if it were a Firm Service for the purposes of applying the curtailment plan in the Standard Shipper Contract for the T1 Service. This is because to do otherwise will place DBP in breach of its rights and obligations under pre-existing contracts.
- (d) While the terms and conditions for the R1 Service are based on the terms and conditions for the T1 Service in the Proposed Revised AA, they have been modified to deal with such things as:
 - (i) The reduction in some of the behavioural limits – this will enable more capacity to be made available for the R1 Service than the T1 Service. Since 2006 there have been very few shippers which have used the additional behavioural limits. Accordingly there is not basis to argue that they are likely to be sort by a significant part of the market.
 - (ii) the practical experience of dealing with the T1 Service terms and conditions has shown that some of the terms and conditions are extremely difficult to administer and apply and don't match up with arrangements under other legislative regimes. An example of this is the imbalance regime. The provisions relating to the timing for the provision of information to enable accumulated imbalances to be calculated do not align with the timing provisions in the Retail Market Rules. Accordingly, for any shipper with contracted capacity at an outlet point covered by these rules will not be able to provide the Operator with the required information in time under the terms and conditions for the T1 Service. More details of the differences between the terms and conditions for the R1 Service and the T1 reference service in the existing access arrangement are set out in Submission #5 to be filed with this submission.
 - (iii) To simplify the drafting wherever possible. This is to recognize the fact that the original terms and conditions were drafted as part of the Standard Shipper Contract (SSC). That SSC was drafted in a relatively expedited fashion having regard to the circumstances of the sale in 2004.

4.8. As a result of these changes, DBP considers that this service will be more attractive to shippers and encourage shippers to access capacity on the DBNGP.

5. JUSTIFICATION FOR NOT RETAINING THE REFERENCE SERVICES IN THE CURRENT ACCESS ARRANGEMENT AS REFERENCE SERVICES

- 5.1. The Operator has not proposed to continue to include as a reference service any of the pipeline services described in the current Access Arrangement as reference services. This means the following services are no longer proposed to be reference services but they will be included as other pipeline services:
- (a) The reference service known as the T1 Service.
 - (b) The reference service known as the P1 Service.
 - (c) The reference service known as the B1 Service.
- 5.2. The Operator submits that these pipeline services do not meet the requirements to be reference services in that each service:
- (a) is not likely to be sought during the access arrangement period; or
 - (b) to the extent that there might exist a likelihood for the pipeline service to be sought during the access arrangement period, it is not likely to be sought by a significant part of the market.
- 5.3. In the case of the T1 Service:
- (a) It is not likely to be sought because:
 - (i) the T1 capacity of the DBNGP is presently fully contracted under pre-existing contracts that extend beyond the end of the access arrangement period;
 - (ii) DELETED
- 5.4. DELETED
- 5.5. In the context of the market for developable capacity generally (ie whether for T1 or P1 or B1 Service) that could form part of the covered pipeline if it is built, the Operator submits that there is no expansion planned during the access arrangement period of 2011 to 2015. The Proposed Revised AA does not include any forecast capital expenditure for expanding the capacity of the DBNGP.
- 5.6. DELETED
- 5.7. Accordingly, the Operator submits that it is not in the long term interests of consumers that these services be retained as reference services in the access arrangement.
- 5.8. In addition to the above, when having regard to the national gas objective (which the ERA is required to do), the Operator submits that even if there is some demand for a T1 Service:
- (a) The inclusion of this service in the access arrangement as a reference service would not promote the efficient investment in and the efficient operation and use of natural gas services for the long term interests of consumers
 - (b) The exclusion of this service in the access arrangement as a reference service would also not act as a deterrent to the efficient investment in and the efficient operation and use of natural gas services for the long term interests of consumers.
- 5.9. So the national gas objective will not be compromised by its exclusion or inclusion as a reference service. There are a number of reasons for this. They include the following:

5.10. DELETED

5.11. DELETED

5.12. DELETED

5.13. DELETED

5.14. DELETED

6. DELETED

7. DELETED