SUBMISSION 4: Basis for Total Revenue and Reference Tariff

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

1.1. 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
4. Basis for Total Revenue (being this submission)
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 the derivation of those parts of the total revenue and reference tariff that have not been addressed in the other specific submissions listed above (being submissions #7 – 12); and

(b) enable the aspects of the Proposed Revised AA relating to total revenue and reference tariff to be approved by the ERA.

2. TOTAL REVENUE [R. 76]

2.1. As provided for in the Proposed Revised AAI, the Total Revenue for each year of the access arrangement period has been calculated:

(a) using the building block approach described in Rule 76 of the NGR.

(b) as the sum over the Access Arrangement Period of the costs in each year of the Access Arrangement Period that comprise the sum in each year of:

(i) a return on the projected capital base for the year;

(ii) depreciation on the projected capital base for the year;

(iii) (if any) increments or decrements for the year resulting from the operation of the incentive mechanism that existed in the Prior Access Arrangement; and

(iv) a forecast of operating expenditure for the year.

2.2. There are no amounts included in the Total Revenue calculation for each year of the Access Arrangement Period for the estimated cost of corporate income tax. The Operator has determined total revenue on a pre-tax basis.

2.3. As outlined in the Proposed Revised AA, the Total Revenue for each year of the Access Arrangement Period is indicated in Table 1.

Table 1 Value of Total Revenue (Real $million at 31 December 2009)

Year ending 31 December	2011	2012	2013	2014	2015
Return on Projected Capital Base	356.66	354.37	346.25	337.82	329.27
Depreciation on the Projected Capital Base	91.39	93.36	93.74	94.12	94.51
Incentive Mechanism	10.22	9.97	0.00	0.00	0.00
Forecast Operating Expenditure	101.64	103.96	104.60	108.37	109.87
Total	**559.90**	**561.65**	**544.60**	**540.31**	**533.65**
Present Value (discounted at the rate of return)	**505.51**	**457.82**	**400.79**	**359.00**	**320.13**

2.4. The following sections of this submission provide further justification for each of the building blocks in the total revenue calculation.

3. CAPITAL BASE [DIVISION 4]

3.1. This section deals with the justification for the opening capital base at the commencement of the Access Arrangement Period. In so doing, the Operator deals with:

(a) How the opening capital base in the earlier access arrangement period was established or adjusted (ie the capital base as at 31 December 2004);

(b) How the capital expenditure in the earlier access arrangement period (ie for the period from 31 December 2004 to 31 December 2010) is justified for rolling into the capital base;

(c) Details of any amounts added to the capital base for capital contributions, speculative capital expenditure account and re-use of redundant assets and how they are justified;

(d) Details of any amounts deducted from the capital base for disposals;

(e) Details of depreciation for changes to the capital base in the earlier access arrangement period (for each asset class), including the asset lives of each asset class; and

(f) Details of the rate of inflation and adjustment to the capital base in the earlier access arrangement period.

3.2. The Proposed Revised AAI provides for the following in respect of the calculation of the opening capital base for the access arrangement period that is expected to commence on 1 January 2011.

3.3. "In accordance with Rule 77(2) the Opening Capital Base for the Current Access Arrangement Period (ie the Opening Capital Base as at 1 January 2010) has been determined by the following formula:

(a) The Opening Capital Base as at the commencement of the Prior Access Arrangement Period (adjusted, if at all, for the difference between estimated and actual Capital Expenditure made in the access arrangement period that preceded the Prior Access Arrangement Period and included in that Opening Capital Base) (the amount is in Table 2);

plus:

(b) Conforming Capital Expenditure made, or to be made, during the Prior Access Arrangement Period (the amounts are in Table 3); and

(c) Capital Contributions by Shippers added to the Capital Base under rule 82(3) of the NGR (the amounts are in Table 4);

less:

(d) Depreciation over the Prior Access Arrangement Period (Depreciation is set out in Table 6)

3.4. The Opening Capital Base as at the commencement of the Prior Access Arrangement Period (ie 31 December 2004) was $1,893.35 million (real dollar values as at 31 December 2009).

3.5. The following Table 2 demonstrates how the Capital Base during the Prior Access Arrangement Period changed and how the Opening Capital Base for the Current Access Arrangement Period is calculated.

Table 2 Opening Capital Base (Real $million, dollar values at 31 December 2009)

Year ending 31 December	2005	2006	2007	2008	2009	2010
Capital Base at 1 January	1893.35	1844.01	1852.88	2206.74	2770.33	2738.45
Plus						
Conforming Capital Expenditure	0.78	61.54	409.42	628.23	17.93	672.19
Capital Contributions	2.21	0.00	0.08	0.00	21.27	14.30
Less						
Depreciation	52.34	52.67	55.64	64.64	71.09	72.77
Total value of the Capital Base at 31 December	**1844.01**	**1852.88**	**2206.74**	**2770.33**	**2738.45**	**3352.16**

Calculation of Opening Capital Base for Access Arrangement Period – opening capital base for the prior access arrangement period

3.6. The Proposed Revised AAI also provides that the Opening Capital Base at the commencement of the Prior Access Arrangement Period (**PAAP Opening Capital Base**) did not need amending for any expenditure incurred during the access arrangement period that preceded the Prior Access Arrangement Period because the PAAP Opening Capital Base was determined using only actual capital expenditure (as opposed to forecast capital expenditure).

3.7. The Operator advises that to express the PAAP Opening Capital Base in December 2009 prices, it has adjusted the capital base in each year from 1 January 2005 by the general movement in prices in the year. As a measure of the general movement in prices, the Operator has used the December quarter CPI (All Groups, Perth) published by the ABS.

Calculation of Opening Capital Base for Access Arrangement Period – adjustment for Conforming Capital Expenditure

3.8. The Opening Capital Base for the access arrangement period has been adjusted for capital expenditure. This capital expenditure can be broken down into 3 categories:

(a) Conforming Capital Expenditure incurred to expand the capacity of the DBNGP;

(b) Conforming Capital Expenditure incurred which has been classified by the Operator as Stay in Business capital expenditure; and

(c) Capital contributions from shippers.

3.9. the sum of the Conforming Capital Expenditure in the first two categories of expenditure above are outlined in the following table:

Conforming Capital Expenditure in Prior Access Arrangement Period

Table 3 Conforming Capital Expenditure 2005 to 2010 (Real $million, dollar values at 31 December 2009)

Year ending 31 December	2005	2006	2007	2008	2009	2010	Total
Pipelines	0.74	2.97	244.38	503.77	0.17	439.02	**1191.05**
Compression	0.00	55.06	162.77	118.78	9.53	167.52	**513.65**
Metering	0.00	0.06	0.00	0.00	0.08	0.05	**0.18**
Other	0.04	3.47	2.28	5.68	8.15	65.60	**85.22**

Total	**0.78**	**61.54**	**409.42**	**628.23**	**17.93**	**672.19**	**1790.10**

3.10. Expenditure incurred to expand the capacity of the DBNGP is justified by the Operator in a separate submission – submission #9 to be filed on or about the date of filing of this submission.

3.11. Expenditure made and classified by the Operator as Stay in Business capital expenditure is justified by the Operator as being Conforming Capital Expenditure in a separate submission – submission #10 to be filed on or about the date of this submission.

3.12. Capital Expenditure which has been contributed to by a shipper during the prior access arrangement period has also been rolled into the opening capital base. The following table summarises these contributions

Capital Contributions in Prior Access Arrangement Period

Table 4 Capital Contributions broken down by year (Nominal $Million)

	2005	2006	2007	2008	2009	2010
Total	**1.94**	**0.00**	**0.08**	**0.00**	**21.27**	**14.66**

3.13. DELETED

3.14. DELETED

3.15. DELETED

3.16. In the case of each project, the project only proceeded following:

(a) The development of a front end engineering & design (**FEED**) report to enable the shipper to understand the nature of the work involved and the capital costs required

(b) The entering into of an agreement between the Operator and the shipper to agree on the basis of construction of the shipper facilities; and

(c) The agreement for the rebate of a portion of the capital costs to the extent that a third party shipper was granted access to capacity in the new facilities

3.17. Whenever a new third party shipper is granted access to these shipper funded facilities, the Operator insists on that new third party shipper entering into a contribution agreement whereby the new third party shipper is obliged to pay a charge equal to the rebate amount that must be provided to the contributing shipper.

Other adjustments to the Opening Capital Base

3.18. As stated in the Proposed Revised AAI, the Opening Capital Base for the Access Arrangement Period has not been amended for any amounts in any of the following categories because there are no amounts during the Prior Access Arrangement Period that fall within these categories:

(a) Amounts to be added to the Capital Base under rule 84 of the NGR.

(b) Amounts to be added to the Capital Base under rule 86 of the NGR.

(c) Amounts to be subtracted from the Opening Capital Base, being for redundant assets identified during the course of the Prior Access Arrangement Period.

(d) Amounts to be subtracted from the Opening Capital Base, being for the value of pipeline assets disposed of during the Prior Access Arrangement Period.

Depreciation Schedule for the prior Access Arrangement Period

3.19. The Proposed Revised AAI outlines the depreciation of the capital base in the prior Access Arrangement Period

4. RATE OF RETURN [DIVISION 5]

4.1. The Operator has proposed a rate of return in determining Total Revenue for each year of the Access Arrangement Period of 10.76% (real, pre-tax).

4.2. This submission supplements the information contained in the Proposed Revised AAI and submission#8 to be filed at or about the same time as this submission.

4.3. That information deals with the following information requests outlined in the RIN:

(a) Provide in Pro forma 2 the values of each of the parameters that comprise the weighted average cost of capital (WACC) methodology and capital asset pricing (CAPM) methodology.

(b) Provide in the access arrangement proposal submission a justification for the values of each of the parameters used in the WACC derivation.

(c) Provide in the access arrangement proposal submission an explanation about how the proposed rate of return complies with Rule 87.

(d) Where a method other than the weighted average cost of capital and CAPM are used, provide in the access arrangement proposal submission:

(i) an outline of the proposed methodology for the rate of return;

(ii) a quantification of the rate of return using this methodology including any justification for the use of parameters in this methodology; and

(iii) an explanation about how the proposed rate of return complies with Rule 87.

4.4. The way in which the Rate of Return has been calculated is set out in Table 5.

Table 5 Demonstration of calculation of the Rate of Return

$WACC_{nominal\ post\text{-}tax} = E(r_e) \times ((1 - t)/(1 - t \times (1 - \gamma)) \times E/V + E(r_d) \times (1 - t) \times D/V$

$E(r_e)$ is the nominal post-tax expected rate of return on equity - the cost of equity

$E(r_d)$ is the nominal pre-tax expected rate of return on debt - the cost of debt

E/V is the proportion of equity in the total financing (which comprises equity and debt)

D/V is the proportion of debt in the total financing

t is the tax rate

γ (gamma) is the value of imputation credits

Divide by 1 - t to convert to nominal pre-tax:

$WACC_{nominal\ pre\text{-}tax} = E(r_e) \times (1/(1 - t \times (1 - \gamma)) \times E/V + E(r_d) \times D/V$

Apply Fisher equation to obtain real pre-tax WACC:

$WACC_{real\ pre\text{-}tax} = (1 + WACC_{nominal\ pre\text{-}tax})/(1 + \pi^e) - 1$

π^e is expected inflation

Parameter	Estimate
Cost of equity	13.50%
Cost of debt	9.73%
Gearing: equity to total value	40.00%
Gearing: debt to total value	60.00%
Tax rate	30.00%
Value of imputation credits (gamma)	0
Expected inflation	2.52%
WACC	
Nominal pre-tax WACC	13.55%
Real pre-tax WACC	10.76%

5. DEPRECIATION [DIVISION 6]

5.1. The depreciation schedule setting out the basis on which the pipeline assets constituting the capital base during the Prior Access Arrangement Period are depreciated is in Table 6.

Table 6 Opening Capital Base Depreciation Schedule 2005 to 2010 (Real $million, dollar values at 31 December 2009)

Year ending 31 December	2005	2006	2007	2008	2009	2010	Total
Pipelines	32.40	32.40	32.40	32.40	32.40	32.40	**194.41**
Compression	15.80	15.80	15.80	15.80	15.80	15.80	**94.79**
Metering	0.64	0.64	0.64	0.64	0.64	0.64	**3.83**
Other	3.95	3.95	3.95	3.95	3.95	3.95	**23.72**
Total	**52.79**	**52.79**	**52.79**	**52.79**	**52.79**	**52.79**	**316.75**

5.2. The principles for determining the values of depreciation for the purposes of determining the Total Revenue are outlined in section 9 of the Proposed Revised AA.

6. PROJECTED CAPITAL BASE [R. 78]

6.1. The Projected Capital Base for the Access Arrangement Period is calculated, in accordance with Rule 78 of the NGR, by way of the following formula:

(a) the Opening Capital Base for the Current Access Arrangement Period;

plus

(b) forecast Conforming Capital Expenditure for the Current Access Arrangement Period (including forecast capital expenditure to which Shippers are expected to have contributed) – Table 7 summarises this forecast expenditure;

less

(c) forecast of depreciation for the Current Access Arrangement Period.

6.2. There is no forecast value of pipeline assets to be disposed during the Access Arrangement Period.

6.3. The Operator does not propose for there to be any non conforming capital expenditure in either the prior access arrangement period or the Access Arrangement Period. However, it has made provision in the Proposed Revised AA for the establishment of a notional fund whereby any non conforming capital expenditure that is not to be recovered by the Operator through a Surcharge on shippers or through a capital contribution, is to be dealt with in accordance with Rules 84(2) and (3) of the NGR.

6.4. Applying the formula in clause6.1 above, the Projected Capital Base for each year of the Access Arrangement Period is as outlined in Table 10.

6.5. The derivation of the values for each element of the above formula in clause 6.1 for establishing the Projected Capital Base is explained in the remainder of this section of the submission.

Forecast Conforming Capital Expenditure 2011 to 2015

6.6. Forecast Conforming Capital Expenditure for the Access Arrangement Period is summarized in Table 7.

Table 7 Forecast Conforming Capital Expenditure by asset class 2011 to 2015 (Real $million, dollar values at 31 December 2009)

Year ending 31 December	2011	2012	2013	2014	2015	Total
Pipelines	15.40	8.39	**3.88**	**4.62**	7.81	**40.11**
Compression	8.27	0.49	2.66	2.66	0.16	**14.22**
Metering	5.57	4.35	4.71	0.62	0.82	**16.06**
Other depreciable assets	40.86	4.74	4.15	6.75	6.15	**62.67**
Non-depreciable assets	0.00	0.00	0.00	0.00	0.00	**0.00**
Sub Total	**70.11**	**17.97**	15.39	14.64	**14.93**	**133.06**
Capital Expenditure contributed by Shippers						
Pipelines	0.00	0.00	0.00	0.00	0.00	**0.00**
Compression	0.00	0.00	0.00	0.00	0.00	**0.00**
Metering	0.23	2.66	1.44	0.00	0.00	**4.32**
Other depreciable assets	0.00	0.00	0.00	0.00	0.00	**0.00**
Sub Total	**0.23**	**2.66**	**1.44**	**0.00**	**0.00**	**4.32**

TOTAL	**70.34**	**20.63**	**16.84**	**14.64**	**14.93**	**137.38**

6.7. The basis of this forecast of Conforming Capital Expenditure is:

(a) There will be no expansion of the capacity of the DBNGP during the Access Arrangement Period (substantial forecast expenditures during 2012 include the final payments to be made for the Stage 5B expansion);

(b) No forecast capital expenditure is to be non conforming capital expenditure;

(c) The amounts contained in this forecast are the minimum amounts required to ensure the Operator:

(i) Maintains and improves the safety of pipeline services;

(ii) Maintains the integrity of pipeline services;

(iii) Complies with the regulatory obligations or requirements applicable to the DBNGP; or

(iv) Maintains its capacity to meet levels of demand for pipeline services existing at the time the capital expenditure is forecast to be incurred (as distinct from projected demand that is dependent on an expansion of pipeline capacity). In this regard, the forecast demand is outlined in section 8 of the AAI.

6.8. It should be noted that in the Proposed Revised AAI, the Operator stated that forecast expenditure relating to the overhauls of gas turbines that form part of the DBNGP will be capitalized. This is however, incorrect. This expenditure will be included in the forecast operating expenditure.

6.9. The detailed justification of the forecast Conforming Capital Expenditure is contained in the Operator's submission#11 filed on or about the date of this submission.

6.10. DELETED

Forecast Depreciation Schedule - 2011 to 2015

6.11. As outlined in the Proposed Revised AAI, a separate depreciation schedule has been determined for each of the 4 classes of physical assets that form the DBNGP, these 4 asset classes are:

(a) pipeline assets;

(b) compressor station assets;

(c) metering assets; and

(d) other assets.

6.12. The depreciation schedule has been designed:

(a) so that reference tariffs will vary, over time, in a way that promotes efficient growth in the market for reference services;

(b) so that each asset or group of assets is depreciated over the economic life of that asset or group of assets;

(c) so as to allow, as far as reasonably practicable, for adjustment reflecting changes in the expected economic life of a particular asset, or a particular group of assets;

(d) so that (subject to the rules about capital redundancy), an asset is depreciated only once (i.e. that the amount by which the asset is depreciated over its economic life does not exceed the value of the asset at the time of its inclusion in the capital base (adjusted for inflation)); and

(e) so as to allow for the service provider's reasonable needs for cash flow to meet financing, non-capital and other costs.

6.13. For the assets in each of the 4 asset classes, depreciation has been determined using the straight-line method with the life of assets in each class as shown in table 9.

6.14. The depreciation on each class of assets for the period 1999 to 2004 was the depreciation used in the determination of the reference tariff applicable during that period. Similarly, the depreciation on each class of assets for the period 2005 to 2010 was the depreciation used in the determination of the reference tariff applicable during that period.

6.15. The depreciation, for the Proposed Revised AA on the initial Capital Base as at 1 January 2000 and on Conforming Capital Expenditure made from 2000 to 2004, is determined using the straight line method with the following assumptions as to asset lives:

(a) In the case of the initial Capital Base as at 1 January 2000 – using the remaining asset lives for the four asset classes as follows:

(i) Pipeline assets – 54.50 years;

(ii) Compression assets – 19.34 years;

(iii) Meter station assets – 39.98 years;

(iv) Other assets – 16.85 years; and

(b) In the case of Conforming Capital Expenditure made from 2000 to 2004 – using lives in each class of asset as shown in table 9.

6.16. The depreciation, for the Access Arrangement Period, on Conforming Capital Expenditure made in 2005 to 2010 has been determined using the straight line method with the lives in each class of asset as shown in Table 9.

6.17. The depreciation for the Current Access Arrangement Period on forecast Conforming Capital Expenditure for that period has been determined using the straight line method with the lives in each class of asset shown in table 9.

Table 8 Asset Lives

Asset	Asset Life (years)
Pipeline assets	70
Compression assets	30
Metering assets	50
Other depreciable assets	30

6.18. Table 9 shows the depreciation schedule for each class of assets comprising the Capital Base. It sets out the basis on which the pipeline assets constituting the capital base are to be depreciated for the purpose of determining the Reference Tariff.

Table 9 Depreciation Schedule 2011 to 2015

Year ending 31 December	2011	2012	2013	2014	2015
Real $million, dollar values at 31 December 2009					
Pipeline assets	49.59	49.81	49.93	49.98	50.05
Compression assets	33.47	33.74	33.76	33.85	33.94
Metering assets	1.25	1.37	1.51	1.63	1.64
Other depreciable assets	7.79	9.15	9.31	9.45	9.67
Total	**92.10**	**94.07**	**94.50**	**94.91**	**95.30**

Projected Capital Base

6.19. Table 10 is the application of the formula for the establishment of the Projected Capital Base for each year of the Access Arrangement Period, as outlined in section 6.1 of this submission and in section 6.1 of the Proposed Revised AAI.

Table 10 Projected Capital Base (Real $million, dollar values at 31 December 2009)

Year	2011	2012	2013	2014	2015
Capital Base (as at 1 Jan)	3352.16	3330.41	3256.97	3179.30	3099.03
Plus					
Forecast Conforming Capital Expenditure	70.11	17.97	15.39	14.64	14.93
Forecast Capital Contributions	0.23	2.66	1.44	0.00	0.00
Less					
Forecast Depreciation	92.10	94.07	94.50	94.91	95.30
Forecast Asset Disposals					
Projected Capital Base (as at 31 Dec)	**3330.41**	**3256.97**	**3179.30**	**3099.03**	**3018.67**

7. TAXATION [R. 76]

7.1. An implicit allowance is made for the cost of corporate income tax through the use of a value for the Rate of Return that is determined on a pre-tax basis.

8. INCENTIVE MECHANISM [DIVISION 9]

8.1. Under rule 98 of the NGR:

(a) A full access arrangement may include (and the AER may require it to include) one or more incentive mechanisms to encourage efficiency in the provision of services by the service provider.

(b) An incentive mechanism may provide for carrying over increments for efficiency gains and decrements for losses of efficiency from one access arrangement period to the next.

(c) An incentive mechanism must be consistent with the revenue and pricing principles.

8.2. The Operator has elected not to include any such mechanism in its Proposed Revised AA.

9. FORECAST OPERATING EXPENDITURE [DIVISION 7]

9.1. Under Rule 91 of the NGR the criteria governing operating expenditure are:

(a) Operating expenditure must be such as would be incurred by a prudent service provider acting efficiently, in accordance with accepted good industry practice, to achieve the lowest sustainable cost of delivering pipeline services.

(b) The AER's discretion under this rule is limited.

9.2. Operator's forecast operating expenditure is justified in submission#12 to be filed at or about the date of this submission.

10. FIXED PRINCIPLES [DIVISION 10]

10.1. The following are Fixed Principles in accordance with Rule 99 of the NGR:

(a) the method of determination of the Capital Base at the commencement of each year of each access arrangement period as set out in section 7 of the (current) DBNGP Access Arrangement;

(b) the revenue earned by Operator during the period commencing on 1 July 2005 and ending on 31 December 2015 from the sale of any Services which is in excess of the amount (in net present value terms) equal to the sum of:

(A) the revenue that would have been earned had any of those services which were Full Haul Services been sold at the Reference Tariff; and

(B) the revenue actually earned from the sale of those services which were services other than Full Haul Services,

must not:

(C) be taken into account directly or indirectly for the purposes of setting a Reference Tariff or determining or applying any aspect of the price and revenue elements of the Access Arrangement which applies on or after 1 January 2011; or

(D) otherwise be taken into account directly or indirectly by the relevant Regulator in performing any of its functions under the NGA, NGL or NGR.

10.2. For the purposes of the Fixed Principles, which are now set out in clause 10.1 of the Proposed Revised AA, the fixed period is until 31 December 2031.

10.3. It should be noted that in Schedule 1 of the NGR, clause 6 provides that NGR Rule 99(4)(b) does not apply to the fixed principle in clause 7.13(a)(ii) of the (current) DBNGP Access Arrangement.

10.4. It is this very fixed principle that the Operator has retained in the Proposed Revised AA.

10.5. This ensures that the ERA does not have the power under Rule 99 to consider whether the fixed principle is consistent with the pricing principles of the NGL.

11. TOTAL REVENUE AND REFERENCE TARIFF

11.1. When applied to the contracted Full Haul equivalent capacity and throughput forecasts for the Access Arrangement Period, the proposed revised Reference Tariff yields a forecast of revenue which has a present value equal to the present value of the that portion of the total revenue referable to the Reference Service during that period.

11.2. Accordingly, all costs are assumed to be recovered from reference service shippers on the assumption that all access contracts entered into prior to the commencement of the Access Arrangement Period are contracts for the reference service.

11.3. However, it should be noted that in accordance with section 12 of the Proposed Revised AA, the Operator will not benefit, through increased revenue, from each amount of a shipper's capital contribution that has been added to the capital base.

11.4. In revising the Reference Tariff, the Operator has not proposed a change in the structure of the reference tariff in the (current) DBNGP Access Arrangement.

11.5. There are no prudent discounts proposed in the Proposed Revised AA.

11.6. As to the variation of the reference tariff, section 15 of the Proposed Revised AAI outlines the various variation mechanisms that are to apply.

12. DELETED