SUBMISSION 11: Forecast Capital Expenditure

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**). This submission is aimed at supplementing the information in the Proposed Revised AA and Proposed Revised AAI in order to address the information requested by the ERA in the RIN.

1.4. In addition to the 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 (being this submission)
2. AA & AAI Compliance Checklist
3. Pipeline Services
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 (being this submission)
12. Actual Operational Expenditure and Forecast Operational Expenditure

1.5. This submission provides detailed explanation and justification of forecasted capital expenditure planned for the 2011 to 2015 regulatory period.

2. THE CRITERIA FOR CONFORMING CAPITAL EXPENDITURE UNDER THE NGR

2.1. Under the NGR, capital expenditure can be rolled into the capital base if it is conforming capital expenditure under Rule 79 of the NGR.

2.2. NGR Rule 79 provides that conforming capital expenditure is capital expenditure that conforms with the following criteria:

(a) the capital 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 providing services;

(b) the capital expenditure must be justifiable on a ground stated in subrule (2).

2.3. The grounds outlined in NGR Rule 79(2) are:

(a) the overall economic value of the expenditure is positive. It is noted that, in addition to the considerations outlined in NGR Rule 79(3) to be taken into account to determine whether the overall economic value of expenditure is positive, NGR Schedule 1, clause 7(2) provides that the ERA must consider material economic value that is likely to accrue directly to electricity market participants and end users of electricity from additional gas fired generation capacity; or

(b) the present value of the expected incremental revenue to be generated as a result of the expenditure exceeds the present value of the capital expenditure; or

(c) the capital expenditure is necessary:

(i) to maintain and improve the safety of services; or

(ii) to maintain the integrity of services; or

(iii) to comply with a regulatory obligation or requirement; or

(iv) to maintain the service provider's capacity to meet levels of demand for services existing at the time the capital expenditure is incurred (as distinct from projected demand that is dependent on an expansion of pipeline capacity); or

(d) the capital expenditure is an aggregate amount divisible into 2 parts, one referable to incremental services and the other referable to a purpose referred to in paragraph (c), and the former is justifiable under paragraph (b) and the latter under paragraph (c).

3. JUSTIFICATION OF STAY-IN-BUSINESS CAPEX 2011-2015

3.1. Operator divides its forecast capital expenditure into:

(a) expansion CAPEX; and

(b) stay-in-business CAPEX.

3.2. Expansion CAPEX is the capital expenditure expected to be incurred in expanding the gas transportation capacity of the DBNGP. Expansion CAPEX is usually:

(a) large – it is for pipeline looping and additional compression; and

(b) infrequent – it is required only when shippers require additional capacity.

3.3. Detailed justification for Stay-in-business will be provided in table 2 below.

4. EXPANSION CAPITAL EXPENDITURE 2011 – 2015

4.1. Operator has forecast expansion related capital expenditure in 2011 to be $50.3M as shown in Table 1 below.

4.2. This amount accounts for the remaining expenditure required to complete the stage 5B project that is expected to be capitalised in the calendar year 2011.

4.3. There is no other expansion related capital expenditure expected to occur in the period 2011 to 2015.

Table 1: Capital Expenditure Expansion ($m nominal)

	2011	2012	2013	2014	2014
Pipeline	5.313	-	-	-	-
Compression	8.357	-	-	-	-
Metering	0.148	-	-	-	-
Other	36.509	-	-	-	-
Total	**50.327**	**-**	**-**	**-**	**-**

5. STAY-IN-BUSINESS CAPITAL EXPENDITURE 2011 - 2015

5.1. This section of this Submission provides justification for the stay-in-business capital expenditure which Operator has taken into account for the purpose of determining the reference tariff of the Revised Access Arrangement.

5.2. Operator notes that for the purpose of reference tariff determination, all stay-in-business capital expenditure is classified as “Other assets”, and is depreciated over an asset life of 30 years.

5.3. The individual capital projects which comprise stay-in-business capital expenditure are listed in Table 2.

Table 2: DELETED

Table 3: DELETED