



Economic Regulation Authority

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NOTICE

Goldfields Gas Pipeline Proposed Revised Access Arrangement

FINAL DECISION

The Economic Regulation Authority today issued its [final 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 final 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)*.

Small gas customers such as households and small businesses at Kalgoorlie and Esperance are unlikely to be significantly impacted by the final 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 final decision, 21 required amendments to the proposed GGP access arrangement revisions.

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.

The GGP provides gas predominantly to the mining industries in the East Pilbara and the North East Goldfields region. The GGP also transports 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 of the Act were proclaimed at that time. The remainder of this Act and associated regulations came into force on 1 January 2010.

As GGT's proposed revisions to the GGP access arrangement were submitted under the Code, the revised GGP access arrangement will be assessed and administered under the Code even though the Code was repealed on 1 January 2010. When GGT lodges its revisions to the revised GGP access arrangement in the future, scheduled for 2014, it will be under the *National Gas Access (Western Australia) Act 2009* and the associated regulations.

As mentioned, small gas customers such as households and small businesses at Kalgoorlie and Esperance are unlikely to be significantly impacted by the final 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 once a year as they are linked by government regulation to the Consumer Price Index (CPI). The most recent increase was on 1 April 2010.

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 the Authority's [website](#).

On 9 October 2009 the Authority issued its draft decision. A non-redacted version of the draft decision, which included certain previously confidential information, was issued on 9 November 2009. Submissions were invited on the draft decision over the period from 9 October to 11 December 2009. Public submissions were received from BHP Billiton, the Australian Pipeline Industry Association, the Financial Investor Group (APA Group, Prime Infrastructure and DUET Group), Esperance Pipeline Company and GGT.

GGT submitted an amended version of its proposed revisions to the Authority on 22 April 2010. The final decision refers to this amended proposal (Proposed Revisions).

Key issues in the final decision

Reference tariff

The final decision requires GGT's **proposed** firm service reference tariff to be significantly reduced. Based on a comparison with the present firm service reference tariff at Kalgoorlie under the current access arrangement, the final decision amounts to a reduction of about 10 per cent at the commencement of the forthcoming access arrangement. On the basis of a discounted weighted average tariff calculated at Kalgoorlie, this reduction to GGT's **proposed** tariff amounts to about 32 per cent.

The final decision sets out the differences between GGT's reference tariff charges in its Proposed Revisions 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 final decision are the method used to allocate costs for calculation of the reference tariff and the rate of return provided on the GGP capital base.

In the final decision, the Authority has also revised its draft decision position in two key areas. These are the treatment of uncovered expansions of capacity and the modelling method used to derive reference tariffs.

Reference Tariff Charges

Tariff Component	GGT's Current Tariff April – June 2010	GGT's Proposed Revisions	Final Decision
Toll charge [\$ per GJ of MDQ]	0.283290	0.345720	0.243262
Reservation charge [\$ per GJ*km of MDQ]	0.001619	0.002126	0.001438
Throughput charge [\$ per GJ*km of Q]	0.000420	0.000572	0.000400

Uncovered expansions of capacity

GGT proposed in its Proposed Revisions that the expansions of capacity on the GGP (which GGT had elected to be uncovered under the current GGP access arrangement) should not be taken into account for the purpose of calculating the reference tariff. These uncovered expansions total 49TJ/day out of a total pipeline capacity of approximately 158TJ/day.

In its draft decision the Authority did not accept GGT's position on this matter and required that all actual and forecast costs, revenues and volumes relating to these uncovered expansions of capacity be taken into account in determining the reference tariff. In the final decision the Authority has revised its view in light of the submissions received on the draft decision and further consideration of the Code requirements.

The final decision is that the Authority considers that the Code provisions require that the capital costs, operating costs and capacity of only the covered GGP should be brought to account in determining the total revenue and that the services to be provided using only the covered GGP should be used to derive a reference tariff for the GGP.

The Authority noted in the final decision that if in the future a coverage application is made with respect to the uncovered expansions of capacity and the relevant Minister accepts a recommendation by the National Competition Council for coverage of the uncovered expansions of capacity, then GGT will be obliged under the National Gas Rules to submit an access arrangement for approval by the Authority. Under such an access arrangement reference tariffs will be set by the Authority for any reference services supplied by means of these expansions of capacity. The relevant Minister is the Western Australian Minister for Energy.

As outlined below the final 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.

Annual verses quarterly modelling

In its Proposed Revisions, GGT proposed that 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.

In its draft decision the Authority did not accept GGT's position on this matter and required that the quarterly modelling approach in GGT's current access arrangement should remain

in place. In the final decision the Authority has revised its view in light of the submissions received on the draft decision and further consideration of the Code requirements.

The final decision is that annual modelling should be used as the basis for determining the particular components of the total revenue and the reference tariff.

GGT also proposed, under its annual modelling approach, that the reference tariff over the next access arrangement period be adjusted for actual inflation. The final decision is that the reference tariff should remain constant in nominal terms throughout the next access arrangement period, subject to adjustment where actual inflation does not equal forecast inflation. The forecast annual inflation rate in the final decision is 2.5 per cent.

Allocation of Costs

In relation to capital costs, the Authority's accepts GGT's proposal to allocate capital costs equally across all covered pipeline services.

In relation to non capital costs, the Authority does not accept GGT's proposed revisions.

GGT proposed that the non capital costs of providing reference and non-reference services, on the covered pipeline should be recovered disproportionately from users of these services. The Authority maintains the view expressed in the draft decision that under GGT's proposal users of reference services would bear a higher proportion of the non-capital costs than would be appropriate. For example, GGT has proposed that most of the regulatory costs would be allocated against the 3.8TJ/day of forecast spare capacity compared with the total forecast capacity for the covered pipeline of 109TJ/day.

The final decision is that the Authority does not accept GGT's proposed cost allocation methodology and considers that total revenue should be allocated across all capacity provided by means of the covered pipeline which includes all spare and contracted capacity on the GGP with the exception of the uncovered capacity.

Rate of return

Under its Proposed Revisions, GGT has proposed a nominal pre-tax rate of return of between 11.9 to 15.1 per cent. Based on this range, GGT noted that 14.3 per cent was appropriate. GGT's current access arrangement is based on a nominal pre-tax rate of return of 10.6 per cent.

The Authority's final decision is to not accept GGT's proposed rate of return. The final decision requires GGT to adopt a nominal pre-tax rate of return of 10.48 per cent.

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 in its Proposed Revisions that this policy remain unchanged.

The Authority's final decision is to not accept the expansion policy proposed by GGT. The final 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.

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 final decision is to require a trigger event to be included in GGT's proposed revisions with the trigger threshold being an increase of more than 10 per cent in the capacity of the covered GGP, as set out under Required Amendment 19.

Further Final Decision

The Authority has required GGT to respond to the final decision with appropriate revisions to its Proposed Revisions by Friday 4 June 2010. Subsequent to this date, the Code requires the Authority to issue a further final decision either approving GGT's revisions to the GGP access arrangement or, if these revisions are not approved, issuing and approving its own revisions to this access arrangement.

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