Submission

Dampier to Bunbury Natural Gas Pipeline: Proposed Revisions to the Access Arrangement

Economic Regulatory Authority
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1.0 INTRODUCTORY COMMENTS

Chevron Australia welcomes the opportunity to make a submission regarding the Dampier Bunbury Pipeline (DBP) proposed revisions to the access arrangement for the Dampier to Bunbury Natural Gas Pipeline.

Chevron does not consider sufficient detailed information has been made available to enable an accurate assessment of each of the 16 issues upon which comment was invited. As a result, Chevron has elected to make a general submission around the proposed revisions to the Reference Services offered and the Proposed Rate of Return.

In summary, Chevron is concerned that a decrease in the number of Reference Services offered by DBP may disadvantage some shippers, suppliers and the market as a whole, with the effect of ultimately decreasing competition within the WA gas market. Chevron believes the Reference Services provide an important reference point for the negotiation of non-reference services and ultimately a fallback in the event a non-reference service is unable to be negotiated with the provider of a monopoly service. For these reasons, Chevron believes all existing Reference Services should be retained.

Chevron is also concerned with DBP's proposed increase in the Rate of Return. Chevron's experience is that the DBP's current rate of return is in line with that achieved in the U.S. and by other regulated utilities in WA. We are also unable to determine what additional risk is undertaken to support the proposed increased ROR from the current 9.98%.

2.0 ABOUT CHEVRON

2.1 Chevron Corporation

Chevron Corporation, through its subsidiaries and affiliates, operates across the entire energy supply spectrum. Chevron's interests include exploring for, producing and transporting crude oil and natural gas and refining, marketing and distributing petroleum fuel. We also generate electrical power, design and market large-scale energy efficiency solutions and are working toward commercialising the energy resources of the future, including bio-fuels and other renewable energy. Chevron is the world's largest producer of geothermal energy and maintains one of the largest hydrogen transportation fuel infrastructures in the United States of America. Chevron Corporation employs approximately 62,000 people and its subsidiaries conduct business in over 100 countries. Chevron Corporation is based in San Ramon, California.

2.2 Chevron in Australia

Chevron has been present in Australia for more than 50 years and is a pioneer of the Australian oil industry with legacy company Texaco marketing petroleum products in Australia shortly after World War One. Marketing operations under the Caltex banner commenced in 1941 and the first refinery came on stream in 1956. A Caltex joint venture made Australia's first flowing oil discovery in 1953 and Chevron and Texaco discovered the Barrow Island Field in 1964.

2.2.1 The Gorgon Project

The Greater Gorgon area gas resource comprises approximately 25 percent of all the natural gas discovered to date within Australia. Chevron and its joint venture partners, ExxonMobil, Shell, Tokyo Gas, Osaka Gas and Chubu Electric are commercialising this gas resource by establishing a major liquefied natural gas (LNG) processing centre on Barrow Island, approximately 60 km off the north-west coast of Australia. The foundation Gorgon Project will include a 300 terajoule per day domestic gas plant, with first gas scheduled in 2015, and three 5 million-tonne-per-year LNG processing trains.

2.2.2 Wheatstone Project

The Wheatstone Project is a greenfield LNG and domestic gas project at Ashburton North, which is located about 12km west of the town of Onslow on the Pilbara Coast of Western Australia. During the first phase of the Wheatstone Project, Chevron and its joint venture partners plan to construct two 4.3 million-tonne-per-year LNG processing trains and a 200 terajoule per day domestic gas plant.

2.2.3 Non-Operated Joint Ventures

Chevron is a one-sixth partner in the North West Shelf Venture (NWSV), Australia's largest resource project with the capacity to produce 16.3 million tonnes per year of LNG and approximately 70 percent of the natural gas used in Western Australia. NWSV is Australia's largest resource development with investment to date totalling $27 billion. LNG from the Venture is exported to Japan, South Korea and China. The project supplies approximately 63 percent of Western Australia's domestic natural gas.

Chevron is also investing in the Browse Basin through the Browse LNG Joint Venture, a liquefied natural gas project off the coast of Western Australia. The Browse development aims to commercialise around 14 trillion cubic feet of natural gas and 330 million barrels of condensate.

3.0 DBP REFERENCE SERVICES

The DBP has proposed reducing the number of its reference services, which currently include Full Haul, Part Haul and Back Haul offerings, to a single Full Haul R1 Service.

It has not been possible to fully understand the justification for the removal of the Part Haul and Back Haul services due to the deletion of many sections of Submission 3 "Pipeline Services". In particular, we note the deletion of paragraphs 5.3(a)(ii), 5.4, 5.6, 5.10, 5.11, 5.12, 5.13 and 5.14. As a result of the missing justification, our comments are at a conceptual level only.

Chevron understands that there are none, or very few, reference agreements currently in place between DBP and shippers. Although parties may prefer to negotiate non-reference services, Chevron believes it is important to retain the Part Haul and Back Haul reference tariffs as they provide a basis from which non-reference services can be negotiated and ultimately something the transporter can revert to in the event they are unable to reach agreement with the provider of a monopoly service.

Chevron is concerned that the removal of the Part Haul and Back Haul reference services may reduce competition in the WA gas market and may lead to the construction of duplication pipelines.

If a gas buyer upstream of a gas producer or potential gas producer was unable to secure a non-reference Back Haul agreement, or the cost of such an agreement was prohibitive, this would provide a competitive advantage to gas producers upstream of the buyer, or potentially eliminate the downstream gas producer from the pool of potential suppliers, reducing competition within the WA domestic gas market.

Similarly, if a gas buyer was unable to secure a non-reference Part Haul agreement at a reasonable cost, without a reference Part Haul agreement to fall back on, they may elect to construct their own pipelines, leading to pipeline duplication and a less efficient regional marketplace.

4.0 DBP RATE OF RETURN

The DBP is seeking an increase in its nominal rate of return (***"ROR"***) from 9.98% to 13.55%, an increase of 36%, leading to a 40% increase in the reference tariff.

In general, Chevron supports DBP receiving a ROR in line with industry norms, commensurate with the risk undertaken and which supports future expansion of the pipeline.

Chevron believes insufficient evidence has been provided by the DBP to support the higher rate of return and the cost of debt. The deletion of clauses 15.5 to 15.11 of Submission 8 providing "Empirical evidence for the cost of equity" and the deletion of clauses 8.6, 8.7, 8.16, 8.17 and 8.18 "Applying Rule 87(2): Cost of Debt" are particularly noted. We are also unable to determine what additional risk is undertaken to support the proposed increased ROR from the current 9.98%.

With important pieces of information missing from the DBP's submission, we are left to use benchmarking to determine the reasonableness of the DBP's claim. Chevron's natural gas pipeline experience in the U.S. and rulings by the US Federal Energy Regulatory Commission suggests a 10% nominal ROR is typical for pipelines in the U.S. Chevron acknowledges differences exist between the US and WA markets, however we also note ERA's recent determinations of real pre-tax WACC returns of 7.7% and 7.98% for the Goldfields Gas Pipeline and Western Power electricity networks respectively.

Chevron suggests the ERA benchmark DBP's proposed ROR with the returns made by other Australian pipelines and utilities, giving consideration to their associated risk profiles and the need for future expansion of the DBNGP.