



CONSULTATION

Proposed Revised Access Arrangement for the Dampier to Bunbury Natural Gas Pipeline

DRAFT DECISION

The Economic Regulation Authority (**ERA**) has issued its draft decision not to approve the proposed revisions to the Access Arrangement for the Dampier to Bunbury Natural Gas Pipeline (**DBNGP**). The reasons for the ERA's decision are set out in the draft decision available on the ERA's [website](#). A summary of key aspects of the draft decision is attached to this notice.

The public version of the draft decision has been redacted to exclude information considered by DBP to be confidential, including elements of a report by the Authority's technical advisor. The Authority is currently considering DBP's claims of confidentiality and may publish further information concerning these matters at a future date.

BACKGROUND

The proposed revisions to the DBNGP access arrangement were submitted by DBNGP (WA) Transmission Pty Limited (**DBP**) under the *National Gas Access (Western Australia) Act 2009*. The Act adopts a modified form of the National Gas Law (**NGL**) and National Gas Rules (**NGR**) as law in Western Australia. The law is referred to as the National Gas Access (Western Australia) Law (**NGL(WA)**).

The DBNGP consists of the gas pipeline system as described by a range of Western Australian pipeline licences as well as leased capacity on the Burrup Extension Pipeline. The pipeline system links gas suppliers in the north-west of Western Australia with markets, principally in the south-west of Western Australia.

The DBNGP is operated by DBP and is owned by DBNGP (WA) Nominees Pty Ltd as Trustee for the DBNGP (WA) Pipeline Trust. The Diversified Utilities and Energy Trust is the majority owner of the DBNGP with minority owners being Alcoa of Australia Ltd and Prime Infrastructure Group.

REVISION PERIOD

The ERA requires DBP to respond to the draft decision and provide revisions to its access arrangement proposal by **4:00 pm (WST) on Monday, 18 April 2011**.

PUBLIC SUBMISSIONS

The NGR requires the ERA to allow at least 20 business days from the end of the revision period for public submissions on the draft decision.

Interested parties are invited to make submissions in printed and electronic form on the ERA's draft decision by **4:00 pm (WST) on Friday 20 May 2011**.

Submissions should be sent to:

The Dampier to Bunbury Natural Gas Pipeline
Gas Access
Economic Regulation ERA
PO Box 8469
Perth BC WA 6849

Electronic submissions should be sent to: publicsubmissions@erawa.com.au.

All submissions from interested parties will be treated as being in the public domain and placed on the ERA's website, unless the information is marked as confidential. Where an interested party wishes to make a submission in confidence, the party should be aware that the ERA will need to be satisfied that information submitted to it in confidence does not fall into a category of information under ss. 325-329 of the NGL for disclosure and confidentiality purposes. A generic claim for confidentiality over the entire information provided should not be made unless all such information is genuinely confidential. Therefore, parties making submissions should clearly indicate the parts of the submission for which confidentiality is claimed and provide detailed and specific reasons for the basis on which the claim is made.

The publication of a submission on the ERA's website shall not be taken as indicating that the ERA has knowledge either actual or constructive of the contents of a particular submission and, in particular, whether the submission in whole or in part contains information of a confidential nature and no duty of confidence will arise for the ERA.

PUBLIC HEARING

Under the NGR, the ERA may hold a hearing about the draft decision either on its own initiative or on request by any person. Parties are invited to request the ERA to hold a hearing. Rule 61(2) of the NGR sets out the requirements for such a request must be in writing within 10 business days after publication of the draft decision and the request should include the reasons for requiring a hearing. Parties can email the ERA at the email address set out above for public submissions.

The ERA will advise parties, through a notice on its website and by email, of the appropriate hearing details. Should such a hearing be held, it is likely to take the form of a forum discussion (such as a roundtable).

TIME LIMITS

The NGR sets out, under rule 61, time limits for issuance of the final decision. Rule 11 of the NGR provides the ERA with the discretion to disregard specified time periods in the calculation of the elapsed time for a final decision.

The ERA has decided to disregard the public consultation period for this draft decision (14 March 2011 to 20 May 2011). The ERA previously announced that it would disregard the consultation period on DBP's revision proposal and the consultation period on the ERA's discussion paper on *Measuring the Debt Risk Premium*. In addition, the ERA has decided to disregard periods associated with disclosure of information over which DBP has claimed confidentiality. The Authority announcements in this regard can be found on its [website](#).

For further information contact:

General Enquiries

Rasmus Moerch
Manager Projects, Access
Ph: 61 8 9213 1900
Fax: 61 8 9213 1999

Media Enquiries

Sue McKenna
The Communications Branch Pty Ltd
Ph: 61 8 9254 4044
Mb: 0424 196 771

LYNDON ROWE
CHAIRMAN

14 March 2011



KEY ISSUES IN THE DRAFT DECISION

Reference services

DBP has proposed that a single reference service is provided under the access arrangement - the "R1 Service". The R1 Service is a full-haul gas transmission service that differs in several respects from the full haul "T1 Service" that is offered as a reference service under the current access arrangement. Notably, the R1 Service is subordinate in reliability to the T1 Service and other services currently provided to users of the DBNGP.

DBP has also proposed removing from the access arrangement the current part haul reference service (P1 Service) and back-haul service (B1 Service).

The draft decision requires the proposed R1 Service to be removed from the proposed access arrangement revisions and for the current reference services (the T1 Service, P1 Service and B1 Service) to be reinstated.

Reference tariffs

With the required amendment of reference services, the Authority has determined reference tariffs for the required T1 Service, P1 Service and B1 Service.

The Authority has determined the reference tariff (expressed in dollar values of 31 December 2010) for the T1 Service that would apply in 2011 to comprise:

- a capacity charge of \$1.1456 per GJ MDQ; and
- a commodity charge of \$0.1363 per GJ.

For gas transportation at 100 per cent load factor, this reference tariff represents a 7.6 per cent increase over the reference tariff for the T1 Service that applied under the current access arrangement in 2010, but is 25.8 per cent less than the reference tariff that would have been determined for the T1 Service with the costs and total revenue proposed by DBP.

Reference Tariff Charges Tariff Component (\$ 31 December 2010)	DBP proposed costs and total revenue (2011 to 2015)	Draft Decision (2011 to 2015)
Capacity charge [\$ per GJ of MDQ]	1.6480	1.1456
Commodity charge [\$ per GJ]	0.0800	0.1363
Total	1.7280	1.2819

Capital base

The Authority has to approve a value of the capital base for the commencement of the 2011 to 2015 access arrangement period taking into account capital expenditure and depreciation over the 2005 to 2010 access arrangement period. The values below are expressed in dollar values of 31 December 2010.

The Authority has determined the value of the capital base at 1 January 2011 to be \$3,375.020 million. This is less than the value proposed by DBP of \$3,441.158 million. The lower value determined by the Authority results from corrections to financial calculations used by DBP for determination of the value of the capital base, and use of audited values of capital expenditure. The values also include assets associated with the Burrup Extension Pipeline which were not included in DBP's original proposal. Other than these corrections, the Authority has allowed all capital expenditure incurred by DBP during the 2005 to 2010 access arrangement period to be added to the capital base.

The Authority has determined the notional value of the capital base at the end of the 2011 to 2015 access arrangement period to be \$3,030.060 million. This value includes provision for \$114.048 million of forecast capital expenditure for the 2011 to 2015 access arrangement period, which is \$22.461 million less than the amount of forecast capital expenditure proposed by DBP. The difference is due to the Authority not being satisfied that the values of forecast capital expenditure proposed by DBP meet the prudence and efficiency requirements of the National Gas Rules.

Rate of return

The Authority has to approve a rate of return that is applied to the capital base in the determination of reference tariffs.

The Authority has determined the value of the rate of return to be 7.16 per cent on a real, pre-tax basis.

This is less than the rate of return proposed by DBP of 10.76 per cent.

Operating expenditure

The Authority has to approve a forecast of operating expenditure for the 2011 to 2015 access arrangement period that is applied in the determination of reference tariffs.

The Authority has determined the value of forecast operating expenditure to be \$450.430 million in total over the 2011 to 2015 access arrangement period.

This is less than the value of forecast operating expenditure \$542.141 million proposed by DBP. The difference is due to the Authority not being satisfied that the values of forecast operating expenditure proposed by DBP meet the prudence and efficiency requirements of the National Gas Rules particularly in respect of cost line items of consultancies, entertainment, IT, repairs and maintenance, the previously proposed Carbon Pollution Reduction Scheme, self insurance, compressor overhauls and regulatory activities.