Government of Western Australia
Office of Energy

Your ref:

Our ref: GIR/0338

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The Dampier to Bunbury Natural Gas Pipeline
Gas Access
Economic Regulation Authority
PO Box 8469
Perth BC WA 6849
Att: Mr Rasmus Moerch

Dear Mr Moerch

SUBMISSION ON AUTHORITY'S DRAFT DECISION ON PROPOSED REVISIONS TO THE ACCESS ARRANGEMENT FOR DBNGP

Thank you for the opportunity to respond to the Economic Regulation Authority's (ERA) Draft Decision on Dampier-Bunbury Pipeline's (DBP) proposed revisions to its Access Arrangement.

The Office of Energy notes that clause 7.12 of the current access arrangement provides for the use of an incentive mechanism. This incentive mechanism provides for an amount to be added to total revenue in each of the years of the 2011 to 2015 access arrangement period where DBP outperforms forecasts of operating expenditure in years of the 2005 to 2011 access arrangement period.

The Office of Energy notes that the Authority has determined not to require the proposed revised access arrangement for 2011-2015 to be amended to include an incentive mechanism. The Office of Energy understands that the reasons for the Authority's decision are two-fold:

1. Where an incentive mechanism is applied only to operating expenditure, this gives rise to incentives to inefficiently substitute capital expenditure for operating expenditure; and

2. This incentive mechanism would see the service provider shift their operational expenditure to latter years in the access arrangement period so as to generate a financial benefit for themselves but leave pipeline users no better off as a reduction in operational costs has not been realised.

The Office of Energy considers that there are potential benefits in retaining the incentive mechanism in the forthcoming access arrangement and that the Authority's concerns outlined above could be addressed as in the Australian Energy Regulator's (AER) Efficiency Benefits Sharing Scheme (EBSS) for electricity distribution network service providers.

Pursuant to clause 6.5.8 of the National Electricity Rules (NER), the AER's EBSS incentivises electricity distribution network service providers to generate operational efficiency gains, in the form of actual operational expenditure falling short of forecast operational expenditure, where these gains are then shared between the service provider and users.

In clause 6.5.8 of the NER, the AER's EBSS addresses the potential for service providers to substitute capital expenditure for operational expenditure and inefficiently shift operational expenditure across years to accrue the most financial benefit as follows:

In developing and implementing an *efficiency benefit sharing scheme*, the *AER* must have regard to:
(2) the need to provide *Distribution Network Service Providers* with a continuous incentive, so far as is consistent with economic efficiency, to reduce operating expenditure and, if the scheme extends to capital expenditure, capital expenditure; and
(4) any incentives that *Distribution Network Service Providers* may have to capitalise expenditure.

The Office of Energy appreciates the importance of such an incentive mechanism, as included in DBP's current access arrangement, in potentially helping to generate operational efficiency gains which benefit both the service provider and pipeline users. The Office of Energy considers that these benefits warrants further consideration of retaining the incentive mechanism in the 2011-2015 access arrangement albeit in an amended form to address the concerns highlighted by the Authority.

If you have any queries in relation to this matter, please do not hesitate to contact Miss Arian Lowe on (08) 9420 5697.

Yours sincerely

PAUL BIGGS
A/DIRECTOR - GOVERNANCE