



# Notice

30 June 2016

## Access Arrangement for the Goldfields Gas Pipeline - Final Decision

### FINAL DECISION AND REVISED ACCESS ARRANGEMENT

The Economic Regulation Authority (**ERA**) has published the Final Decision on Goldfields Gas Transmission Pty Ltd's (**GGT**) proposed revised access arrangement for the Goldfields Gas Pipeline (**GGP**). The ERA has not approved GGT's proposed changes to the access arrangement for the GGP and has published a revised Access Arrangement and Access Arrangement Information for the GGP.

The ERA's detailed reasons for not approving GGT's proposed changes to the access arrangement for the GGP are outlined in the Final Decision together with 19 required amendments to the revised access arrangement for the period from 1 January 2015 to 31 December 2019.

The revised Access Arrangement is effective from 1 July 2016 and sets out the terms and conditions as well as the reference tariffs for the covered GGP.

The ERA's Final Decision has approximately halved GGT's revised proposed reference tariffs to commence on 1 July 2016.<sup>1</sup> This reflects the ERA's comprehensive assessment of GGT's forecast reference service revenue for the GGP. GGT initially proposed that it should earn \$393.764 million for the five year regulatory period.<sup>2</sup> However, the ERA has determined that forecast reference service revenue should be reduced by 40.5 per cent, to \$234.398 million over five years. Despite this reduction, the ERA notes that its forecast revenue for the covered GGP will be sufficient for GGT to efficiently maintain and operate the covered GGP and provide for an adequate return on capital invested over the regulatory period.

The GGP is mainly used to serve large industrial users. Small gas customers such as households and small businesses in Kalgoorlie and Esperance are unlikely to be significantly impacted by the Final Decision, as the gas transmission cost is a relatively small component of the retail tariffs to those customers.

The ERA's reductions to GGT's initial proposed forecast reference service revenue result from:

- Applying a revised rate of return to yield a nominal rate of return (WACC) of 5.84 per cent compared to GGT's initial proposed value of 9.64 per cent.
- Amending GGT's calculation of depreciation and the forecast capital base by applying straight-line depreciation using a Current Cost Accounting approach rather than the Historical Cost Accounting approach as proposed by GGT.
- Determining a lower amount of complying forecast capital expenditure and operating expenditure. The ERA's Final Decision forecast capital expenditure for the regulatory

<sup>1</sup> The approved reference tariffs are available on the ERA's website.

<sup>2</sup> The ERA notes that in response to the ERA's Draft Decision GGT revised its proposal and submitted an amount of \$282.525 million for reference service revenue. This amount was based only a 3.5 year regulatory period rather than a 5 year period.

period is \$9.414 million compared to GGT's initial proposed capital expenditure of \$13.997 million. The ERA's Final Decision forecast operating expenditure for the regulatory period is \$99.978 million compared to GGT's initial proposed operating expenditure of \$132.019 million.

The ERA, in its Final Decision, now accepts the cost allocation methodology submitted by GGT in its revised proposal and has applied a 'standalone cost' methodology as proposed by GGT for the covered pipeline. However, the ERA disagrees with how GGT has applied the 'standalone cost' methodology for capital and operating expenditure for the covered pipeline. This is reflected in the ERA's assessment of capital and operating expenditure.

The ERA comprehensively reviewed GGT's proposed terms and conditions, and has not accepted GGT's proposal to align its terms and conditions with the APA Group's national terms and conditions. Instead, the Authority considered that its required amendments to GGT's proposed terms and conditions better promote the long term interests of consumers.

The rules and processes that the ERA must follow in making an access arrangement decision are governed by the *National Gas Access (Western Australia) Law* (which applies because of section 7 the *National Gas Access (WA) Act 2009*) and the National Gas Rules (**NGR**). Under Rule 64 of the NGR, the ERA's Final Decision not to approve GGT's access arrangement proposal (or revisions) requires that the ERA give effect to the revised access arrangement that will apply to the GGP. Consistent with the ERA's decision and as required under rule 64 of the NGR, the ERA has drafted and approved its own revised access arrangement and access arrangement information for the GGP. The revised access arrangement and supporting access arrangement information are available on the ERA's [website](#).

The ERA notes that the third access arrangement period commenced on 1 January 2015 and that the access arrangement will commence on 1 July 2016. The ERA's decision ensures that GGT is no better or worse off as a result of the later commencement of revised tariffs. The delay was due to a range of reasons, including a change to the NGR which required that the access arrangement be submitted approximately six months late, the request by GGT for a further two month extension and the complexity of the matters raised by GGT in its initial and revised proposal.

## **BACKGROUND**

The GGP is a transmission pipeline that enables gas to be transported from the Carnarvon Basin, via either the Dampier to Bunbury Natural Gas Pipeline or the Varanus Island gas processing facilities, to the Pilbara, Mid-west and Goldfields mining regions and the entry point of the Kalgoorlie to Kambalda Pipeline.

The ERA received submissions from two stakeholders in response to its draft decision on GGT's initial proposal. The submissions largely focussed on cost allocation, the interpretation of the National Gas Objective, the commencement date of the access arrangement, the capacity of the covered GGP including gas specification, rate of return, extensions and expansions policy as well as the terms and conditions applying to the firm service.

The ERA published its draft decision on 17 December 2015 in response to GGT's initial proposal. In its draft decision, the ERA did not approve GGT's proposed revisions and set out 22 required amendments for GGT to make to its access arrangement. As part of its review process the ERA also published an issues paper on 3 November 2014. The ERA received submissions from three stakeholders, which it considered in making its draft decision.

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