perthenergy

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Economic Regulation Authority
PO Box 8469
Perth BC WA 6849

Lodged online at http://www.erawa.com.au/consultation

Response to Issues Paper: Proposed Revisions to the Access Arrangement for the Dampier to Bunbury Natural Gas Pipeline for 2021 to 2025

Perth Energy welcomes the opportunity to provide comments in response to the Economic Regulation Authority's (ERA) issues paper on the Dampier to Bunbury Pipeline's (DBP) Proposed Revisions to the Access Arrangement for the Dampier to Bunbury Natural Gas Pipeline (DBNGP) for 2021 to 2025. We apologise for the delay in providing this submission – we are all still getting used to the new working arrangements.

Since 2010, we have operated the Kwinana Swift Power Station, a 120 megawatt fast start open cycle gas turbine. While our power station can be run on natural gas, ultra-low sulphur diesel or both, our primary fuel source is natural gas provided directly from the DBNGP.

The DBNGP is the primary transmission pipeline in Western Australia, providing natural gas to many residential and industrial end-use customers as well as businesses like Perth Energy for use in the generation of electricity. With an increasing volatility in the supply of electricity in an isolated network, gas-fired generation facilities and therefore the entirety of gas supply chain are critical to the State's energy security.

Perth Energy is largely supportive of DBP's proposed revisions and particularly encourages the ERA to approve expenditure and arrangements that represent prudent and efficient measures to improve:

- flexibility in the types of services provided by DBP to shippers; and
- accessibility and user experience in relation to its customer-facing systems and processes.

DBP proposes to accelerate the recovery of depreciation on its primary pipeline assets due to the uncertain future of the natural gas pipeline infrastructure beyond 2059. Perth Energy agrees that the future domestic demand for and supply of gas in forty years' time is not easy to forecast, and therefore the usefulness of gas assets across the supply chain is uncertain.

Perth Energy supports measures to improve DBP's ability to ensure the continued, sustainable operation of the DBNGP over the long term. However, we do not support its proposed acceleration of the recovery of depreciation on its primary pipeline assets because the risk of stranded assets is not an issue unique to the gas industry, transport assets, or DBP.

The risk of stranded assets is no different in the gas industry to any other asset-rich, infrastructure business. We constantly see these businesses expand their operating models to reduce or mitigate the risk of obsolescence. Examples include Australia Post's transition expansion into courier deliveries with the introduction of email and the telecommunications networks' transition from traditional poles and wires to mobile networks.

Similarly, the risk of stranded assets is no different in the gas transport sector to other supply-chain segments or gas-dependent businesses. Perth Energy bears the same risk as DBP and is similarly restricted in relation to the potential inability to recover any sunk asset costs by the framework under which it is regulated by the ERA. Instead of placing this risk onto our customers, we are looking to expand into new market segments and embrace new technologies where they complement our existing business model.

Perth Energy is of the view that, while it takes time to adjust and/or expand operating models, DBP's estimated forty-year transition period should be sufficient for it to adapt. In particular, given the significant expenditure committed to industry-wide innovation including in hydrogen.

We consider those businesses fundamental to the gas supply chain, such as DBP, are the parties best able to control costs and adapt to changing conditions. We therefore recommend that, the ERA incentivises DBP to invest in its assets in a way that mitigates this risk without transferring it to end-use customers. End-use customers are price-takers and therefore unable to act against the associated increase in prices except to reduce their demand. This would in fact result in the exact scenario DBP is seeking to prevent.

Perth Energy consider a more appropriate, measured response would be to:

- allow a small amount of regulated revenue or any incentive payments retained under its proposed E-Factor Scheme to be spent on innovation through an arrangement such as proposed by DBP under the 'Network Innovation Scheme' in its Draft Plan; and
- provide flexibility in DBP's access arrangement that would allow DBP to trial new services and encourage it to expand its offering over this and future access arrangement periods.

Should you have any questions please contact me on [redacted] or at [redacted].

Regards,

Elizabeth Aitken

General Manager Operations