



Notice

14 August 2020

Proposed revised access arrangement for the Dampier to Bunbury Natural Gas Pipeline

Draft decision

The Economic Regulation Authority has released its [draft decision for DBNGP \(WA\) Transmission Pty Ltd's proposed revised access arrangement](#) for the Dampier to Bunbury Natural Gas Pipeline.

The pipeline is the longest natural gas pipeline in Australia, extending approximately 1,600 kilometres from Dampier in the Pilbara region, through to Perth and Bunbury in the South-West region.

On 2 January 2020, DBNGP (WA) Transmission (DBP) submitted its proposed revised access arrangement, access arrangement information, and other supporting information for 2021 to 2025 (being the fifth access arrangement period).

An access arrangement sets the terms and conditions, including prices, under which third parties can access the pipeline.

The ERA has not approved DBP's proposed changes to the access arrangement. The draft decision requires 53 amendments, most of which are drafting changes to the terms and conditions for reference services.

The ERA's detailed reasons are outlined in the draft decision, with the amendments required to enable the ERA to approve DBP's proposal. An explanatory statement covering aspects of the decision is included at the end of this notice.

The National Gas Rules prescribe time limits within which the ERA must make its decisions and allows time spent on specified activities to be disregarded when determining the due date for the ERA's final decision.

As allowed under rule 11, the ERA considers the time given for DBP to submit a revised proposal in response to the draft decision and the consultation period for interested parties to make submissions as disregarded time. As a result, the deadline to publish the final decision is January 2021.

Revision period

Under rules 59(3) and 60 of the National Gas Rules, the ERA is required to fix a period within which DBP may submit additions or other amendments to its proposal to address the matters raised in the draft decision. The ERA has allowed a revision period of 30 business days from the date of the draft decision within which DBP may submit a revised proposal, that is, by 4:00pm (WST) Friday, 25 September 2020.

Invitation for submissions

The ERA invites interested parties to make submissions on the draft decision.

Submissions close 4:00 pm (WST) Monday, 26 October 2020.

Submissions should be lodged online using the form on our website www.erawa.com.au/consultation.

Further information

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EXPLANATORY STATEMENT

This explanatory statement provides a summary of the ERA's draft decision on proposed revisions to the access arrangement for the fifth access arrangement period (AA5) for DBP's Dampier to Bunbury Natural Gas Pipeline (DBNGP). This overview does not form part of the ERA's draft decision or the reasons for the decision.

The draft decision

The ERA has not approved DBP's proposed access arrangement and requires 53 amendments for the access arrangement to comply with the National Gas Law and National Gas Rules. The required amendments are listed on pages (iii) to (x) of the draft decision.

Of the 53 required amendments, 23 require drafting changes to the terms and conditions for reference services.

The ERA invites submissions on the draft decision by 26 October 2020.

DBP has until 25 September 2020 to submit a revised access arrangement proposal.

Table 1: Comparison of DBP's proposal and ERA's draft decision

AA5 (1 January 2021 to 31 December 2025)	DBP proposal (revised May 2020)	ERA draft decision
Target revenue (\$ million nominal)	1,717.94	1,553.08
Weighted average cost of capital (%)	4.31	4.03
Capital base		
Opening capital base at the beginning of AA5 (\$ million real 31 December 2019)	3,329.03	3,327.39
Closing capital base at the end of AA5 (\$ million real 31 December 2019)	2,816.61	2,900.23
Forecast expenditure		
Capital expenditure (\$ million real 31 December 2019)	158.58	131.93
Operating expenditure (\$ million real 31 December 2019)	453.89	456.44

Pipeline use and demand

DBP revised its demand forecasts for reference services in May 2020 reflecting the completion of major contract renegotiations.¹ Based on the revised forecasts, DBP expected average daily contracted capacity for the pipeline to be around 20 per cent lower over AA5 than the previous five-year period.

DBP expected demand to fall due to increasing renewable generation of electricity, displacing electricity generated from other sources including natural gas. DBP also raised the possibility

¹ As a result of the revised demand forecasts, DBP also submitted a revised tariff model.

that, with the development of gas fields in the Perth Basin, the DBNGP may face competition from other gas pipelines to supply the Perth metropolitan area.

The ERA has considered DBP's revised demand forecasts and compared them with gas demand forecasts prepared by the Australian Energy Market Operator. In the draft decision, the ERA requires DBP to amend its demand forecast for full haul reference services to maintain throughput and contracted capacity at 2020 forecast demand levels.

Demand forecasts are covered in pages 45 to 57 of the draft decision.

Reference tariffs

DBP kept the same set and structure of tariffs as in the current (AA4) access arrangement.

DBP proposed that reference tariffs would increase by 9.9 per cent from the current (2020) tariffs. The main reason for the increase was DBP's forecast of a 20 per cent fall in demand in AA5 from AA4. A lower demand forecast has the effect of increasing the per unit (GJ) tariff.

In the draft decision, the ERA has calculated the reference tariffs for AA5 consistent with its calculation of total revenue and the allocation of that revenue to reference services, and its demand forecast. The ERA has calculated a lower amount of total revenue (see Table 1) with the main change reflecting the ERA's decision on the calculation of depreciation (discussed below). The ERA has also determined that DBP should allocate revenue between reference and non-reference services for joint costs, which DBP did not do in its proposal. As noted above the ERA does not consider there will be the fall in demand forecast by DBP. The lower total revenue, the allocation of revenue to non-reference services and a constant demand forecast results in a lower calculated reference tariff compared to DBP's proposal.

The ERA's calculated reference tariffs are 21.6 per cent lower than the current (2020) tariffs.

Table 2: Comparison of reference tariffs to apply from 1 January 2021 (\$ real as at 31 December 2019)

Tariff component	Current tariff (2020)	DBP proposal (revised May 2020)	ERA draft decision
Full Haul (T1 Service)			
Capacity (reservation) charge (\$/GJ/day)	1.203099	1.387300	0.959110
Commodity (throughput) charge (\$/GJ/day)	0.133790	0.082527	0.088937
Total	1.336889	1.469827	1.048047
Change from current tariff (%)	n/a	9.9	(21.6)

Tariff component	Current tariff (2020)	DBP proposal (revised May 2020)	ERA draft decision
Part Haul (P1 Service)			
Capacity (reservation) charge (\$/GJ/km/day)	0.000860	0.000992	0.000686
Commodity (throughput) charge (\$/GJ/km/day)	0.000096	0.000059	0.000064
Total	0.000956	0.001051	0.000749
Change from current tariff (%)	n/a	9.9	(21.6)
Back Haul (B1 Service)			
Capacity (reservation) charge (\$/GJ/km/day)	0.000860	0.000992	0.000686
Commodity (throughput) charge (\$/GJ/km/day)	0.000096	0.000059	0.000064
Total	0.000956	0.001051	0.000749
Change from current tariff (%)	n/a	9.9	(21.6)

Reference tariffs are covered in pages 261 to 268 of the draft decision.

Rate of return

The rate of return provides a service provider with a return on the capital it has invested in its business. The rate, expressed as a weighted average cost of capital, is used in an access arrangement to determine part of the annual revenue that a regulated company can earn.

The ERA has published a guideline setting out the methods it uses to determine the rate of return for regulated gas pipelines. The ERA must comply with the guideline when determining the rate of return.

The decline in the rate of return observed over this and other access arrangement review processes reflects conditions in financial markets, especially the falling yield on government bonds.

The rate of return is covered in pages 181 to 192 of the draft decision.

Depreciation

An access arrangement must include consideration of how assets in the capital base will be depreciated, and this flows through to the calculation of how much revenue a service provider can earn.

For AA5, DBP proposed changes to the way it depreciates assets. First, it proposed to cap the economic life of the pipeline to the year 2059, resulting in assets that have economic lives beyond 2059 being depreciated faster and fully depreciated by 2059. DBP expected that, by 2059, the value of the pipeline would need to be fully recovered so that reference tariffs would be lower and so could compete with renewable energy sources.

The ERA considers that an appropriate interpretation of economic life includes the actual or expected retirement of the asset from productive use. DBP does not expect to retire the pipeline assets in 2059.

Based on the ERA's determination of economic life, the draft decision rejects DBP's proposal to fully depreciate the value of the DBNGP by 2059.

DBP also proposed to add three new asset categories to the four categories used in AA4 and reallocate the regulated asset base to the new categories. These new asset categories have shorter economic lives, which DBP submitted were more appropriate for the types of assets covered. The new categories proposed were:

- Computers and motor vehicles
- Cathodic/corrosion protection assets
- SCADA (supervisory control and data acquisition), electrical, control & instrumentation and communications.

While the ERA accepted the new categories, DBP is required to adjust the asset allocation and depreciation schedule of some asset categories.

Depreciation is covered in pages 192 to 215 of the draft decision.

E-Factor scheme

DBP proposed to introduce a new Efficiency Factor (E Factor) scheme as an incentive to improve operating expenditure efficiency. The purpose of the scheme is to provide DBP with time-neutral incentives to implement efficiency gains in each year of the access arrangement period. Through the scheme, DBP would carry forward incremental operating expenditure savings (or decremental overspending) in some cost categories for five years following the year in which the efficiency gain (or loss) occurred.

Stakeholders who provided submissions on the proposed E Factor scheme raised some specific or minor concerns for the ERA's consideration.

The ERA considers that the E Factor scheme is consistent with the rules and objectives governing gas pipelines in Australia, subject to some amendments to clarify the intent of the scheme and to remove some types of expenditure from eligibility for the scheme.

The E Factor scheme is covered in pages 231 to 256 of the draft decision.

Background

The ERA is responsible for regulating third-party access to gas pipelines in Western Australia.

There are currently three fully regulated pipelines in Western Australia: the DBNGP, Goldfields Gas Pipeline, and Mid-West and South-West Gas Distribution Systems.

The DBNGP is a transmission pipeline that extends approximately 1,600 kilometres from Dampier in the Pilbara region, through to Perth and Bunbury in the South-West region. It transports gas from offshore gas projects for domestic use, including for industry, energy generation and household consumption.

An access arrangement sets the terms and conditions, including prices, under which third parties can access services on a pipeline network. Those third parties generally include industrial gas users and gas retailers.

The National Gas Law and National Gas Rules set out the requirements for what should be included in an access arrangement, as well as the processes that the ERA must follow when considering whether to approve a service provider's proposal.

On 2 January 2020, DBP submitted a proposed revised access arrangement for the DBNGP, access arrangement information, and other supporting information for the period 1 January 2021 to 31 December 2025 (being the fifth access arrangement period or AA5).

The ERA published an issues paper for public comment on 17 March 2020.

About the ERA

The ERA is Western Australia's independent economic regulator. We aim to ensure that the delivery of water, electricity, gas and rail services in Western Australia is in the long-term interests of consumers.

The ERA also undertakes inquiries, which provide recommendations to government on economic issues that are likely to have significant implications for the people and businesses of Western Australia.