Revised Final Plan
Attachment 13.2

Allocation of total revenue

October 2020

Dampier Bunbury Pipeline

1. Response to Draft Decision on allocation of total revenue

We have specified the Pilbara Service, Other Reserved Service and proposed Ullage Service, in addition to the Peaker Service,[1] as rebateable non-reference services, and ensured capacity and throughput for these services is not included in calculating reference tariffs

1.1. Overview

In its Draft Decision, the ERA has proposed costs shared between reference and non-reference services be allocated using the ratio of reference to non-reference service revenue (97:3).[2] This part of the decision reflects on two important issues: allocation of shared costs; and rebateable services.

While direct allocation of costs is preferable, some costs are shared between reference and some non-reference services. Meanwhile, where there is substantial uncertainty in the demand for or revenue from a non-reference service, a rebate can apply. Cost-allocation and a rebate are separate mechanisms that achieve a similar result.

A cost-allocation mechanism divides costs between the various categories of services to ensure costs are attributed to the users of specific services. A rebate recognises that where demand for or revenue from a non-reference service is uncertain, allocating costs in advance is equally uncertain; the rebate therefore returns a portion of revenue from non-reference services to reference service users as recognition that they have initially borne some of the costs of these services, rather than attempting to allocate costs to uncertain demand.

This attachment considers what approaches could be taken to address shared costs and suggests a rebate is the most appropriate approach to address cost-allocation for the most significant non-reference services on the DBNGP, given the nature of these services.

The ERA has already accepted that the Peaker Service should be a rebateable service, which remains the case in this revised Final Plan. However, we are concerned that demand for the Peaker Service has also been included in the capacity and throughput forecasts used to calculate reference tariffs. This results in a double benefit to reference service users that has not been applied in this revised Final Plan.

This revised Final Plan also includes three additional non-reference rebateable services: Pilbara Service, Other Reserved Service and the proposed Ullage Service. These three non-reference services also have substantial uncertainty concerning the extent of demand and the revenue to be generated.

[1] NB while the Final Plan, and consequently the ERA's Draft Decision, referred to the "Peaking Service", hereon in and throughout the revised Final Plan and Access Arrangement document in we use the term "Peaker Service" to align with terminology used in negotiated contracts.

[2] ERA Draft Decision, [1188]

1.2. ERA Draft Decision

Two elements of the ERA's Draft Decision are discussed in this attachment as they are interrelated: allocation of total revenue; and rebateable services.

Regarding allocation of total revenue, Required Amendment 21 addresses tariffs included in the Access Arrangement. It is the result, amongst other things, of a mechanism for allocating shared costs under NGR 93. Specifically, the Draft Decision notes that for "all shared costs, the allocation should be made under NGR 93 on a basis that reflects the ratios of the provision of the relevant services (for example, the ratio of recent actual reference and non-reference service revenue)".[3]

The Draft Decision applies a ratio of 97:3 which represents the recent actual ratio of reference to non-reference service revenue on the DBNGP. The total regulated revenue requirement calculated using the 97:3 ratio excludes system use gas (SUG) which is directly attributable to reference services. The effect is that 97% of DBP's revenues (excluding SUG) is applied to the numerator of the tariff equation. It is unclear, and appears unlikely, that an equivalent adjustment has been made to the denominator of the tariff equation (demand).

Regarding rebateable services, Required Amendments 6 and 22 make changes to the Access Arrangement to reflect our proposal after submission of the Final Plan, that the Peaker Service be a non-reference rebateable service.

The ERA accepted our proposal that the Peaker Service be considered a rebateable service, and considered that the proposed allocation of 70% of the revenue to reduce reference tariffs through a tariff variation mechanism "meets the requirements of rule 93(3)(a) and rule 97 of the NGR".[4]

However, the Draft Decision also includes an allowance in the reference service capacity and throughput forecast in AA5 on account of the expected future capacity and throughput for the non-reference Peaker Service. The ERA noted "The ERA considers that there will be some substitution between the peaking service and the reference service…as a result, the ERA has not been able to quantify the substitution effect". The Draft Decision goes on to state that given the uncertainty about this demand it has maintained a flat throughput forecast.[5]

[3] ERA Draft Decision, [1185]
[4] ERA Draft Decision, [1237]
[5] ERA Draft Decision, [193], [200]

Table 1.1: Summary of ERA's Draft Decision on allocation of total revenue

	ERA Draft Decision	ERA Comment
Required Amendment 21 DBP must amend the proposed revised access arrangement to reflect the draft decision tariffs in Table 126.	**Modify**	For all shared costs, the allocation should be made under rule 93 on a basis that reflects the ratios of the provision of the relevant services (for example, the ratio of recent actual reference and non-reference service revenue). The ERA applied a 97:3 ratio to the allocation of total revenue.[6]
Required Amendment 6 Consistent with Required Amendment 4, DBP must amend clause 3 of the proposed revised access arrangement to include a reference to, and a description of, the Peaking Service, which is a non-reference service that is to be specified as a rebateable service for AA5 pursuant to rule 94(4) of the NGR.	**Modify**	The ERA also considers that DBP's proposal to specify the Peaking Service as a rebateable service is consistent with the requirements of the NGR for rebateable services – the Peaking Service is not a reference service and there is substantial uncertainty concerning the extent of the demand for the service and the expected revenue to be generated from the service.[7]
Required Amendment 22 DBP must amend clause 11 (Reference Tariff Variation Mechanism) and Annexure A of the proposed revised access arrangement to: • Include a rebate mechanism for the rebateable peaking service. [NB other elements of required amendment 22 are addressed in the overview document]	**Modify**	The ERA considers that the AER's decision for the Roma to Brisbane Gas Pipeline and the ERA's accepted sharing ratio for the E Factor incentive mechanism (see paragraphs 1058 to 1067) supports DBP's proposed allocation of 70 per cent of the benefit (revenue) being passed through to customers and meets the requirements of rule 93(3)(a) and rule 97 of the NGR.[8]

Note: In this 'traffic light' table, green shading represents the ERA's acceptance of our Final Plan, orange represents the ERA's modification of our Final Plan and red shading represents the ERA's rejection of our Final Plan.

[6] ERA Draft Decision, [1183-1188]
[7] ERA Draft Decision, [147]
[8] ERA Draft Decision, [1237]

1.3. Our Response to the Draft Decision

This section will outline our response to the ERA's Draft Decision on cost (or total revenue) allocation and rebateable services.

The section will begin by introducing the relevant elements of the NGL and NGR. It then explains why we consider a rebate the most appropriate approach to address shared costs for the most significant non-reference services that we offer on the DBNGP (Pilbara Service, Other Reserved Service and proposed Ullage Service). We then consider the Pilbara Service, Other Reserved Service and proposed Ullage Service against the requirements for rebateable services, before outlining our approach for the remaining non-reference services in section 1.3.4.

Table 1.2: Summary of our response to the ERA's Draft Decision on allocation of total revenue

ERA Required Amendment	ERA Draft Decision	Our Response	Our Comment
Required Amendment 21 DBP must amend the proposed revised access arrangement to reflect the draft decision tariffs in Table 126.	**Modify**	**Modify**	In modifying required amendment 21 we have removed the ERA's allocation of total revenue to reference and non-reference services using a ratio of actual revenue for reference and non-reference services. In place of the ratio we have proposed an additional three non-reference services be specified as rebateable services: Pilbara Service, Other Reserved Service and proposed Ullage Service. We have also ensured that demand for rebateable services is excluded from the capacity and throughput forecasts used to calculate reference tariffs.
Required Amendment 6 Consistent with Required Amendment 4, DBP must amend clause 3 of the proposed revised access arrangement to include a reference to, and a description of, the Peaking Service, which is a non-reference service that is to be specified as a rebateable service for AA5 pursuant to rule 94(4) of the NGR.	**Modify**	**Accept**	We have modified the relevant clause to specify four services as non-reference services that are to be specified as a rebateable service for AA5 pursuant to rule 94(4) of the NGR.
Required Amendment 22	**Modify**	**Accept**	We have modified clause 11 and Annexure A to include a rebate mechanism for an additional

DBP must amend clause 11 (Reference Tariff Variation Mechanism) and Annexure A of the proposed revised access arrangement to: • Include a rebate mechanism for the rebateable peaking service. [NB other elements of required amendment 22 are addressed in the overview document]			three services: Pilbara Service, Other Reserved Service and proposed Ullage Service.

Note: In this 'traffic light' table, green shading represents the acceptance, orange represents a modification and red shading represents a rejection

1.3.1. Relevant rules

NGR 93 sets out the approach to allocating costs between reference and non-reference services. Where possible, costs should be allocated directly to reference and non-reference services (NGR 93(2)(a) and (b)). Other costs, particularly shared costs, are to be allocated on a basis determined or approved by the ERA and be consistent with the revenue and pricing principles (NGR 93(2)(c)).

NGR 93(3) allows costs for "rebateable services" to be allocated to reference service users provided a rebate is applied to reduce the reference tariff.

The revenue and pricing principles (NGL 24) require that a "service provider should be provided with effective incentives in order to promote economic efficiency with respect to reference services" including specifically noting that the economic efficiency to be promoted includes "the efficient provision of pipeline services" (NGL 24(3)(b)), that is both reference and non-reference services, and "the efficient use of the pipeline" (NGL 24(3)(c)).

1.3.2. Analysis of options for revenue/cost allocation

Specifying non-reference services as rebateable services is appropriate where non-reference services have uncertain demand and it is difficult to allocate costs to these services in advance. This is why we proposed and the ERA has accepted the Peaker Service as a rebateable non-reference service.[9] However, it appears that for the Peaker Service has been inappropriately included in the capacity forecast in calculating the reference tariff. [10]

Rebateable services allow costs for non-reference services to be allocated to reference service users provided a rebate is in place which lowers the tariff in subsequent years. The rebate serves to compensate reference service users for costs which may be attributable to non-reference service use, but which are not allocated to such use.

It therefore follows that no allowance for demand for these services should be made in calculating reference tariffs (demand should not be included in the capacity and throughput forecast used to

[9] ERA Draft Decision, [1237]
[10] ERA Draft Decision, [193], [200]

calculate reference tariffs). Providing an allowance in the capacity and throughput forecast would provide reference service users with a double benefit through a rebate to reference tariffs (lowering prices) and higher demand (lowering prices further). This would not allow for the efficient use of pipeline services generally, nor the recovery of our efficient costs. This is an issue for the Peaker Service, as noted above.

Specifying the Pilbara Service, Other Reserved Service and proposed Ullage Service as rebateable non-reference services is our preferred approach to allocating shared costs for these services.

Section 1.3.3 outlines how these services meet the requirements of NGR93(4).

We recognise that while there are other options available within the NGR, these are not appropriate to the circumstances of the Pilbara Service, Other Reserved Service and proposed Ullage Service.

Firstly, the approach that has historically been applied to reference service equivalents (i.e. negotiated T1, P1 and B1 services, and Spot Service and overrun charges) [11] includes both the costs and demand for these services in calculating reference tariffs. This approach is the continuing basis of costs allocation and demand for these services.

These services have significantly different characteristics to the reference services, and it is unclear how a GJ of one of these non-reference services would be translated into some form of full-haul equivalent as we now do for part and back-haul services. For example, the Pilbara tariff is postage stamp with no distance factor, and all services have different terms and conditions to the reference services. The result is likely to be translation errors if an attempt is made to translate these services into their full-haul equivalents"

While this approach remains appropriate for these services (i.e. negotiated T1, P1 and B1 services, and Spot Service and overrun charges), it is not tenable for the most significant non-reference services moving forward (Pilbara Service and Other Reserved Services, as well as the Peaker Service in the future and the proposed Ullage Service).

Errors in any translation into the full-haul equivalent demand for these services would mean the forecast demand would be either too high or too low. If it is too high, then the reference service tariff will be too low, and non-reference service shippers will, in effect, be subsidising reference service shippers. If it is too low, the converse will occur.

Secondly, we could apply the ratio of reference to non-reference service revenue to both total costs and demand. That is 97% percent of costs over reference service demand.

However, the 97% value is based upon past actual non-reference service revenues, and it is not appropriate to use this value with the demand and revenue uncertainty associated with the most significant non-reference services.

On this basis, specifying the Peake Service, Pilbara Service, Other Reserved Service and proposed Ullage Service as rebateable non-reference services, is in accordance with the NGR.

1.3.3. Proposed approach – non-reference rebateable services

Rebateable services must meet the requirements of NGR93(4). A service is a rebateable non-reference service if:

- it is not a reference service; and

[11] ERA, DBNGP AA4 Final Decision, [266]; DBP AA4 Submission 57 (section 4)

- there exists substantial uncertainty concerning the extent of demand for, or revenue generated from the service.

The Peaker Service has been accepted by the ERA as a rebateable non-reference service. [12] The below therefore focuses on three non-reference services: the Pilbara Service, the Other Reserved Service and the proposed Ullage Service and why they should also be non-reference rebateable services.

The Draft Decision considers it appropriate that the Pilbara Service and Other Reserved Service remain non-reference services. [13] Attachment 6.2 considers the proposed Ullage Service and outlines our assessment that the proposed Ullage Service should also be specified as a non-reference service.

Therefore, the only issue remaining to be considered is whether there exists substantial uncertainty of demand for, or revenue to be generated from these services.

For the Pilbara Service and Other Reserved Service, average daily demand is included in Table 10 of the Draft Decision. As noted in the Draft Decision "Average demand for the Pilbara Service is low when compared with the average demand for full haul, part haul and back haul services". [14] While revenue has increased in recent years, this is not sufficient to establish a long-term trend. We consider demand for the service remains substantially uncertain and suggest the service be specified as a non-reference rebateable service.

The Other Reserved Service is inherently uncertain by nature of the service itself. The service represents a suite of interruptible services which are offered on a bespoke basis. In particular, the service is used by shippers with new projects and/or initial uncertain demand. As demand certainty increases, these shippers shift their service to a firm service. Demand for the Other Reserved Service is therefore substantially uncertain, and the service should be specified as a non-reference rebateable service.

[redacted].

On this basis, the proposed revision to the Access Arrangement Document specifies each of the Peaking Service, Pilbara Service, Other Reserved Service and proposed Ullage Service as non-reference and rebateable service.

The Access Arrangement Document has been revised to include in the tariff variation mechanism a rebate of 70% of the revenue generated from these services through reference tariffs.

1.3.4. Remaining non-reference services

Finally, it is necessary to consider the treatment of the remaining non-reference services. As we have accepted required amendment 2 dealing with non-stand alone services, that leaves:

- Spot Service;

[12] ERA Draft Decision, [147]
[13] ERA Draft Decision, [103], [136]
[14] ERA Draft Decision, [137]

- Pipeline Impact Agreement;
- Inlet Sales Agreement;
- Data Services; and
- Storage Service.

For the Spot Service, as explained in section 1.3.2 above in AA4 this service has costs allocated using the method outlined in Option (ii) above. We propose this approach continue.

For Pipeline Impact Agreement, Inlet Sales Agreement and Data Services, we contend there are no shared costs. Therefore, no cost or revenue allocation mechanism is required.

Finally, usage of the Storage Service is declining with the advent of standalone gas storage facilities in Western Australia. Therefore, any shared costs are likely to decrease to zero in the very near term and do not warrant any further action.

1.4. Summary

Our Revised Final Plan proposes changes to the allocation of total revenue proposed by the ERA in its Draft Decision. Specifically, our Revised Final Plan proposes three additional non-reference services (Pilbara Service, Other Reserved Service and the proposed Ullage Service) be specified as rebateable services under NGR93(4). These services are in addition to the Peaking Service which was accepted by the ERA as a rebateable service in its Draft Decision.

This rebate is included in our revisions instead of applying the 97:3 ratio to the total revenue requirement. Demand for these services has been explicitly excluded from the calculation of reference tariffs (see Attachment 11.3).