4 November 2020

Tyson Self
Economic Regulation Authority
Level 4, 469 Wellington Street, Perth WA 6000

Transmission via: https://www.erawa.com.au/current-consultations

Dear Tyson

DRAFT DECISION AND DBP'S REVISED PROPOSAL

Alinta Energy appreciates the opportunity to provide feedback on the ERA's draft decision and DBP's revised proposal.

DBP's proposed revisions to the access arrangement were based on its actual contracted capacity, which showed a step decline between 2020 and 2021 and a gradual decrease over the remainder of the period. Throughput was also expected to decrease steeply between 2020 and 2021, but not as dramatically as contracted capacity.

The ERA's draft decision did not support DBP's forecasts for contracted capacity and throughput. Citing inconsistencies with the 2019 GSOO, and concern that the reduction in contracted capacity may be due to customers substituting for DBP's peaker services, the ERA required DBP to forecast that throughput and contracted capacity will remain at levels initially predicted for 2020 for the access arrangement period.[1]

DBP's revised plan disagreed with the ERA's findings and maintained its previous contracted capacity data up until 2023. The forecasts for 2024 and 2025 were updated with more current information from shippers who had since decided to relinquish full haul capacity for this period.

Total system demand forecasts (full haul equivalent, TJ/d)

		2021	2022	2023	2024	2025	Avg
DBP proposed revisions	Throughput	567.91	557.93	553.06	548.99	545.03	554.58
	Contracted Capacity	636.31	624.93	618.31	603.69	597.60	616.17
Draft Decision	Throughput	620.98	620.48	622.18	623.89	626.22	622.75
	Contracted Capacity	762.14	760.76	762.24	764.32	766.34	763.16
DBP revised plan	Throughput	567.91	557.93	553.06	511.72	507.75	539.67
	Contracted capacity	636.31	624.93	618.31	566.41	560.33	601.26

[1] ERA, *Draft decision on proposed revisions to the Dampier Bunbury Pipeline access arrangement 2021 to 2025*, p.56, paragraph 200.

Classification: CONFIDENTIAL

Rule 74 of the NGR requires that a forecast of demand must be arrived at on a reasonable basis and must represent the best forecast possible in the circumstances. Alinta Energy disagrees with the ERA's draft decision and considers that DBP's actual contracted capacity figures in its revised proposal provide the best forecast to meet the requirements in the NGR for five reasons.

Firstly, the draft decision's flat contracted capacity forecast does not reflect how shippers, including Alinta, have significantly reduced their contract positions, nor the reasons for the reductions.

Specifically, Alinta Energy did not reduce its position to substitute contracted capacity for peaker services, it reduced its position because:

a) Alinta's historical contracted capacity was [redacted] too high;

b) Alinta has contracted gas supply from the North Perth Basin, reducing its requirement for full haul DBP transport by a further [redacted] from 1 January 2021; and

c) Rapidly increasing renewable generation and increasing gas prices are expected to significantly impact gas-fired electricity generation.

Alinta Energy understands other shippers have relinquished significant quantities of capacity for similar reasons. Retaining the 2020 forecasts would ignore these substantial underlying drivers and materially overstate contracted capacity.

Secondly, Alinta Energy expects that peaker services will only be used by shippers with gas peaker generation and rarely – as their cost structure, combined with forecast gas prices can only be recovered during periods when prices are relatively high.

Thirdly, the purpose of making peaker services rebatable is to manage the potential impacts of forecast error. Inflating the forecast for contracted demand to also mitigate this risk is therefore unnecessary, duplicative, and not fit for purpose.

Fourthly, Alinta Energy agrees with DBP's point that the GSOO forecasts throughput and is therefore not a valid basis for forecasting contracted capacity.

Finally, consistent with DBP's analysis, Alinta Energy considers the apparent discrepancy between the GSOO and DBP's throughput forecasts was overstated. Once adjustments are made to account for:

- the impact of increasing renewables and increased gas prices on the level of dispatch of gas-fired generation; and

- Alinta Energy's and other gas shippers' recent shifts to supply from the North Perth basin;

the discrepancy is within a reasonable error range and therefore not a valid basis to revise DBP's throughput and contracted capacity forecasts.

These reasons why Alinta does not support the demand forecasts in the ERA's draft decision and instead supports the forecasts in DBP's revised proposal are discussed in more detail below.

1. The draft decision's flat contracted capacity forecast does not reflect shippers' significantly reduced contract positions, nor the reasons for the reductions.

In the draft decision, the ERA considered that the decrease in contracted demand may be due to shippers substituting contracted capacity for peaker services. Consequently, the ERA recommended that a flat demand for reference services (based on initial forecasts for 2020) is reasonable to account for substitution to the peaker service.[2]

Alinta Energy strongly disagrees with this because the flat forecast does not reflect that shippers, including Alinta, have since significantly reduced their contract positions; and because Alinta did not reduce its position to substitute contracted capacity for peaker services – it reduced its position due to the reasons outlined below. Alinta Energy understands that other shippers have relinquished significant quantities of capacity for similar reasons. Retaining the 2020 forecasts would ignore these underlying drivers and materially overstate contracted capacity.

Alinta Energy reduced its contracted position because:

a) Alinta's historical contracted capacity was [redacted] too high

Alinta had a [redacted] over-contracted full haul capacity position under its Gas Transport Agreement with DBP for the 10 years up to 2020. The excess was approximately [redacted] Alinta has since recontracted to relinquish this excess.

Unable to recover the excess capacity, Alinta considered the un-utilised capacity as a sunk cost and priced the incremental demand based on the variable component for both retail and wholesale gas and electricity sales. The variable cost [redacted] represented only [redacted] of the total transport cost, putting upward pressure on Alinta's throughput. In right-sizing its contract, Alinta will be able to price all its transport on a full recovery basis, reducing this pressure during the 2021-2025 access arrangement period.

Alinta Energy understands that at least one other large shipper has relinquished a similar quantity of contracted capacity due to being over-contracted. In its response to ERA's draft decision on capacity and throughput (Attachment 11.3), DBP states that some of its "largest shippers" (plural), have reduced their contract position to due to being "over-contracted."[3]

b) Alinta has contracted gas supply from the North Perth Basin reducing the requirement for full haul DBP transport by a further [redacted] from 1 January 2021

Until 30 June 2020, Alinta procured substantially all its gas under gas supply agreements from the Carnarvon Basin and transported this gas on the DBP.

However, as announced by Beach Energy Limited to the ASX on 3 July 2019,[4] Alinta entered a new gas supply agreement with Mitsui and Beach Energy for gas from the Waitsia Gas field in the North Perth Basin and has arranged to transport this gas down the Parmelia Gas Pipeline (PGP). Additionally, Alinta contracted with Mitsui/Beach for gas supply from Beharra Springs from 1 January 2021. As a result, Alinta will no longer require [redacted] of Full Haul Transport on the DBP and has de-contracted this capacity from 1 January 2021.

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[2] ERA, *Draft decision on proposed revisions to the Dampier Bunbury Pipeline access arrangement 2021 to 2025*, p.56, paragraph 200.
[3] *DBP, Revised Final Plan – Attachment 11.3: Response to Draft Decision on Capacity and Throughput*, January 2020, p.7.
[4] Beach Energy, *ASX Announcement – Perth Basin Update*, July 2019
https://www.asx.com.au/asxpdf/20190703/pdf/446bjd7ywmcdmh.pdf

Alinta Energy understands that other shippers have procured supply from the North Perth Basin and that this will further reduce demand for full haul capacity on the DBP. For example, Strike Energy announced on 31 August 2020 that it will supply CSBP with 25 TJ/day from its West Erregulla project from the first half of 2022.[5] This would reduce the demand for DBP full haul capacity because the North Perth Basin is further down the DBP pipeline than the traditional Carnarvon Basin-based gas fields. Alinta Energy expects growing supply from the North Perth Basin will further reduce demand for DBP full haul contracted capacity as it grows, considering its location also allows off-takers to utilise the PGP. On 28 October 2020, Strike Energy announced plans to increase its West Erregulla capacity to 80 TJ/day by mid-2022.[6]

c) Rapid increases in renewable generation and increasing gas prices are expected to impact gas-fired electricity generation.

The SWIS has experienced a significant expansion in renewable energy with several large-scale renewable projects commissioning in the second half of 2020 including the Yandin wind farm, the Warradarge wind farm, the Merredin solar farm and the Greenough River solar farm expansion. Based on modelling by independent consultants, Marsden Jacobs Associates (MJA), conducted on behalf of Alinta Energy, Alinta Energy expects these projects to add more than 2 TWh's p.a of renewable energy (compared to 2019) and displace circa 50 TJ/d of gas fired generation, including output from Alinta's Pinjarra and Wagerup units. This modelling (presented in charts 1 and 2), reflects the latest ESOO forecast demand, the announced retirement dates of Muja C (2022 and 2024), and the tightening gas market which is discussed below.

Note: Actual data used until 31 Aug 2020, forecasts made thereafter.

[5] Strike Energy, *CSBP commits to West Errugulla Phase 1 Gas Offtake*, August 2020. https://asx.api.markitdigital.com/asx-research/1.0/file/2924-02274277-6A993558?access_token=83ff96335c2d45a094df02a206a39ff4

[6] Strike Energy, *Quarterly Report Q3/20*, October 2020. https://asx.api.markitdigital.com/asx-research/1.0/file/2924-02300119-6A1003713?access_token=83ff96335c2d45a094df02a206a39ff4

Note: Actual data used until 31 Aug 2020, forecasts made thereafter.

Consistent with DBP's response to ERA's draft decision on capacity and throughput (Attachment 11.3),[7] Alinta Energy expects that increasing gas prices will also significantly impact gas-fired electricity generation. After Gorgon and Wheatstone came online in 2017 and 2019 respectively, and before legacy NWS contracts expired in June 2020, WA had an oversupplied short-term gas market. This resulted in low spot gas prices – Interruptible Spot Gas could be sourced at around $2.00/GJ.

When coupled with a variable transport cost [redacted], the SRMC of a gas-fired power station was at times cheaper than coal fired generation. This resulted in increased gas peaker generation at lower prices from 2017. Coal generation volumes decreased from 2017 to 2019 as it was often cheaper for gas to run instead of coal.

However, on 30 June 2020, legacy NWS contracts expired, reducing output from the Karratha Gas Plant. A screenshot from the AEMO Gas Bulletin Board is provided below to show the decreased NWS volumes from 1 July 2020:

Source: AEMO Website: GBB

This has tightened the gas market. Buyers under these legacy contracts have shifted their supply arrangements to other gas production plants, absorbing a significant amount of the excess plant capacity and increasing gas prices. Increased gas prices increase the SRMC of gas generators on the DBP, reducing their ability to clear in the balancing market. Alinta Energy expects this tightening gas market to continue, reducing gas fired generation as coal generation becomes relatively cheaper, and further decreasing the requirement for DBP transport.

[7] DBP, *Revised Final Plan – Attachment 11.3: Response to Draft Decision on Capacity and Throughput*, January 2020, p.24.

This increasing competition from renewable energy and the tightening gas market will impact Alinta Energy's gas-fired generation and contributed to Alinta's decision to relinquish its DBP contracted capacity. However, as demonstrated by charts 1 and 2, Alinta Energy forecasts that increasing gas prices and increasing renewable energy will combine to significantly reduce the output from all gas-fired generators on the DBP, putting downward pressure on all these shippers' requirements for contracted capacity – and not just Alinta's.

2. Expected use of peaker services

Regardless of the reasons above, Alinta Energy considers that it's also unreasonable to assume shippers like Alinta will be substituting their contracted capacity for comparable volumes of demand for DBP's peaker services because these services will only be used by shippers with gas peaker generation and the high variable costs of these services can only be recovered during peak periods where prices and demand are relatively high.

Assuming:

- a reference tariff of [redacted] and
- a gas Price post 31 December 2020 of [redacted]

equates to a peaker delivered gas cost of [redacted] on a variable basis, meaning a peaker facility like Wagerup would dispatch must less often.

3. Peaker services are rebateable

Aside from Alinta Energy forecasting that peaker services will be used rarely, another reason Alinta Energy disagrees with ERA's draft decision to hold contracted capacity forecasts flat to account for uncertain demand for peaker services is that this is the purpose of rebateable services, and the peaker services are to be rebateable.

In its final rule change determination on the reference service and rebateable service definitions in the NGR, the AEMC notes that the purpose of making services rebateable is to address difficulties in forecasting revenues and demand for certain services by rebating revenue generated from these to reference service users.[8]

In making peaker services rebateable, DBP reduces the risk of over-recovering its costs where forecast error occurs as most of the revenue from the service (which Alinta forecasts will be marginal for the reasons discussed in section 1 and 2) would be rebated to reference service users. Consequently, Alinta Energy considers that inflating demand forecasts for reference services to also manage forecasting uncertainty is duplicative and unnecessary.

Additionally, compared to making peaker services rebateable, inflating reference service forecasts is not fit for purpose to manage forecasting difficulty because revenue for these services is not rebateable and their forecasts therefore have more consequential implications for the access arrangement.

Alinta Energy supports DBP's proposal to make the peaker services rebateable, considering this will reduce uncertainty for shippers.

[8] AEMC, *Information Paper - Reference service and rebateable service definitions*, November 2012. https://www.aemc.gov.au/sites/default/files/content/2118dc24-3299-47ad-9181-8d2361c4720f/Information-sheet-1-November-2012.pdf

4. Throughput forecasts in the GSOO are not a valid basis for forecasting contracted capacity

Alinta Energy agrees with DBP that throughput and contracted capacity forecasts are an "apples and pears comparison".[9] Regardless of the accuracy of the GSOO, an argument that throughput will remain constant based on AEMO's GSOO is not a strong basis to dismiss the decrease in contracted capacity because it does not take into account shipper's over-contracted legacy positions.

Additionally, AEMO's throughput forecasts in the GSOO cannot incorporate the internal commercial information, analysis, and drivers that have led to shippers' contracting decisions, whereas actual contracted capacity figures incorporate this information.

5. The discrepancy between the GSOO and DBP's throughput forecasts was overstated

Finally, Alinta Energy agrees with DBP's analysis that the apparent discrepancy between the GSOO and DBP's throughput forecasts was overstated and is therefore not a valid basis to require revisions to DBP's forecasts.

Alinta Energy considers that the 2019 GSOO did not accurately incorporate:

- the impact of increasing renewables (as supported by MJA's modelling in part 1(c) of this submission);
- the impact of increasing gas prices and a tightening gas market (as supported by MJA's modelling in part 1(c)); and
- Alinta Energy's and other gas shippers' recent shifts to supply from the North Perth basin via the PGP (as discussed in part 1(b)).

Making appropriate adjustments to the GSOO's modelling to account for these factors would significantly reduce the discrepancy between the GSOO and DBP's revised proposal (which does incorporate this information) to within a reasonable error range. As a result, Alinta Energy considers that the 2019 GSOO cannot be used to reject DBP's throughput and contracted capacity forecasts.

Conclusion

In conclusion, Alinta Energy disagrees with the ERA's draft decision and supports the actual contracted capacity figures in DBP's revised proposal as the best possible forecast because:

1. The draft decision's flat contracted capacity forecast does not reflect shippers' significantly reduced contract positions, nor the reasons for the reductions. Shippers like Alinta Energy have not reduced their contracted positions due to increased demand for peaker services, they have reduced their contract positions due to:
   - being over-contracted,
   - their procurement of supply from the North Perth Basin, and
   - the impacts of increasing renewable energy and increased gas prices on gas-fired generation.

   Holding contracted capacity flat would ignore these significant underlying drivers and materially overstate contracted capacity.

2. Peaker services will only be used by shippers with gas peaker generation and rarely because their cost structure, combined with current gas prices can only be recovered during periods when prices are relatively high.

3. Peaker services are rebateable, reducing the risks posed by forecast uncertainty. Holding contracted capacity flat to also manage this uncertainty is duplicative, and not fit for

[9] DBP, *Revised Final Plan – Attachment 11.3: Response to Draft Decision on Capacity and Throughput*, January 2020, p.7.

purpose.

4. Throughput forecasts in the GSOO are not a valid basis for forecasting contracted capacity. The GSOO cannot accurately incorporate the impacts of legacy contractual positions and the internal commercial drivers influencing shippers' contractual decisions like actual contracted capacity data.

5. The discrepancy between the GSOO and DBP's throughput forecasts was overstated. Once adjustments are made to account for:
   - the impact of increasing renewables and increased gas prices on the level of dispatch of gas-fired generation; and
   - Alinta Energy's and other gas shippers' recent shifts to supply from the North Perth basin;

   The discrepancy is within a reasonable error range and therefore not a valid basis to revise DBP's throughput and contracted capacity forecasts.

Thank you for your consideration of Alinta Energy's submission. If you would like to discuss this further, please contact [redacted]

Yours sincerely

[redacted]

Chris Campbell
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Alinta Energy