Economic Regulation Authority

Final decision on revisions to the access arrangement for the Dampier to Bunbury Natural Gas Pipeline (2026 to 2030)

Attachment 6: Depreciation

18 December 2025

D302605

Acknowledgement of Country

At the ERA we value our cultural diversity and respect the traditional custodians of the land and waters on which we live and work.

We acknowledge their continuing connection to culture and community, their traditions and stories. We commit to listening, continuously improving our performance and building a brighter future together.

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Contents

Attachment 6. Summary **1**

Regulatory requirements **2**

ERA draft decision **3**

DBP response to draft decision **5**

Submissions to the ERA **7**

Final decision **8**

Depreciation arrangements arising from the AA5 final decision 8

Deferred depreciation arrangements 8

Asset life cap of 2063 8

Changes since the AA5 final decision 9

DBP's future of gas analysis 10

Long run demand 12

Long run tariffs 13

ERA final decision 14

Base depreciation 14

Decision on deferred depreciation for AA6 16

Total forecast depreciation 17

List of appendices

Appendix 1 List of Tables **19**

Appendix 2 List of Figures **20**

Note

This attachment forms part of the ERA's final decision on the proposed revisions to the access arrangement for the Dampier to Bunbury Natural Gas Pipeline. It should be read in conjunction with all other parts of the final decision, which is comprised of the following document and attachments:

- Final decision on revisions to the access arrangement for the Dampier to Bunbury Natural Gas Pipeline - Overview, 18 December 2025
  - Attachment 1: Access arrangement and services
  - Attachment 2: Demand
  - Attachment 3: Revenue and tariffs
  - Attachment 4: Regulatory capital base
  - Attachment 5: Operating expenditure
  - Attachment 6: Depreciation (this document)
  - Attachment 7: Return on capital, taxation, incentives
  - Attachment 8: Other access arrangement provisions
  - Attachment 9: Service terms and conditions

Numerical amounts in tables throughout this document are generally shown to 1 decimal place. Total numerical amounts that are shown may not add exactly due to rounding. The tariff (revenue) model that was used for this decision should be used for accurate unrounded numerical amounts.

Attachment 6. Summary

Depreciation of the capital base is one revenue component of the total revenue building block and allows for the recovery of approved capital expenditure over time.

DBP's revised proposed approach to calculating depreciation for the sixth access arrangement (AA6) includes two parts:

- *Base depreciation allowance*: DBP proposed maintaining the current depreciation approach used in the previous access arrangement (AA5). This approach continued the straight-line depreciation of assets, where the pipeline asset classes were subject to an economic asset life cap of 2063. This revised proposed base allowance was a total of $733.9 million (real 2024) over the AA6 period.

- *Deferred depreciation allowance*: DBP accepted the ERA's draft decision that $81.0 million (real 2024) be included over the AA6 period due to the restructure of the regulated asset base in AA5.

The ERA has considered and accepted DBP's approach to calculate base depreciation. DBP has analysed a range of credible scenarios that indicate that the 2063 economic life date is still capable of balancing the risks between DBP and shippers given current information.

Accordingly, the ERA has allowed for a total of $726.1 million (real 2024) for base depreciation over AA6, which varies from DBP's revised proposal due to the ERA's approved capital expenditure levels in this final decision.

The ERA has accepted DBP's revised proposed deferred depreciation approach which simplifies its modelling implementation and spreads the deferred depreciation over the five years of the access arrangement period it applies to. The approach is consistent with the amounts of deferred depreciation resulting from the AA5 final decision and smooths tariff increases. This results in $81.0 million (real 2024) of deferred depreciation being provided over AA6.

The ERA's forecast regulatory total depreciation allowance for AA6 is $807.1 million (real 2024)

The reasons for the ERA's final decision in respect of the matters relevant to depreciation and details of the required amendment are set out in this attachment.

Summary of required amendments:

Required amendment 6.1

The forecast regulatory total depreciation allowance for AA6 must be amended to reflect the amounts for 2026 to 2030 as set out in Table 6.8 of Final Decision Attachment 6. The depreciation allowance must be set out in the access arrangement information.

Clause 9.4(a) of the access arrangement must also be amended to reflect the 11 asset categories/groups provided for in Table 6.8.

Regulatory requirements

1. The *National Gas Access (WA) Act 2009* implements a modified version of the National Gas Law (NGL) and National Gas Rules (NGR) in Western Australia. The rules referenced in this decision are those that apply in Western Australia.[1]

2. Depreciation on the capital base is one of the components (building blocks) for determining the service provider's total revenue requirement using the building block approach, which is required by the NGR.[2] The total revenue requirement is the amount that is needed by the service provider to recover the efficient costs incurred in operating the pipeline (the service provider's cost of service).

3. Rules 88 to 90 set out the following provisions for depreciation:

> **Depreciation schedule (rule 88):**
>
> The depreciation schedule sets out the basis on which the pipeline assets that form the capital base are to be depreciated for the purpose of determining a reference tariff. The schedule may consist of several separate schedules that each relate to a particular asset or class of assets.
>
> **Depreciation criteria (rule 89):**
>
> The depreciation schedule should be designed:
>
> - So that reference tariffs will vary, over time, in a way that promotes efficient growth in the market for refence services.
> - So that each asset or group of assets is depreciated over the economic life of that asset or group of assets.
> - To allow, as far as reasonably practicable, for adjustments that reflect changes in the expected economic life of a particular asset or group of assets.
> - So that, subject to the rules about capital redundancy, an asset is depreciated only once.
> - To allow for the service provider's reasonable needs for cash flow to meet financing, non-capital and other costs.
>
> Compliance with the depreciation criteria may involve the deferral of a substantial proportion of depreciation, particularly where the present market for pipeline services is immature; the reference tariffs have been calculated on the assumption of significant market growth; and the pipeline has been designed and constructed to accommodate future growth in demand.
>
> **Calculation of depreciation for rolling forward the capital base from one access arrangement period to the next (rule 90):**
>
> An access arrangement must contain provisions that govern the calculation of depreciation for establishing the opening capital base for the next access arrangement period. These provisions must resolve whether depreciation of the capital base is to be based on forecast or actual capital expenditure.

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1 The current rules that apply in Western Australia are available from the Australian Energy Market Commission: AEMC, 'National Gas Rules (Western Australia)' (online) (accessed December 2025). At the time of this decision, *National Gas Rules – Western Australia version 12 (1 February 2024)* was in effect.

2 NGR, rule 76.

ERA draft decision

4. DBP's proposed approach to calculating depreciation for AA6 included two parts:

   - **Base depreciation allowance:** DBP maintained the current depreciation approach used in AA5. This approach continued the straight-line depreciation of assets, where the pipeline asset classes were subject to an economic asset life cap of 2063. This proposed base allowance was a total of $734.0 million (real 2024) over AA6.

   - **Deferred depreciation allowance:** DBP proposed that $81.0 million (real 2024) be included in the first year of AA6 due to the restructure of the regulated asset base in AA5.

5. In the draft decision, the ERA considered and accepted DBP's approach to calculate base depreciation. The ERA found that DBP had analysed a range of credible scenarios that indicated that the 2063 economic life date was still capable of balancing the risks between DBP and shippers given current information. Accordingly, the draft decision allowed for a total of $710.5 million (real 2024) for base depreciation over AA6, which varied from DBP's proposed amount due to the ERA's approved capital expenditure levels in the draft decision.

6. The ERA's draft decision did not accept DBP's proposed deferred depreciation approach that front loaded deferred depreciation into the first year of the access arrangement period (2026). Rather, the ERA accepted the deferred depreciation amount and spread the deferred depreciation over the five years of the access arrangement period. This resulted in $81 million (real 2024) of deferred depreciation being provided over AA6.

7. In total, the ERA's draft decision determined an amount $791.5 million (real 2024) of forecast depreciation for AA6 as set out in Table 6.1(below).

8. The ERA set out the following draft decision required amendment:

> **Draft Decision Required Amendment 6.1**
>
> DBP must amend the regulatory depreciation amounts for 2026 to 2030 to reflect the amounts in Table 6.8 of Draft Decision Attachment 6 [Table 6.1 of this attachment].

Table 6.1: ERA draft decision AA6 total forecast depreciation ($ million, real 31 December 2024)

	2026	2027	2028	2029	2030	Total
Pipeline	84.8	84.8	84.8	84.8	84.8	**424.0**
Compression	24.8	25	25.2	25.4	25.5	**125.9**
Metering	2.3	2.4	2.5	2.7	2.8	**12.7**
Other depreciable	3.2	3.1	2.6	2.5	2.3	**13.7**
Computers and motor vehicles	3.5	10.4	10.5	8.7	9.5	**42.6**
Cathodic/corrosion protection	5.5	4.4	4.2	4.3	4.4	**22.8**
SCADA , ECI and comms	10.5	11.6	12.4	13.6	14.5	**62.6**
Building	0	0.2	0.5	0.6	0.8	**2.1**
Cost of raising equity	0.2	0.3	0.3	0.4	0.4	**1.6**
BEP lease	0.5	0.5	0.5	0.5	0.5	**2.5**
Out of service asset in AA5 (deferred depreciation)	16.2	16.2	16.2	16.2	16.2	**81.0**
Forecast depreciation	**151.5**	**158.9**	**159.7**	**159.7**	**161.7**	**791.5**

Source: ERA, Draft decision on revisions to the access arrangement for the Dampier to Bunbury Natural Gas Pipeline (2026 to 2030) - Attachment 6: Depreciation, 7 July 2025, Table 6.8.

DBP response to draft decision

9. DBP accepted the ERA's draft decision on depreciation with regards to the methodology and approach for the base and deferred depreciation allowance. However, DBP did not agree with the depreciation amounts as its revised proposal did not accept the ERA's draft decision capital expenditure values.

10. DBP's revised proposed forecast total depreciation is $814.9 million, which is approximately 3 per cent higher than the ERA's draft decision.

11. DBP's revised proposal used the asset lives shown in Table 6.2. DBP's proposed forecast total depreciation is set out in Table 6.3.

Table 6.2: DBP revised proposal asset lives (years)

	AA5	Initial proposal	Draft decision	Revised proposal
Pipeline	Capped at 2063	Capped at 2063	Capped at 2063	Capped at 2063
Compression	30	30	30	30
Metering	30	30	30	30
Other depreciable	10	10	10	10
Computers and motor vehicles	5	5	5	5
Cathodic/corrosion protection	15	15	15	15
SCADA, ECI and comms	10	10	10	10
Building	50	50	50	50
Cost of raising equity	38.0	38.0	32.6	32.6

Source: DBP, Revised Final Plan: Attachment 6.4, p. 4.

Table 6.3: DBP revised proposal AA6 total forecast depreciation ($ million December 2024)

	2026	2027	2028	2029	2030	Total
Pipeline	84.8	84.8	84.8	84.8	84.8	**423.9**
Compression	24.8	25.0	25.2	25.5	25.6	**126.2**
Metering	2.4	2.5	2.6	2.8	2.9	**13.2**
Other depreciable	3.2	3.1	2.6	2.5	2.3	**13.7**
Computers and motor vehicles	13.1	14.5	14.2	10.1	11.3	**63.3**
Cathodic/corrosion protection	5.5	4.4	4.3	4.4	4.6	**23.2**
SCADA, ECI and comms	10.5	11.6	12.4	13.6	14.5	**62.7**
Building	0.0	0.3	0.7	1.1	1.2	**3.4**
Cost of raising equity	0.2	0.3	0.3	0.4	0.4	**1.7**
BEP lease	0.5	0.5	0.5	0.5	0.5	**2.7**
Out of service asset in AA5 (deferred depreciation)	16.2	16.2	16.2	16.2	16.2	**81.0**
Forecast depreciation	**161.3**	**163.2**	**164.0**	**161.9**	**164.5**	**814.9**

Source: DBP, Revised Final Plan: Attachment 6.4, p. 5.

Submissions to the ERA

12. Several submissions received in response to DBP's initial proposal and the ERA's issues paper addressed DBP's perspective on the future of gas and its approach to deferred depreciation:

    - Alinta Energy and NewGen Power Kwinana both supported retaining the 2063 economic life case to provide certainty.[3, 4]

    - Horizon Power did not support the approach, noting the potential slowdown of the energy transition due to policy changes in the United States.[5]

    - Wesfarmers Chemicals, Energy & Fertilisers (WesCEF) stated that the ERA should apply the approaches developed by the Australian Energy Regulator for future of gas proposals; and consider the consistency of the approach to future of gas with other components of DBP's AA6 proposal, and various other mechanisms (such as fund retention and capping depreciation) to avoid unacceptable price shocks.[6]

13. The submissions from WesCEF, NewGen and Horizon Power did not support DBP's approach of recovering deferred depreciation in the first year of AA6. Alinta however considered that the "depreciation glide path" was determined in AA5 and certainty would be undermined if it were to be changed in AA6.[7]

14. The ERA addressed the above matters as part of its draft decision considerations.

15. We received further comments in response to the draft decision and DBP's revised proposal:

    - NewGen Power Kwinana supported the ERA's draft decision on base depreciation and the deferred depreciation approach. However, NewGen Kwinana did not support the amount of deferred depreciation to be provided across AA6 and AA7, suggesting that it should be spread evenly across the two access arrangement periods.[8]

3 Alinta Energy, *Submission in response to DBP proposal and/or ERA issues paper*, 1 April 2025.

4 NewGen Power, *Submission in response to DBP proposal and/or ERA issues paper*, 31 March 2025.

5 Horizon Power, *Submission in response to DBP proposal and/or ERA issues paper*, 26 March 2025.

6 Wesfarmers Chemicals, Energy & Fertilisers, *Submission in response to DBP proposal and/or ERA issues paper*, 31 March 2025.

7 Alinta Energy, *Submission in response to DBP proposal and/or ERA issues paper*, 1 April 2025.

8 NewGen Power, *Submission in response to ERA draft decision and/or DBP revised proposal*, September 2025.

Final decision

16. Regulatory depreciation is one revenue component of total revenue allowed under the national gas framework. Regulatory depreciation accounts for the recovery of previously approved capital expenditure that has been incorporated into the regulatory asset base.

Depreciation arrangements arising from the AA5 final decision

Deferred depreciation arrangements

17. Deferred depreciation resulted from the asset re-categorisation that occurred in AA5, where existing assets were reclassified into new asset categories that were more representative of their asset life than their pre-AA5 categories.[9]

18. The full recognition of that depreciation from asset re-categorisation during AA5 would have adversely affected tariffs. Therefore, in the AA5 final decision the ERA determined the deferral of under-depreciated assets to future access arrangements.[10]

Asset life cap of 2063

19. For the AA5 final decision, the ERA approved an economic life cap of 2063 for all DBP assets, except buildings.

20. Without an economic life cap in AA5, capital expenditure for new pipeline assets (with 70-year economic lives) undertaken in AA5 would only have been fully recovered in 2091; while existing pipeline assets associated with major expansions would have been fully depreciated between 2077 and 2081.[11]

21. DBP proposed an economic life cap due to a possible diminishing market for gas transmission as a consequence of ongoing technological and policy change that results in uncertainty for the future use of gas. The economic life need not match the technical life of the asset – a pipeline that is technically sound may have no economic worth if there is no demand for its services at a price that covers its operating costs, or if the upstream supply of gas is no longer available.

22. In the AA5 final decision, the ERA accepted that DBP had established that the expected economic life of the DBNGP would decline such that its economic life would be less than its technical life. Adjustment of depreciation schedules based on a capped economic life of 2063 was consistent with the requirements of the regulatory framework. Given uncertainties, the range of potential economic lives of the DBNGP was wide, and DBP's proposed economic end life of 2063 sat within a range of plausible outcomes.[12]

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9 For example, DBP previously classified computers and motor vehicles into the "Other" asset category, where the AA5 re-categorisation moved this to the new category of "Computers and motor vehicles".

10 ERA, *Final decision on proposed revisions to the Dampier to Bunbury Natural gas Pipeline access arrangement 2021 to 2025*, 1 April 2021, pp. 339, 342.

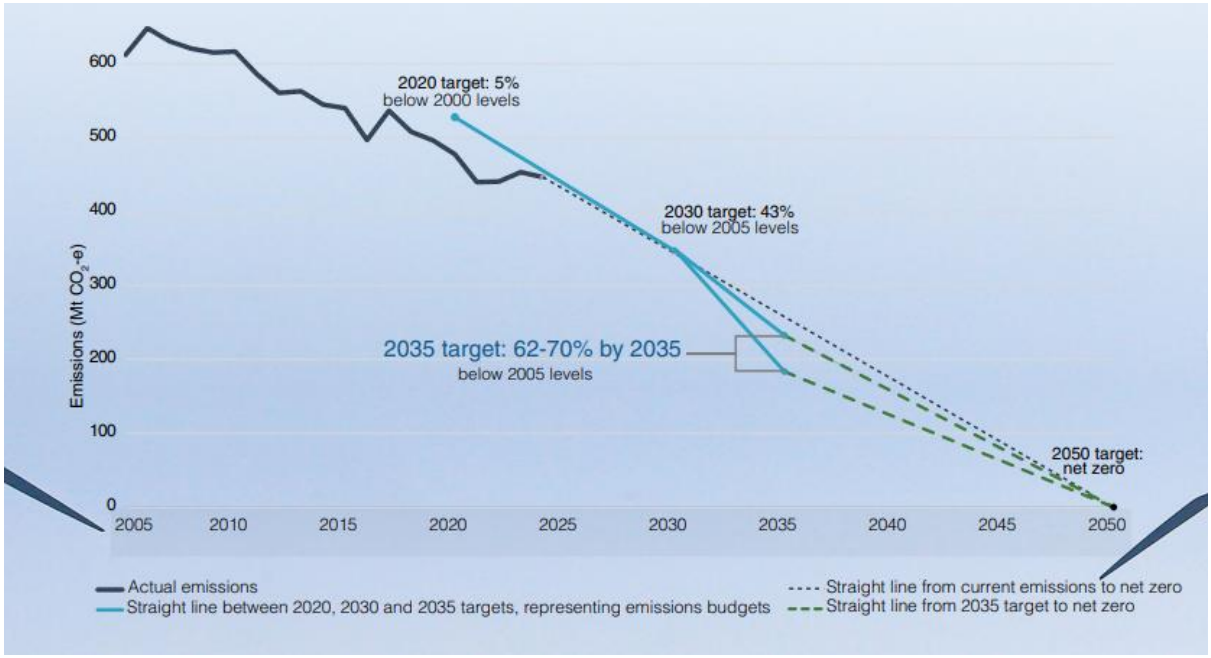
11 ERA, *Final decision on proposed revisions to the Dampier to Bunbury Natural gas Pipeline access arrangement 2021 to 2025*, 1 April 2021, p. 339.

12 ERA, *Final decision on proposed revisions to the Dampier to Bunbury Natural gas Pipeline access arrangement 2021 to 2025*, 1 April 2021, pp. 350 - 357.

Changes since the AA5 final decision

23. The policy environment has evolved significantly since the ERA's AA5 final decision in April 2021, with Australia's adoption of net zero targets across various jurisdictions. The Commonwealth Government has established a 2035 target to reduce emissions by 62 per cent to 70 per cent below 2005 levels and for net zero emissions by 2050.[13,14] The Commonwealth has also released the Electricity Energy Sector Plan, which describes the required reduction in natural gas use and transition towards lower emission alternatives to reach net zero.[15] The pathway for emissions reduction targets is illustrated in Figure 6.1.

Figure 6.1: Australia's emission reduction targets



Source: Australia's Net Zero Plan.[16]

24. To achieve net zero by 2050, the Western Australian Government released the Sectoral Emissions Strategy that outlines the transition plan with a significant expected decline in natural gas usage.[17] Notably, the DBNGP and many of its shippers are subject to the Safeguard Mechanism. The Safeguard Mechanism places obligations on liable parties to reduce carbon emissions on a path to net zero by 2050.

25. A more detailed picture of projected emissions from domestic gas use from the Commonwealth Treasury is provided in Figure 6.2.

13 Commonwealth Government, *Joint media release: Setting Australia's 2035 climate change target*, 18 September 2025 (online) (accessed December 2025).

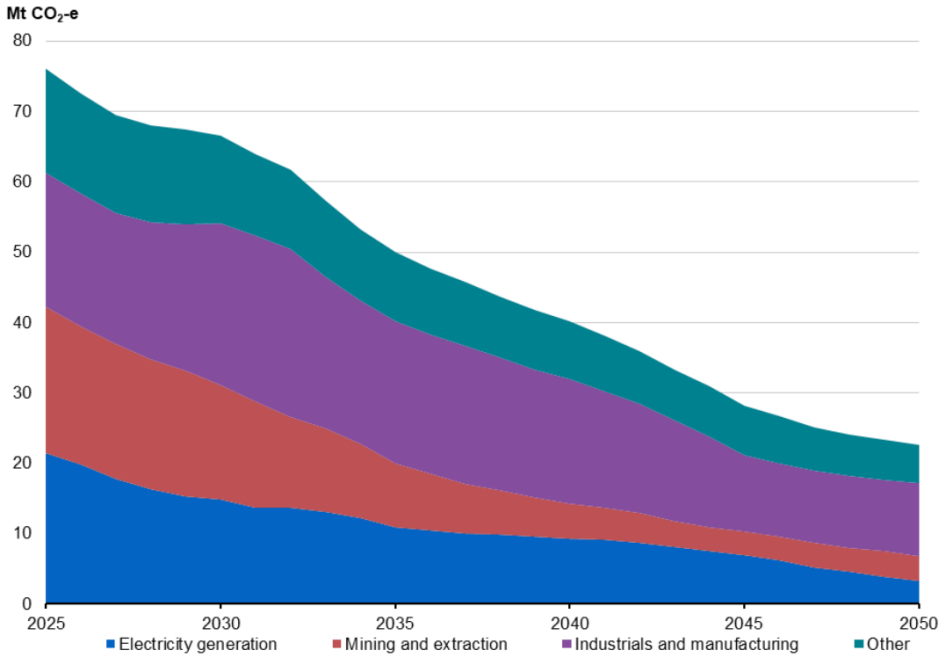
14 AEMC, *Emissions targets statement under the national energy laws*, June 2025.

15 Commonwealth Department of Climate Change, Energy, the Environment and Water, *Electricity and Energy Sector Plan 2025*, September 2025, pp. 52-60.

16 Commonwealth Department of Climate Change, Energy, the Environment and Water, *Australia's Net Zero Plan*, September 2025, p. 4, Figure 1.

17 WA Government, *Sectoral emissions reduction strategy for Western Australia*, December 2023.

Figure 6.2: Projected emissions from domestic gas usage by industry



Source: Commonwealth Treasury.[18]

Note: 'Other' includes agriculture, built environment, and transport industries. Some emissions reduction from the use of gas is achieved via carbon capture and storage technologies.

DBP's future of gas analysis

26. For AA6, DBP has reviewed and updated its approach to use more granular modelling of major shipper segments in addition to the requirements of the wider energy system. DBP has also modelled gas demand using three new scenarios that it developed with its consultant as shown in Table 6.4 (below). Further information regarding the scenarios is presented in DBP's Final Plan: Attachment 6.2.[19]

[18] Commonwealth Treasury, *Australia's Net Zero Transformation: Treasury Modelling and Analysis, September 2025*, p. 30, Chart 3.12.

[19] This attachment is marked confidential.

Table 6.4: DBP AA6 future of gas modelling scenarios

	Base	Medium	Accelerated
Growth of renewables to 2049 (% per year)	6.5	7.2	7.6
2050 percentage of electricity generated by renewables for SWIS (%)	70	80	90
Percentage of electricity generated by gas for SWIS (%)	30	20	10
Domestic Gas Policy outcome	Success	Partial success	Failure
Gas price mean value	Low ($5/GJ)	BAU ($9/GJ)	LNG netback ($13+/GJ)

Source: DBP Final Plan Attachment 6.1 (page 17) and Attachment 6.2; and ERA analysis.

27. DBP has adopted a granular approach in modelling future individual shipper demand in key industries – alumina refining, chemicals and gas processing. The general modelling logic is that each shipper has some technology available to move away from gas, which depends on the technology's suitability and commercial viability. DBP intends that at each access arrangement period, it would assess the likelihood of the technology's adoption. For example, for DBP's largest shipper customer segment, alumina, the adoption of mechanical vapour recompression for the electrification of alumina production would have a significant effect on the demand for gas should it be deployed.

28. For the gas-powered generation estimates, DBP has relied upon an external model called GridCog that simulates electricity system dynamics to estimate future gas demand in the South West Interconnected System (SWIS). Details regarding the operation of this model is provided in Attachment 6.2 of DBP's Final Plan.

29. Additionally, DBP analysed the effect of both changing economic lives and applying a tilt to vary depreciation profiles.[20] DBP analysed how these two methods could be used separately or together in calculating depreciation payments to see how consistent the methods were with DBP's new proposed depreciation goal.

30. DBP then combined these models to estimate:[21]

- Future shipper demand based on their alternatives to gas and operational activities in the presence of a carbon price.
- The price impact of reducing demand of one shipper on remaining shippers.
- Possible depreciation pathways that could avoid price shocks for remaining shippers due to the above.

[20] A tilt is used to provide for a depreciation payment profile that may be accelerated. For example, a 2 per cent tilt results in payments that decrease by 2 per cent a year, which is accomplished by increasing initial payments such that it can decline by the tilt factor and ensure all capital is recovered by the end of the economic life.

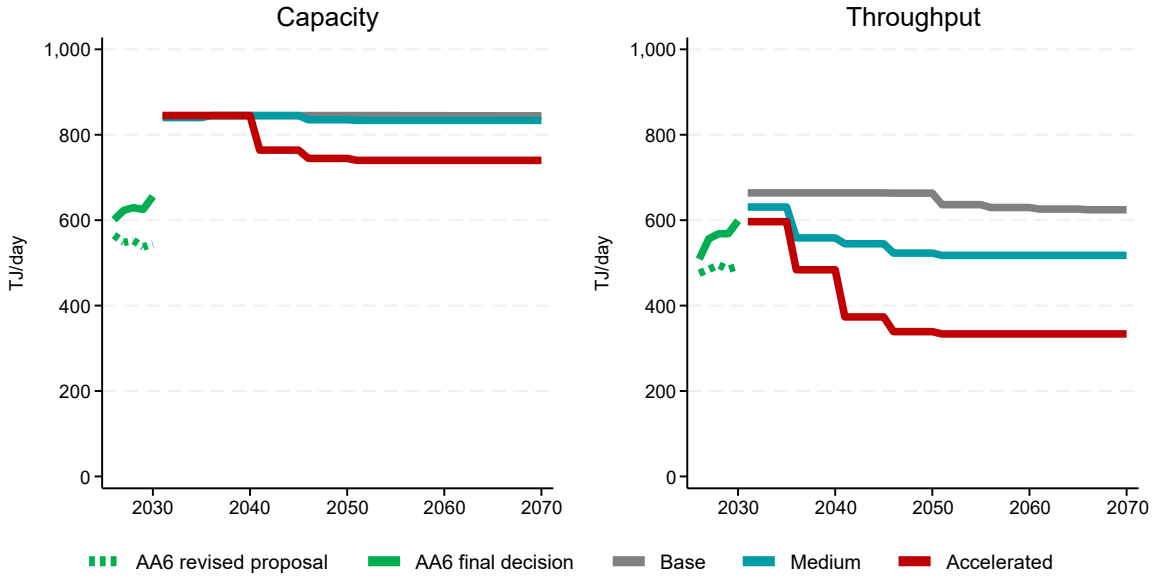
[21] DBP, *Final Plan 2026-2030*, January 2025, p. 53.

Long run demand

31. DBP estimated long run gas demand for both capacity and throughput under the three scenarios, where the resulting long-term forecasts are presented in Figure 6.3.[22] DBP's modelling includes numerous parameters that can vary demand, but ERA analysis indicates that most of the variation in DBP's modelled demand is driven by the choice of scenario and whether alumina production is assumed to continue.

32. It is important to note that DBP's assumptions, including the further development of renewables and storage and the decarbonisation of alumina, remain constant post 2050. Therefore, DBP's forecast long term demand remains constant in the backend of the modelled period.

Figure 6.3: Forecast DBNGP capacity and throughput (TJ/day)



Source: ERA analysis of DBP's Final Plan Attachment 6.3 and Attachment 14.1.

Note: The different lines represent the three different scenarios for adoption of renewables in DBP's AA6 proposal. Assumes that alumina production continues in the modelled period.

33. DBP's proposal estimates that current shipper demand (which is further considered in Final Decision Attachment 2) is expected to decrease for both capacity and throughput. However, DBP's analysis also indicates that under all scenarios, forecast demand and throughput for AA7 is higher than the current AA6 proposal due to gas powered generation. Beyond AA7, the forecast demand continues due to gas-powered generation expectations for the base and medium scenarios. The accelerated scenario expects that gas demand due to gas-powered generation increases capacity but decreases throughput. Results for gas-powered generation come from the external GridCog model, the outputs of which were made available to the ERA.

34. DBP's expectations for gas-powered generation were informed by advice from consultant CarbonTP. CarbonTP considered that the role of the DBNGP would change over time driven by policy and market factors, but the pipeline would be an integral part of the Western Australian energy transition by providing fuel for gas-powered generators in the SWIS. Initially, the retirement of coal from the SWIS will create baseload demand for gas, before progressively returning to a peaking service to assist

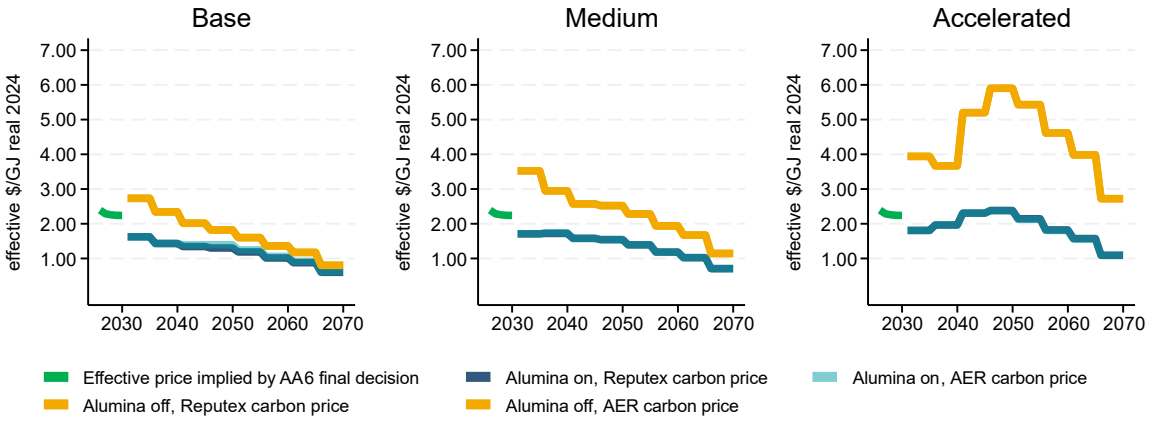
[22] The effect of the alumna decarbonisation is not presented in Figure 6.3.

with the management of renewable intermittency. Electrification of industry will also change the demand for gas. Similarly, the size and speed of future renewable energy and storage development will affect the level of both long-term capacity and throughput requirements of gas generation.

Long run tariffs

35. The relevance of considering long run tariffs is to assess the best approach to depreciation. Conceptually, DBP's forecast tariff is determined by estimates of long run demand and cost of service. DBP applied the long run demand from each scenario as described above to its estimate of long run cost of service to provide forecast tariffs to assess against its stated criterion of avoiding price shocks. The long run cost of service estimate includes the depreciation component that applies DBP's selected depreciation profile. We have updated DBP's modelling to align with Final Decision parameters which results in the forecast tariff profiles that are shown in Figure 6.4.

Figure 6.4: Forecast tariffs by scenarios ($GJ/real Dec 2024)



Source: ERA analysis of DBP's Final Plan Attachment 6.3 and Attachment 14.1.

Note: Base, Medium and Accelerated refer to the scenarios proposed by DBP. Alumina on refers to the scenario where alumina production occurs over the modelled period. Carbon prices are either from Reputex or the AER's VER estimates. The selected depreciation profile maintains the asset life cap of 2063 from AA5. Forecast tariffs are stated in effective terms that scales the capacity reservation charge by the ratio of capacity reservation to commodity demand, which is added to the commodity component. This ensures a consistent comparison between DBP's forecast tariff profiles.

36. Figure 6.4 demonstrates that maintaining the depreciation approach of capping asset lives at 2063 avoids future price shocks for all scenarios when alumina production is assumed to continue. The approach is also capable of resulting in decreasing future tariffs for the base and medium scenarios. These forecast prices are below that of AA6 levels, which is driven by higher gas demand due to gas powered generation and lower capital payments. However, this is not the case for the accelerated scenario where prices are more volatile, initially decreasing from AA6 levels before rising and falling.

37. DBP has also analysed a scenario where alumina production ceases during the modelled period (the orange lines in Figure 6.4). DBP's consultant did not see sufficient evidence for the cessation of alumina production prior to 2050, but DBP maintains that a loss of social licence could occur nonetheless.[23] Alumina production is a material assumption that affects both capacity and throughput. If alumina production ceases (whether from curtailment or electrification), a tariff shock would be experienced across all scenarios, with the shock being greater for the medium and accelerated scenarios.

38. However, capping asset lives allows for the management of demand risk in the sense that prices do not remain elevated except for the accelerated scenario. The accelerated scenario is the worst case modelled by DBP, where the combination of lower general gas demand and the loss of alumina production results in highly volatile tariffs.

39. DBP's proposal for the depreciation profile appear effective in mitigating price shocks under most conditions without requiring any additional changes to the AA5 approach.

ERA final decision

Base depreciation

40. The ERA has accepted DBP's approach to calculate its base level of depreciation, which is consistent with its existing approach. The depreciation amounts have been updated with the final decisions on capital expenditure which are detailed in Final Decision Attachment 4.[24]

41. The ERA has reviewed and considered the proposal for the continuation of the 2063 economic life cap. At this stage we consider that the 2063 date represents a credible end date and have not been provided with evidence to the contrary.

42. The submissions received regarding DBP's future of gas approach from NewGen and Alinta supported the retention of the 2063 economic life date on the basis of certainty and that forecasting the energy transition was difficult.

43. The ERA agrees that forecasting the energy transition is difficult, but nonetheless necessary to assess DBP's depreciation profile and should be based on plausible scenarios. The analysis by DBP is based on reasonable transition scenarios and demonstrates that the 2063 economic life date is robust enough to handle a variety of future states whereby gas usage ranges from historic numbers to substantial reductions due to decarbonisation. It is noted that no stakeholders have proposed a date different to 2063 or have otherwise advocated for a change in method supported by theory or empirical evidence.

44. The ERA's base depreciation amounts are detailed in Table 6.5 and are based on the economic lives of Table 6.6.

[23] DBP, *Final Plan 2026-2030, Attachment 6.1: Future of Gas Rationale and Modelling*, January 2025, p. 22.

[24] The depreciation of the opening capital base for AA7 will be the forecast depreciation included in the AA6 target revenue, which is the same approach as used for AA5.

Table 6.5: AA6 final decision base depreciation ($ million, real 31 December 2024)

	2026	2027	2028	2029	2030	Total
Pipeline	84.8	84.8	84.8	84.8	84.8	424.0
Compression	24.8	25	25.2	25.5	25.6	126.1
Metering	2.4	2.5	2.6	2.8	2.9	13.2
Other depreciable	3.2	3.1	2.6	2.5	2.3	13.7
Computers and motor vehicles	9.2	13	13.1	10	11.2	56.5
Cathodic/corrosion protection	5.5	4.4	4.2	4.3	4.4	22.8
SCADA , ECI and comms	10.5	11.6	12.4	13.6	14.5	62.6
Building	0	0.3	0.7	1	1.1	3.1
Cost of raising equity	0.2	0.3	0.3	0.4	0.4	1.6
BEP lease	0.5	0.5	0.5	0.5	0.5	2.5
Base depreciation	**141.1**	**145.5**	**146.4**	**145.4**	**147.7**	**726.1**

Table 6.6: AA6 final decision economic lives (years)

Asset categories	AA5 approved	AA6 DBP proposal	AA6 ERA draft decision	AA6 DBP revised proposal	AA6 ERA final decision
Pipeline	Capped at 2063	Capped at 2063	Capped at 2063	Capped at 2063	Capped at 2063
Compression	30	30	30	30	30
Metering	30	30	30	30	30
Other depreciable	10	10	10	10	10
Computers and motor vehicles	5	5	5	5	5
Cathodic/corrosion protection	15	15	15	15	15
SCADA, ECI and comms	10	10	10	10	10
Building	50	50	50	50	50
Cost of raising equity	38	38	32.6	32.6	32.6
Out of service asset in AA5 (deferred depreciation)	NA	NA	5.0	5.0	5

Decision on deferred depreciation for AA6

45. The AA5 final decision included an asset re-categorisation to more accurately allocate existing assets to appropriate asset categories. This asset re-categorisation included moving some assets that were no longer in-service, or that were close to their decommissioning date, from longer economic life asset categories.[25] This led to a large catch-up amount of depreciation to properly account for assets no longer in service.

46. The full recognition of that depreciation from asset re-categorisation in AA5 would have increased tariffs. The AA5 final decision deferred under-depreciated assets to future access arrangements.[26] For AA5, DBP's proposed transition for the catch-up for depreciation provided some general guidance for future access arrangements but did not explicitly state the amount or timing of these depreciation deferrals.[27]

47. DBP has accepted the ERA's draft decision that the deferred depreciation be recovered across multiple access arrangements with AA6 payments of $81.2 million ($ real December 2024). These payments are spread evenly across all years of the respective access arrangements where payments are to be made. DBP has also accepted the simplification of the deferred depreciation approach in the revenue model by separating out deferred depreciation into a new asset category called "Out of Service Asset".

48. NewGen Kwinana submitted that the amounts of deferred depreciation should be equalised across the AA6 and AA7 periods. This would further defer the full recovery of deferred depreciation since the AA5 decision.

49. The ERA recognises that shippers may receive some short run benefits from further deferring the realisation of deferred depreciation in the AA6 period to future access arrangement periods. However, this comes at the expense of:

    - Larger medium run costs from greater rate of return payments from a higher regulatory asset base.
    - Further deferring the reasonable opportunity of recovering conforming capital expenditure, and
    - Losses in economic efficiency, given that regulatory costs will be provided for assets that are deemed to be out of service and do not contribute to the quality, reliability or security of the supply of natural gas.

50. On balance, we maintain the draft decision approach as it promotes transparency, predictability, and economic efficiency. This approach allows for investors to recover depreciation on assets soon after they are determined to be out of service, supporting regulatory consistency with the AA5 decision.

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25 For example, DBP previously classified computers and motor vehicles into the "Other" asset category (with a 30 year economic life), where the AA5 re-categorisation moved this to the new category of "Computers and motor vehicles" (with a 5 year economic life).

26 ERA, *Final decision on proposed revisions to the Dampier to Bunbury Natural gas Pipeline access arrangement 2021 to 2025*, 1 April 2021, pp. 339, 342.

27 ERA, *Final decision on proposed revisions to the Dampier to Bunbury Natural gas Pipeline access arrangement 2021 to 2025*, 1 April 2021, p. 342.

51. In the revenue model, our final decision on deferred depreciation has simplified the deferred depreciation approach by separating out deferred depreciation into a new asset category named “Out of Service Asset” for the amounts in AA5, AA6 and AA7. This increases the transparency of the deferred depreciation amount and its recovery profile.

52. Deferred depreciation will be recovered on a straight-line basis, thereby allowing equal annual payments over a five-year access arrangement and smoothing of tariff impacts. This is a practical approach for the recovery of deferred depreciation.

53. The deferred depreciation approach in AA6 recognises the deferral amounts from AA5, maintains net present value neutrality and smooths tariff increases.

54. The deferred depreciation amounts are detailed in Table 6.7.

Table 6.7: AA6 final decision deferred depreciation ($ million, real 31 December 2024)

	2026	2027	2028	2029	2030	Total
Out of service asset in AA5 (Deferred depreciation)	16.2	16.2	16.2	16.2	16.2	**81.0**

Total forecast depreciation

55. The ERA has accepted DBP’s approach to calculate its base level of depreciation, which maintains its existing approach. We also accept DBP’s revised proposal for the deferred depreciation which adopted the ERA’s draft decision.

56. The ERA’s forecast regulatory total depreciation allowance is $807.1 million (real 2024) as detailed in Table 6.8.

Table 6.8: AA6 final decision total forecast depreciation ($ million, real 31 December 2024)

	2026	2027	2028	2029	2030	Total
Pipeline	84.8	84.8	84.8	84.8	84.8	424.0
Compression	24.8	25	25.2	25.5	25.6	126.1
Metering	2.4	2.5	2.6	2.8	2.9	13.2
Other depreciable	3.2	3.1	2.6	2.5	2.3	13.7
Computers and motor vehicles	9.2	13	13.1	10	11.2	56.5
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SCADA , ECI and comms	10.5	11.6	12.4	13.6	14.5	62.6
Building	0	0.3	0.7	1	1.1	3.1
Cost of raising equity	0.2	0.3	0.3	0.4	0.4	1.6
BEP lease	0.5	0.5	0.5	0.5	0.5	2.5
Out of service asset in AA5 (deferred depreciation)	16.2	16.2	16.2	16.2	16.2	81.0
Forecast depreciation	**157.3**	**161.7**	**162.6**	**161.6**	**163.9**	**807.1**

Required amendment 6.1

The forecast regulatory total depreciation allowance for AA6 must be amended to reflect the amounts for 2026 to 2030 as set out in Table 6.8 of Final Decision Attachment 6. The depreciation allowance must be set out in the access arrangement information.

Clause 9.4(a) of the access arrangement must also be amended to reflect the 11 asset categories/groups provided for in Table 6.8.

Appendix 1 List of Tables

Table 6.1: ERA draft decision AA6 total forecast depreciation ($ million, real 31 December 2024) 4
Table 6.2: DBP revised proposal asset lives (years) 5
Table 6.3: DBP revised proposal AA6 total forecast depreciation ($ million December 2024) 6
Table 6.4: DBP AA6 future of gas modelling scenarios 11
Table 6.5: AA6 final decision base depreciation ($ million, real 31 December 2024) 15
Table 6.6: AA6 final decision economic lives (years) 15
Table 6.7: AA6 final decision deferred depreciation ($ million, real 31 December 2024) 17
Table 6.8: AA6 final decision total forecast depreciation ($ million, real 31 December 2024) 18

Appendix 2 List of Figures

Figure 6.1: Australia's emission reduction targets 9
Figure 6.2: Projected emissions from domestic gas usage by industry 10
Figure 6.3: Forecast DBNGP capacity and throughput (TJ/day) 12
Figure 6.4: Forecast tariffs by scenarios ($GJ/real Dec 2024) 13