



CONSULTATION

Dampier to Bunbury Natural Gas Pipeline

Proposed Revisions to the Access Arrangement

The Economic Regulation Authority invites submissions from DBNGP (WA) Transmission Pty Limited (DBP) and any interested parties on the issue as to how it should derive a value for the Debt Risk Premium (DRP) using the Authority's bond-yield approach. In particular, the Authority seeks submissions on what would be an appropriate averaging approach for the bond-yield approach to determination of the DRP set out in the Final Decision that would offer the best estimate of the DRP.

BACKGROUND

On 22 December 2011, the Authority published an Amended Final Decision (Final Decision) together with its own access arrangement (Access Arrangement Decision) giving effect to its proposed revisions to the Access Arrangement for the Dampier to Bunbury Natural Gas Pipeline (DBNGP) pursuant to rule 64 of the National Gas Rules (NGR).

On 16 January 2012, DBNGP (WA) Transmission Pty Limited and DBNGP (WA) Nominees Pty Ltd (together, DBP) applied to the Australian Competition Tribunal (Tribunal), in ACT No 2 of 2012, for review of the Access Arrangement Decision.

DBP's application was heard before the Tribunal on 16 April and 21 – 24 May 2012.

On 26 July 2012 the Tribunal handed down its reasons for decision in DBP's application.

In its decision, the Tribunal affirmed the Access Arrangement Decision save for the following aspects of the decision which it set aside and remitted to the Authority under s 259 of the NGR to remake in accordance with the following directions:

- The Authority do determine a value for the DRP using the Authority's bond-yield approach in accordance with Tribunal's reasons including having regard to the Tribunal's criticisms of the simple averaging process adopted in the decision; and
- The Authority do determine the valuation of the capital expenditure in respect of the Burrup Expenditure Pipeline by adjusting the Base Rent in accordance with clause 4.3 of the Burrup Extension Pipeline Lease (BEP Lease) to the commencement of the lease; and
- The Authority do make amendments to the Access Arrangement Decision consequential upon the above required changes.

BEP Lease adjustment

In relation to the BEP Lease, in the course of DBP's application, the Authority determined that it should have:

- adjusted the base rent under the lease (\$281,450 as at 1 January 2008) by the CPI formula in the lease to derive an adjusted base rent as at the commencement of the lease in December 2010; and
- added an additional amount of \$0.317 million to the lease valuation in respect of DBP's initial direct costs in establishing the BEP Lease.

In accordance with the Tribunal's direction, the Authority proposes to adjust its BEP Lease valuation by these calculations, which results in a capital value of the BEP Lease which is forecast conforming capital expenditure in the Access Arrangement Decision of \$18.946 million.

Debt risk premium

In its decision, the Tribunal found that the Authority's bond-yield approach to determination of the DRP for the purposes of calculating the cost of debt in the WACC CAPM was a valid approach. However, the Tribunal considered that the simple averaging approach of the four scenarios adopted by the Authority was flawed because some bonds in the benchmark sample were given unduly higher weights compared to other bonds.

The Authority has previously dealt with a similar Tribunal order in respect of an appeal by ATCO Gas Australia Pty Ltd (ATCO - ACT 3 of 2011). Details of the Authority's considerations can be found in its [revised decision](#) for the revised access arrangement for the WA Gas Networks Pty Ltd Mid-West and South-West Gas Distribution Systems. The Authority invites interested parties to make submissions on the Authority's adoption of such an approach to addressing the averaging issue for the purpose of the Tribunal's orders in ACT No 2 of 2012.

SUBMISSIONS

The Authority invites submissions from DBP and any interested parties on the issue as to how it should derive a value for the DRP using the Authority's bond-yield approach. In particular, the Authority seeks submissions on what would be an appropriate averaging approach for the bond-yield approach to determination of the DRP set out in the Final Decision that would offer the best estimate of the DRP. Any submission which goes beyond or does not relate to this issue will not be considered by the Authority.

DBP and any interested parties are invited to make submissions limited to this issue by **4:00 pm (WST) on Monday 17 September 2012.**

PROCESS

After the Authority has considered any submissions received on the DRP issue, the Authority proposes to publish its decision on the remitter issues.

Submissions should be marked to the attention of Jeremy Threlfall Assistant Director Rail.

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CONFIDENTIALITY

In general, all submissions from interested parties will be treated as being in the public domain and placed on the Authority's website. Where an interested party wishes to make a submission in confidence, it should clearly indicate the parts of the submission for which

confidentiality is claimed, and specify in reasonable detail the basis for the claim. Any claim of confidentiality will be considered in accordance with the provisions of the *National Gas Access (WA) Act 2009*.

The publication of a submission on the Authority's website shall not be taken as indicating that the Authority has knowledge either actual or constructive of the contents of a particular submission and, in particular, whether the submission in whole or part contains information of a confidential nature and no duty of confidence will arise for the Authority.

For further information contact:

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LYNDON ROWE
CHAIRMAN
20 August 2012