

Proposed Revisions DBNGP Access Arrangement

2016 – 2020 Access Arrangement Period

Governance and cost controls

Supporting Submission: 2



PUBLIC

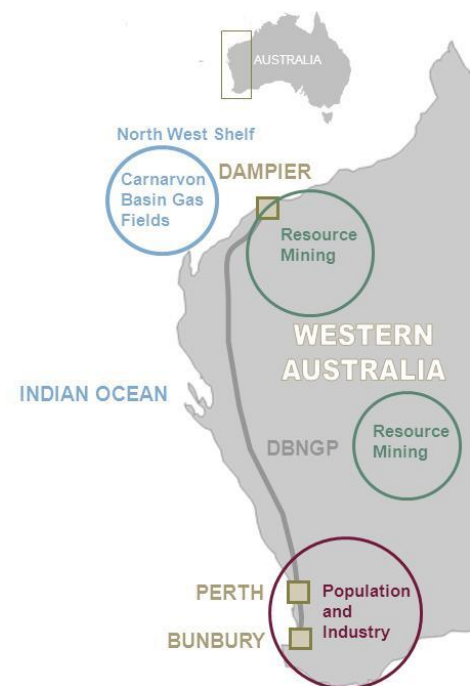
Date Submitted: 31/12/2014

CONFIDENTIALITY

- 1.1 This submission is provided to the ERA to assist it in its assessment of the proposed revisions to the DBNGP Access Arrangement.
- 1.2 Some information contained in the submission is confidential and commercially sensitive. The reasons for DBP's claim of confidentiality are outlined in Appendix J: to this submission.
- 1.3 A public *version* of this submission will be provided separately.
- 1.4 Accordingly, this version of the submission is provided to the ERA on the following conditions:
 - (a) it is to be used by the ERA solely for the purposes of assessing the proposed revisions to the DBNGP Access Arrangement;
 - (b) it is not to be disclosed to any person other than the following without DBP's prior written approval:
 - (i) those staff of the ERA who are involved in assisting the ERA in its assessment process; and
 - (ii) those of the ERA's consultants who are involved in assisting the ERA in its assessment process and who have appropriate confidentiality undertakings in place.

DBP Transmission (DBP) is the owner and operator of the Dampier to Bunbury Natural Gas Pipeline (DBNGP), Western Australia's most important piece of energy infrastructure.

The DBNGP is WA's key gas transmission pipeline stretching almost 1600 kilometres and linking the gas fields located in the Carnarvon Basin off the Pilbara coast with population centres and industry in the south-west of the State



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Table of Contents

1.	INTRODUCTION.....	1
2.	BACKGROUND & INTERNALISATION	3
3.	CORPORATE GOVERNANCE	4
4.	COST ALLOCATION.....	9
5.	DBP'S BUSINESS PLANNING AND BUDGETING PROCESS.....	11
6.	ASSET MANAGEMENT SYSTEM FRAMEWORK.....	16
7.	PRUDENCY & EFFICIENCY INCENTIVE MECHANISMS IN DBP'S SHIPPER CONTRACTS.....	21
	APPENDIX A: DBP'S ANNUAL BUDGET PROCESS.....	22
	APPENDIX B: SIB CAPITAL PROJECT RANKING PROCESS.....	23
	APPENDIX C: ASSET MANAGEMENT SYSTEM FRAMEWORK	24
	APPENDIX D: SAFETY CASE - INTRODUCTION.....	25
	APPENDIX E: SAFETY CASE - FACILITY DESCRIPTION	26
	APPENDIX F: SAFETY CASE SAFETY MANAGEMENT SYSTEM	27
	APPENDIX G: SAFETY CASE FORMAL SAFETY ASSESSMENT	28
	APPENDIX H: ENVIRONMENTAL MANAGEMENT PLAN - PUBLIC SUMMARY DOCUMENT	29
	APPENDIX I: ASSET MANAGEMENT PLAN (GENERAL) [CONFIDENTIAL]	30
	APPENDIX J: CONFIDENTIALITY	31

List of Tables

TABLE 1:	DBP EXECUTIVE MANAGEMENT	6
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List of Figures

FIGURE 1:	OWNERSHIP STRUCTURE	4
FIGURE 2:	KEY RESPONSIBILITY	7
FIGURE 3:	STAY-IN-BUSINESS (SIB) CAPITAL PLANNING PROCESS	12
FIGURE 4:	RISK MANAGEMENT FRAMEWORK	14
FIGURE 5:	ASSET MANAGEMENT SYSTEM FRAMEWORK (ASMF)	16
FIGURE 6:	ASSET MANAGEMENT PLAN STRUCTURE	18
FIGURE 7:	PROJECT LIFECYCLE - PMM	19
FIGURE 8:	ERP ESCALATION AND NOTIFICATION	20

1. INTRODUCTION

- 1.1 On 31 December 2014, DBNGP (WA) Transmission Pty Ltd (**DBP**) filed the following documents with the Economic Regulation Authority of Western Australia (**ERA**):
 - (a) proposed revised Access Arrangement (**Proposed Revised AA**); and
 - (b) proposed revised Access Arrangement Information (**Proposed Revised AAI**).
- 1.2 These documents are proposed to cover the access arrangement period commencing on 1 January 2016 and ending on 31 December 2020 (**AA Period**)
- 1.3 These documents contain the information that the National Gas Access (WA) Act 2009 (**NGA**) (which includes the Western Australian National Gas Access Law text (**NGL**) and the National Gas Rules (**NGR**)) requires to be included in order to enable them to be approved by the ERA.
- 1.4 In addition to the Proposed Revised AA and Proposed Revised AAI, a number of additional supporting submissions were filed to assist the ERA in assessing the Proposed Revised AA. These included the following:
 - (a) Submission 1: Proposal
 - (b) Submission 2: Cost Controls and Governance
 - (c) Submission 3: Proposed Reference Service
 - (d) Submission 4: Terms and Conditions
 - (e) Submission 5: Non-tariff related issues
 - (f) Submission 6: Cost Verification and Allocation
 - (g) Submission 7: Actual Capital Expenditure (Expansion)
 - (h) Submission 8 Actual Capital Expenditure (Stay-in-Business) (Part 1 & 2)
 - (i) Submission 9: Forecast Capital Expenditure
 - (j) Submission 10: Forecast Operating Expenditure
 - (k) Submission 11: Capacity and throughput forecast
 - (l) Submission 12: Rate of Return
 - (m) Submission 13: Total Revenue
 - (n) Submission 14: Tariff model and tariff calculation
- 1.5 DBP's forecast of capital and operating expenditure proposal is derived from the outcome of DBP's business planning and budgeting process for financial year 2014/15. DBP's business planning and budgeting process is conducted annually and establishes the high level objectives to be achieved both in the short and longer term informing expenditure requirements. Ultimately the business plan and budget is approved by DBP's Board of Directors and Unitholders.
- 1.6 DBP's forecast capital expenditure, while taking into account historical performance, has been developed from the ground-up each year and extends across the forward 5 year regulatory period.
- 1.7 Each divisional plan is informed by DBP's Asset Management System Framework (AMSF) and Risk Management Framework. DBP's AMSF documents the asset strategy, asset operating strategy, Safety Case requirements, Environmental Management Plan and the asset management plans.
- 1.8 DBP's Risk Management Framework provides the basis for tracking and maintaining the enterprise risk register capturing all risks and obligations DBP is exposed to as operator of the DBNGP.

- 1.9 The AMSF has not only been developed by DBP as part of being a prudent pipeline owner and operator, it is also forms the basis on which DBP has been granted its pipeline licences under the Petroleum Pipelines Act 1969. In fact, many of the
- 1.10 Both the ASMF and Risk Management Framework are the key guides in establishing divisional plans which are then used in the development of expenditure requirements for each cost centre across the business.
- 1.11 To oversee this process, DBP has a high level of corporate governance in place to ensure costs are those that would be incurred by a prudent service provider acting efficiently, in accordance with accepted good industry practice, to achieve the lowest stainable cost of delivering pipeline services as required by the NGL and NGR.
- 1.12 In addition, DBP is incentivised under its shipper contracts to ensure its capital and operating expenditure is at least efficient and prudent. This is done through a number of mechanisms in the various shipper contracts which either fully or partly expose DBP to capital and operating cost risk (for certain items of expenditure) or which require approval from the shipper before expenditure can be included in charges levied under the relevant contract.
- 1.13 This submission therefore provides an overview of:
 - (a) Background information (section 2);
 - (b) DBP's corporate governance (section 3);
 - (c) DBP's cost allocation arrangements (section 4);
 - (d) DBP's annual business planning and budget process (section 5);
 - (e) DBP's risk management framework (section 5);
 - (f) DBP's Asset Management Strategy Framework (section 6); and
 - (g) The aspects of DBP's contractual arrangements which act as incentives on DBP to only incur expenditure which is prudent and efficient (section 7).

2. BACKGROUND & INTERNALISATION

- 2.1 After DBP acquired the DBNGP in 2004, it outsourced almost all of the asset management functions for the DBNGP to a subsidiary of a then shareholder, Alinta Limited, under an agreement called the Operating Services Agreement (“OSA”). Under the OSA, DBP outsourced all services necessary for the operation, maintenance and construction activities associated with the DBNGP, including the project management of expansion projects, the operation of the control room, a range of corporate services and the development of a range of budgets, operating plans, protocols and reports.
- 2.2 Since then DBP has progressively transitioned back most of these activities and services in house.
- 2.3 The first stage of the transition occurred in 2009 when DBP agreed with the then counterparty to the OSA (WestNet Energy) to take over responsibility for the operation and maintenance of the pipeline, the operation of the control room and the provision of the range of corporate services that had, until then, been provided by WestNet under the OSA - except Corporate ICT services and the building management services for DBP's head office. All of the relevant personnel employed by WestNet were transitioned to the employ of DBP at that same time to enable DBP to take on these responsibilities.
- 2.4 The second stage occurred in July 2011, when as part of ATCO's purchase of some of the ex-Alinta assets known as Australian Energy Transmission and Distribution (AET&D), it was agreed to amend the OSA to allow for DBP to take over responsibility for project management services (and remove all associated fees) under the OSA. This left ATCO with the obligation to provide corporate ICT services and building management services for DBP's head office. DBP secured the right, by the end of 2013, to elect to bring the provision of ICT Services by ATCO to an end by February 2014.
- 2.5 DBP thus internalised all critical functions connected with the operation of the DBNGP in order to:
 - (a) Ensure asset management functions were aligned with the strategic direction of the overall business;
 - (b) Remove perceived conflicts of interest and hence remove the need for the ACCC undertakings;
 - (c) Have more direct control over operating costs;
 - (d) Simplify arrangements to enable it to meet its confidentiality and non-discrimination obligations to shippers under the SSC; and
 - (e) Provide greater ability to retain, allocate, motivate and manage employees.
- 2.6 While DBP has control of all business critical and operational IT functions, such as SCADA, asset management and customer interface systems, during 2013, DBP conducted a competitive tender process that resulted in DBP electing to notify ATCO that it wished to cease the provision by ATCO under the OSA of Corporate ICT Services and the transition to a new corporate ICT service provider in 2014. Further information on the change in corporate ICT provision and resulting costs are explained in detail in Submission 10 which details DBP's operating expenditure proposal.

3. CORPORATE GOVERNANCE

3.1 DBP is dedicated to maintaining a high standard of effective corporate governance and considers it vital for the long term performance and sustainability of the company. This section of the submission details DBP’s ownership, Board and Board level committees as well as important elements of internal governance that control operating and capital expenditure across the business.

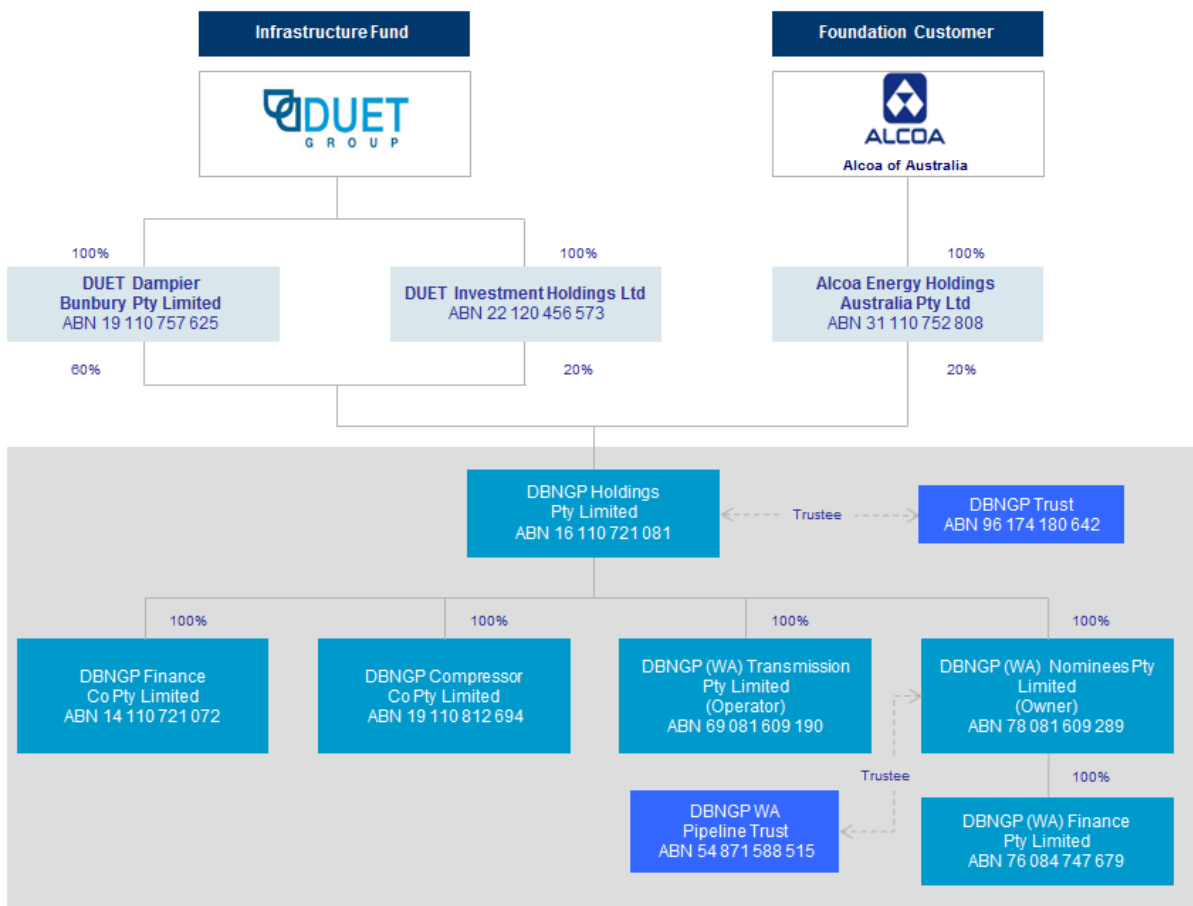
Ownership structure

3.2 The ultimate owners of the units and shares in DBP are as follows:

- (a) DUET – 80%; and
- (b) Alcoa of Australia – 20%;

3.3 The ownership structure of DBP is outlined in Figure 1

Figure 1: Ownership structure



As at December 2014

Board Structure and Operation

- 3.4 The Board of Directors and Unitholders are responsible for overall direction and management of DBP including policy to be applied within the business. Amongst other things Unitholders Agreement specifically require that the annual business plan and budget (including each line item) to be considered and passed by a Special Majority Unitholders' Resolution each financial year.
- 3.5 Special Majority Unitholder Resolution is defined by the agreement as a resolution of the Unitholders who between them hold no less than 81% of the total number of Units carrying a right to vote on that resolution.
- 3.6 Other responsibilities of the Board include:
- (a) Monitor performance against the business plan;
 - (b) Approve and monitor the progress of all material transactions, contracts and capital expenditure;
 - (c) Approve any commitment relating to expansion of the DBNGP (other than for third a party);
 - (d) Consider the engagement or employment of personnel not already included in the approved budget.
 - (e) Approve refinancing programmes;
 - (f) Oversee audit, compliance and financial and operational risk management functions;
 - (g) Approve any change in distribution policy
 - (h) Review the undertaking of any material investments and disinvestments; and
 - (i) Review and approve changes in the nature of business or the undertaking of new activities

The Chairman

- 3.7 DBP has an independent Chairman; Mr John Langoulant AO was appointed at 24 February 2012. Mr Langoulant is a non-executive, independent director.

Board level committees

- 3.8 DBP has two key board level committees that sit under the Board of Directors and Unitholders. These are as follows:
- (a) The Audit & Risk Management Committee (ARMC); and
 - (b) The Asset Management Committee (AMC).
- 3.9 The membership of the ARMC is comprised of 3 members of the Board with the Chairman currently being the Chairman of the Board.
- 3.10 The Charter of the ARMC provides that:
- The External Auditor is entitled to attend meetings of the Committee except in situations where a conflict of interest exists, in which case attendance will be at the discretion of the Chairman of the Committee.
 - DBP Management and others may attend Committee meetings upon invitation by the Committee.
- 3.11 In practice, the meetings of the ARMC are attended by the members, all other Directors, the External Auditor and DBP senior management.

3.12 The objective of the ARMC is to:

- (a) Assist the Board of Directors in fulfilling its fiduciary responsibilities relating to DBP's financial, regulatory, health safety and environmental standards and practices.
- (b) Ensure the adequacy of DBP's internal compliance and control systems are operating efficiently and effectively and in so doing, ensure that, at a minimum, they meet the standards of each shareholder and unitholder.
- (c) Promote a continued emphasis on an effective risk management framework and culture. Ensure that a sound system of risk oversight and management is maintained.
- (d) Oversight of accuracy and completeness of financial reporting.
- (e) Maintain open, continuing and direct communication between the Board of Directors and DBP's external and internal auditors.

3.13 The ARMC assumes responsibility for DBP's Risk Management Framework described later in Section 4 of this submission.

3.14 The AMC has a broader asset management role that primarily provides oversight to the business by reviewing regular financial and commercial reports as well as other issues that affect the operation of DBNGP before making recommendations to the Board of Directors.

3.15 The AMC meets monthly. It is made up of representatives from each unitholder, the Chairman of the board and DBP senior management. The key areas of focus for the AMC are:

- (a) A review of the prior month's operational performance. There is a discussion of DBP's financial performance (from both a revenue and expenditure perspective) and key activities that have occurred during the month.
- (b) Discussion on key activities such as major projects, development of revenue proposals and key operational projects.
- (c) Preparation of DBP's annual business plan and budget.

DBP Executive Management

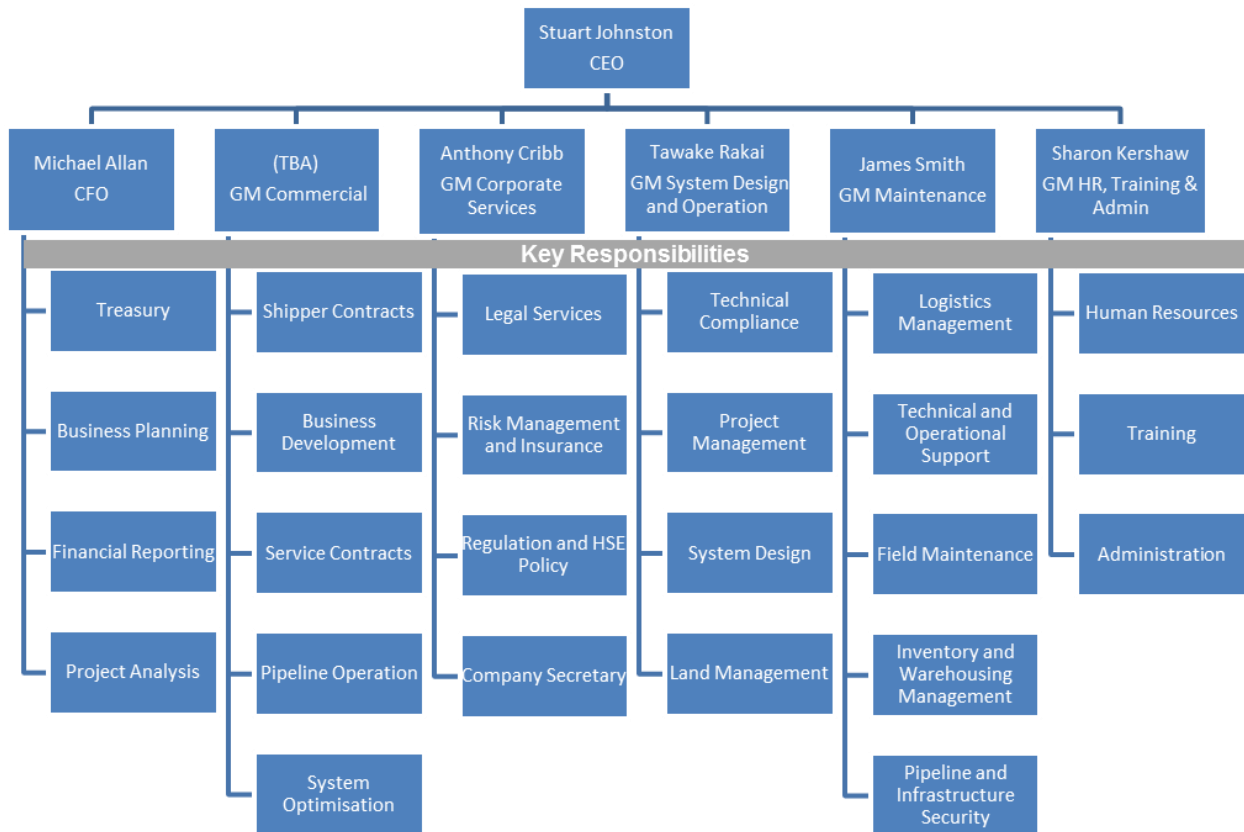
3.16 DBP is managed by a team of highly experienced managers with substantial experience in the infrastructure and oil and gas sectors. The management team is led by CEO Stuart Johnston and consists of five general managers ("GMs") who report to the CEO. The management team and management structure is set out below, including key responsibilities of each GM.

Table 1: DBP Executive Management

Name	Title	Years in industry	years with DBP
Stuart Johnston	Chief Executive Officer	25	4.5
Anthony Cribb	GM Corporate Services	19	13
Michael Allan	Chief Financial Officer	15	9
Jon Cleary	GM Commercial	22	*
Tawake Rakai	GM System Design & Operations	34	29
James Smith	GM Maintenance	22	22
Sharon Kershaw	GM HR, Training & Administration	5	5

Commenced 1 December 2014

Figure 2: Key Responsibility



Internal Committees

3.17 DBP's capital expenditure program is developed and controlled by the Project Review Committee (**PRC**). The PRC's charter includes a mandate for the following activities:

- (a) Expansion projects;
- (b) Other major projects;
- (c) Stay in business projects (including IT and IS projects);
- (d) Engine overhauls (notes that these are treated as operating expenditure for regulatory purposes);
- (e) Third party works, including shipper funded (capital contribution) projects;
- (f) Proposed energy efficiency opportunities reviewed and proposed by DBP's Energy Smart Program Committee;
- (g) Other new ventures (e.g. corporate or asset acquisition, tendering for operating and maintenance agreements); and
- (h) Any initiative referred by the executive management.

3.18 The PRC's objectives are:

- (a) Ensure adequate cost control of all ongoing DBP capital projects;
- (b) Establish a framework for the due diligence review of all projects/opportunities proposed by DBP management which must outline financial, commercial, legal, technical, regulatory, environmental and health and safety risks and maintain DBP's enterprise risk assessment process;

- (c) Establish a process for the evaluation and assessment of new projects/opportunities in accordance with the framework;
- (d) Review proposed total non-expansion capital expenditure budget to be incorporated in the annual budget (for approval by the Board of Directors);
- (e) Approve specific new DBP capital projects contemplated in the annual budget that are within the Committee's delegation of financial authority; and
- (f) Recommend to the DBP Board of Directors new DBP projects not contemplated in annual operating budget.

4. COST ALLOCATION

- 4.1 Part of DBP's business involves providing services to the DBP Development Group of companies (DDG).
- 4.2 The DDG business has a different ownership structure to that of the business which owns and operates the DBNGP – it is 100% owned by the DUET Group.
- 4.3 DDG was initially set up in 2011, with its focus being to build, own and/or operate new pipelines and laterals that, initially, are connected to the DBNGP.
- 4.4 DDG has, to date, leveraged off the pipeline engineering and operating skills of DBP's management team to run its business. This is governed through a support services agreement between DBP and DDG that regulates:
- (a) the scope of the services to be provided; and
 - (b) basis on which costs are charged to DDG by DBP for the provision of services.
- 4.5 In addition, there is a supporting framework for cost allocation that is reviewed and approved by DBP's PRC. This framework:
- (a) not only deals with the way in which costs are allocated between the DBNGP business and the DDG business, but also the way in which labour costs relating to the DBNGP are allocated between DBNGP capital projects and the operation and maintenance of the DBNGP; and
 - (b) is periodically reviewed by the PRC to ensure that:
 - (i) all costs involved in the provision of services to not only the DDG business but also the capital projects for the DBNGP are captured; and
 - (ii) these costs are being allocated between DDG, DBNGP Capex projects and DBNGP operations.
- 4.6 In addition to the PRC regularly undertaking a review, the cost allocation arrangements were recently reviewed as part of DBP's strategic internal audit plan (as sanctioned by DBP's board through its audit and risk management committee).
- 4.7 As a result of that review, the cost allocation arrangements were revised in 2014 against the following key criteria:
- (a) Accuracy – should reflect the cost of providing the service
 - (b) Auditable & Transparent – should be supported by solid/robust data & audit trail
 - (c) Defendable – compliance with DBP's regulatory and commercial frameworks
 - (d) Consistent – should be capable of being consistently applied across the business (both for planning and accounting purposes)
 - (e) Simplicity – should be simple to determine each year and rolled out to the business
 - (f) Competitiveness – should produce external pricing that is competitive in the market place
- 4.8 As outlined in submission 6, the key costs that have, to date been allocated, are labour related costs. This captures the following costs:
- (a) Base salary of DBP employees
 - (b) Direct salary on-costs (STIP, superannuation, leave, payroll tax, workers comp, etc)
 - (c) Other indirect overheads (Office space, IT, etc)

- 4.9 Hourly rates have been developed for each DBP employee and then a time recording system is used whereby each employee is required to record time spent on each DDG project and each DBNGP capital project. The method for the labour hourly rate build up consists of the following steps:
- (a) Calculate each cost as a percentage of salaries. These costs are broken down into GLs and then sorted into categories - e.g. Salary on costs (including superannuation, payroll tax, etc), training costs, motor vehicle expenses.
 - (b) Determine which costs should be included in the oncost and which costs should be excluded - e.g. it is deemed appropriate to include motor vehicle costs as these can not be accurately or reasonably charged through as a direct cost, however other travel costs such as flights and accommodation have not been included as these are highly variable and can be included as a direct cost. Once this is done, the sum of these oncost percentages is the total on cost. More details as to the types of costs that are included as on costs are outlined in Submission 6.
 - (c) Sort employees into appropriate categories. This is done for confidentiality reasons and also to simplify the charging out process.
 - (d) Determine the average salary and the average hourly rate of each category.
- 4.10 As part of the budgeting process for DBP, an estimation is made of the percentage of each staff members' time that will be spent on each of the following:
- (a) DDG projects (both capital and operating projects)
 - (b) DBNGP capital projects (including stay in business and expansion projects)
 - (c) More detail is provided in Submission 6.
- 4.11 This then forms the basis of the labour costs to be allocated and used in the budget for the DBNGP business.
- 4.12 The PRC has proposed that, subject to paragraph 4.13 below, the labour rates that were reviewed in 2014, be reviewed every 5 years. DBP considers that this is prudent for the following reasons:
- (a) It is consistent with the timing of the access arrangement reviews;
 - (b) DBP and DDG have a number of contractual arrangements whereby the level of operating costs that can be passed on to shippers are to be reviewed every 5 years
- 4.13 The PRC has also decided that the labour rates will be reviewed more frequently than every 5 years if there has been a particular event occur that would cause the total operating costs (except fuel gas) to change by +/- 10% in one year.
- 4.14 Otherwise, the labour rates will be increased on 1 July of each year by CPI.
- 4.15 As to non labour costs, these are allocated directly to the relevant DBNGP capital project, operating cost or DDG project. DBP's cost reporting system requires all projects (both DDG and DBNGP capital projects) to have a project code established and for such direct costs to be coded to the relevant project. This ensures that only direct costs incurred in operating and maintaining the DBNGP have been included in the forecast of operating expenditure included in the Proposed Revised AAI.
- 4.16 More details are contained in Submission 6.

5. DBP'S BUSINESS PLANNING AND BUDGETING PROCESS

- 5.1 DBP's forecasts of operating and capital expenditure are based on the outcome of the annual business planning and budget process undertaken for the 2014/15 financial year. Costs determined for the 2014/15 business plan have been used as the basis for operating expenditure in the CY2015 'base year'. Capital expenditure for the regulatory period is also based on DBP's approved business plan and is based on the requirements of planned projects for each year from 2016 to 2020. Justification for DBP's:
- (a) forecast operating expenditure is outlined in detail in supporting Submission 10; and
 - (b) forecast capital expenditure is outlined in detail in Submission 9.
- 5.2 DBP undertakes a rigorous business planning and budgeting process which involves the following activities:
- (a) The establishment of key business objectives;
 - (b) The identification of all activities required for the estimation of forecast costs; and
 - (c) The establishment of key assumptions that were set having regard to a range of factors
- 5.3 A flow diagram providing each step in DBP's budget process and various inputs is provided as Appendix A of this submission.
- 5.4 Annual business planning is primarily informed by DBP's contractual and statutory obligations and the Asset Strategy Management and Risk Management Frameworks. DBP also considers historical and forecast performance, legislative requirements and future demand. Divisional plans list areas of required activity which are then broken into to cost centres groups, each of which then prepare a detailed forecast expenditure required to undertake those activities allocated to each group.
- 5.5 Each divisional plan and cost centre budget is built from the ground up on an annual basis and includes a forecast covering the forward regulatory period (note that in the year of filing proposed revision of an access arrangement this requires the business to develop a forecast for 7 financial years).
- 5.6 As part of the budgeting process, DBP reviews the assumptions and allowances made in relation to the following matters:
- (a) The Safety Case that is required to be in place, under the Petroleum Pipelines Act, for the safe and reliable operation of the pipeline in accordance with the pipeline licences for the pipeline;
 - (b) The pipeline licence and other mandatory requirements;
 - (c) The pipeline maintenance planning process;
 - (d) Findings from audits;
 - (e) The need to comply with other statutory and contractual obligations; and
 - (f) Other relevant matters.

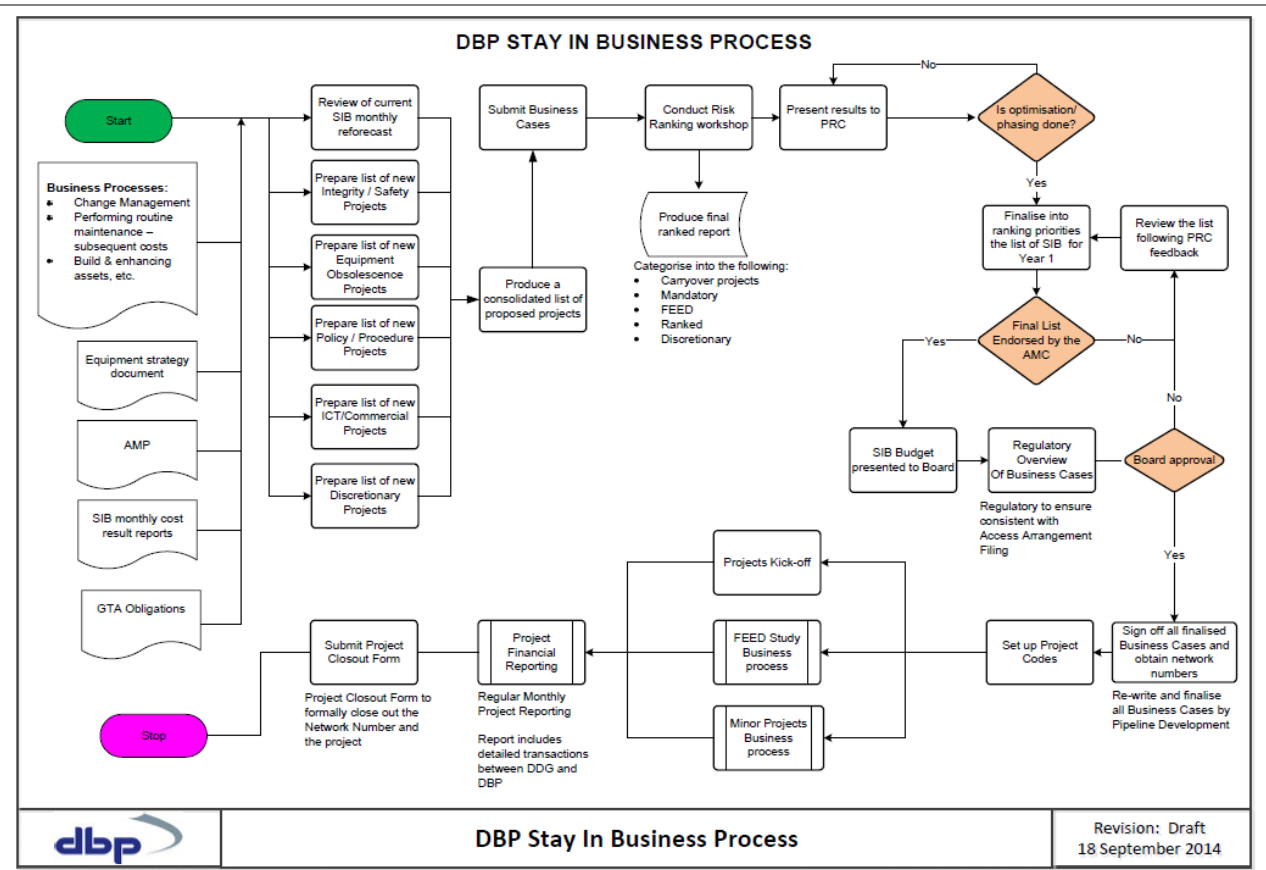
Stay in business capital planning process

- 5.7 To ensure efficiency, reliability, operability, asset integrity, safety and environmentally acceptable operation of the DBNGP, improvements, replacement or retirement of assets and/or operational practices are continually investigated, evaluated and implemented. As part of DBP's business planning and budget development process, a list of projects identified for implementation is developed along with the forecast expenditure for each project. This is known internally as DBP's Stay in Business (SIB) planning process. Capital expenditure required for these initiatives is assessed for incorporation into the SIB process, using the following criteria:

- (a) Increases the service capacity of an asset;
- (b) Increases the service quality of an asset; or
- (c) Extends the predetermined useful life of an asset.

5.8 The following Figure shows the process in a flow chart format.

Figure 3: Stay-in-Business (SIB) capital planning process



5.9 As per the figure above a business case document is prepared for each proposed SIB project. The business case template required the project proponent to provide and consider the following:

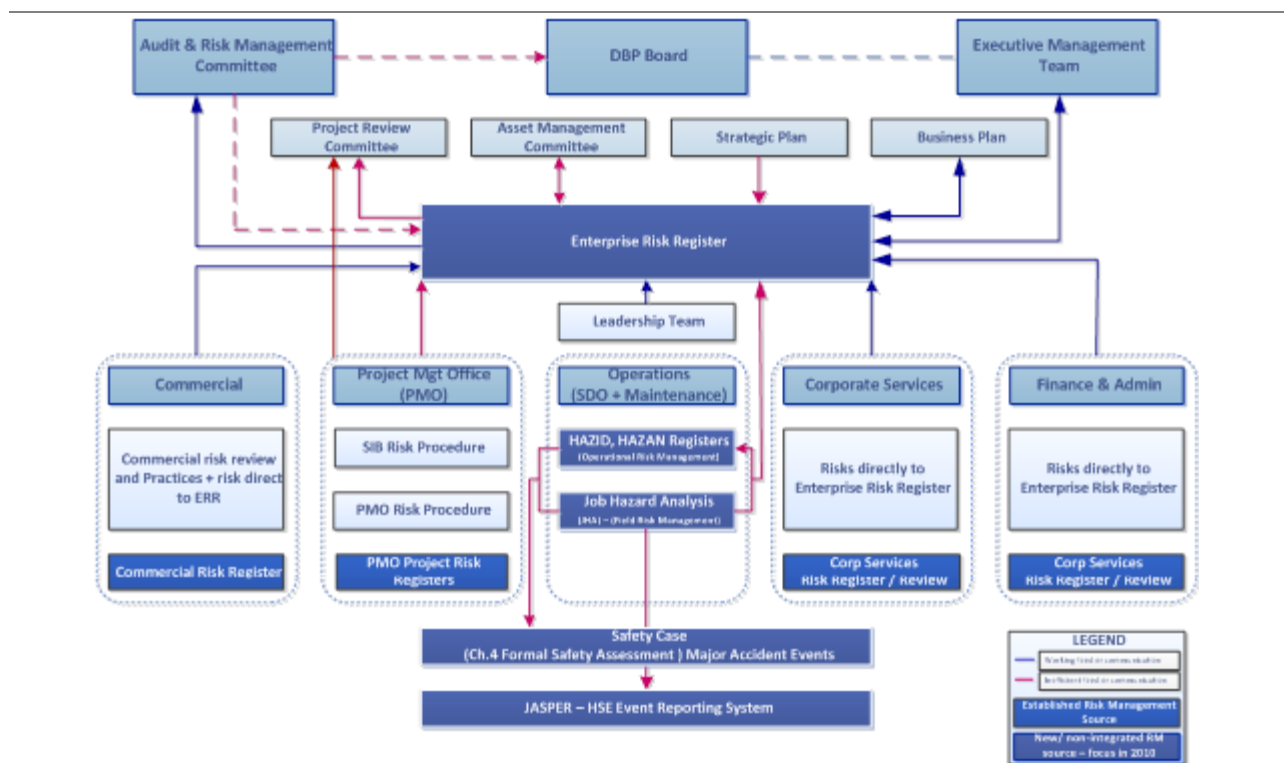
- (a) project description;
- (b) business justification;
- (c) estimated cost;
- (d) alternative solutions to the proposed projects;
- (e) project deliverables;
- (f) Energy smart considerations;
- (g) New capital expenditure criteria under NGR 79;
- (h) Proposed project ranking;
- (i) Stakeholders;
- (j) Assets being replaced under the proposed project; and
- (k) Cash flow.

- 5.10 As part of business planning process each year, SIB proposals (business cases) are reviewed and evaluated through the strategic and business case screening process before being included in the capex plan for the DBNGP. Projects are grouped into the following:
- (a) *Carryover and Multi-Year Projects* – these projects are carried over from the previous year or span over two or more years.
 - (b) *Mandatory* – these projects are assessed to be critical to DBNGP and should be allocated as first priority projects.
 - (c) *New FEED* – these are front end engineering and design (FEED) studies that need to be carried out in order to assess criticality, feasibility and costing for projects that may be included the following or subsequent financial years.
 - (d) *Discretionary/Ranked Projects* – projects for improvements that will be assessed and ranked in accordance with risk profile, which is evaluated using the DBP Risk Model (contained in DBP's SIB capital project ranking process provided as Appendix B), taking into consideration the combination of the following categories:
 - (i) People
 - (ii) Environment
 - (iii) DBP impact
 - (iv) Reputation
 - (v) Supply
- 5.11 Subsequent to the screening and risk ranking process, the proposed SIB project list is presented to PRC (discussed above) for evaluation.
- 5.12 The final list of SIB projects is then included as part of the business plan and budget that is submitted to the board and DBP's unitholders for approval. Once so approved, the SIB projects each require authorisation by the CEO prior to being initiated and before expenditure can be incurred.
- 5.13 The execution of each project is managed through DBP's Project Management Methodology (discussed further below and outlined in more detail in Submissions 8 and 9).

Risk Management Framework

5.14 The risk management framework centres on developing and maintaining an Enterprise Risk Register (ERR) by conducting risk analysis, evaluation and treatment throughout the organisation. The diagram below outlines the numerous inputs into the ERR all of which comprise the Risk Management Framework.

Figure 4: Risk management framework



Findings from audits

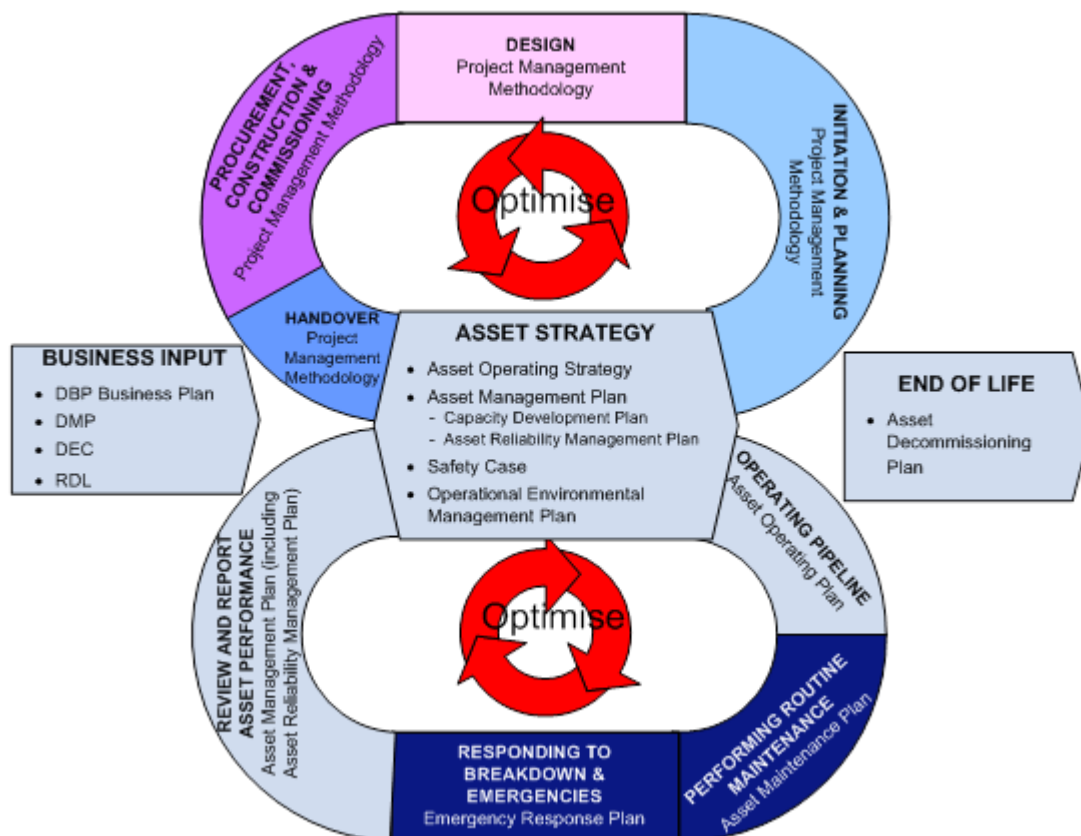
- 5.15 DBP has an extensive audit plan that is undertaken on a continual basis. Some are required to be undertaken in order to comply with regulatory obligations (mandatory audits). Others are undertaken as a prudent business operator to deal with functions of the business or key business processes which have been identified as significant or higher risk for DBP (as part of DBP's enterprise wide risk assessment process that forms part of the risk management framework outlined above).
- 5.16 Mandatory audits are required under the following regulatory obligations:
- the pipeline licences issued under the Petroleum Pipelines Act;
 - the Safety Case; and
 - the National Energy and Greenhouse Reporting Act.
- 5.17 All findings from these mandatory audits must be closed out. Accordingly, these actions form part of the business plan for relevant divisions and the associated expenditure is factored into annual budgets.
- 5.18 As part of insurance cover for the pipeline, insurers require an annual audit of various pipeline facilities, and policies, processes and procedures for both corporate and operational functions.

- 5.19 To comply with the insurance programme DBP must institute, remedy or otherwise manage the findings from the insurance audit.
- 5.20 Compliance with insurance audit findings ranges from amending policies, remapping processes and redrafting procedures to modifications to pipeline plant and equipment itself.
- 5.21 The actions required to be undertaken to comply with these audits are therefore included in the development of the operating budget for the pipeline.
- 5.22 Importantly, it should be noted that the Risk Management Framework and the appropriate treatments identified helps to inform risks to be addressed by the Safety Case, projects to be reviewed by the Project Review Committee and costs included in annual budgets for each cost centre.

6. ASSET MANAGEMENT SYSTEM FRAMEWORK

6.1 The Asset Management System Framework is the structure used to document the Asset Management Process for the DBNGP in a manner that supports the achievement of DBP’s objectives. While the Asset Management System Framework (ASMF) is provided as Appendix C this section of the submissions provides an overview of the framework. The ASMF is shown graphically below.

Figure 5: Asset Management System Framework (ASMF)



Asset Strategy

6.2 Asset Strategy drives the key strategic direction for every aspect of the enhancement, operation and retirement of the assets incorporating effective management of safety, environmental and business risks, and opportunities and improvements.

6.3 Asset Strategy is supported by the:

- Asset Operating Strategy;
- Safety Case;
- Environmental Management Plan; and
- Asset Management Plan.

6.4 These documents are updated on a regular basis to reflect business objectives and plans and in consultation with the relevant regulatory authorities and other stakeholder to ensure relevance and effectiveness.

Asset Operating Strategy

- 6.5 The Asset Operating Strategy is developed in line with DBP's position in relation to the short, medium and long-term business strategy that drives the relationships between asset life/performance, economic returns, operating costs, safety and reliability. As such, this strategy document provides an envelope for the operation of the assets, and critical framework and direction for the management of the assets.
- 6.6 Therefore, the Asset Operating Strategy drives the operation of the assets and ensures DBP is:
- (a) Maintaining asset integrity and operate the asset in a safe manner;
 - (b) Meeting relevant licence and other regulatory obligations;
 - (c) Meeting contractual delivery obligations to Shippers and/or customers; and
 - (d) Maximising the availability and reliability of equipment.

Safety Case

- 6.7 The DBNGP is licensed under the Petroleum Pipelines Act 1969, which is administered by Department of Mines and Petroleum (DMP). The Act and supporting Petroleum Pipelines (Management of Safety of Pipeline Operations) Regulations 2010 require development of a Safety Case (a 'case for safety'), to demonstrate that:
- (a) All foreseeable hazards associated with the operation of the DBNGP have been systematically and continually identified;
 - (b) The hazards have been eliminated, where practicable;
 - (c) A process has been implemented to assess the risks resulting from the remaining hazards; and
 - (d) Appropriate control measures have been implemented, which include physical safeguards as well procedural controls, to manage the risks to as low as reasonably practicable (ALARP).
- 6.8 The DBNGP Safety Case consists of:
- (a) The Facility Description provides an overview of the pipeline, including general description, structural details, primary functions, hazardous materials and inventory, safety features and systems, interaction with third parties, environmental conditions and a drawing set.
 - (b) The Safety Management System summarises the framework for the management of safety and health related risks (including asset integrity and OHS) associated with the facilities. It provides a mechanism for review and continuous improvement of operational performance.
 - (c) The Formal Safety Assessment (FSA) is represented by the risk assessments undertaken on the DBNGP, which were completed to AS2885.1 and company standards. The FSA details the results of assessments and demonstration that risk reduction measures are capable of reducing the risks to ALARP.
- 6.9 DBP provides the Safety Case as Appendix D through to G.

Environmental Management Plan

- 6.10 Consistent with the requirements of the Pipeline Licences, the Environmental Management Plan (EMP) has been developed and implemented to meet the requirements of Commonwealth, Western Australian, and Local Government legislation and policy.
- 6.11 The purpose of the EMP is to systematically and continually identify and assess environmental aspects arising from the operation of the assets and manage these so as to eliminate or minimise the impacts to environment to a level that is ALARP over the life of the assets through:
- (a) Informing DBP employees and contractors of their environmental obligations;

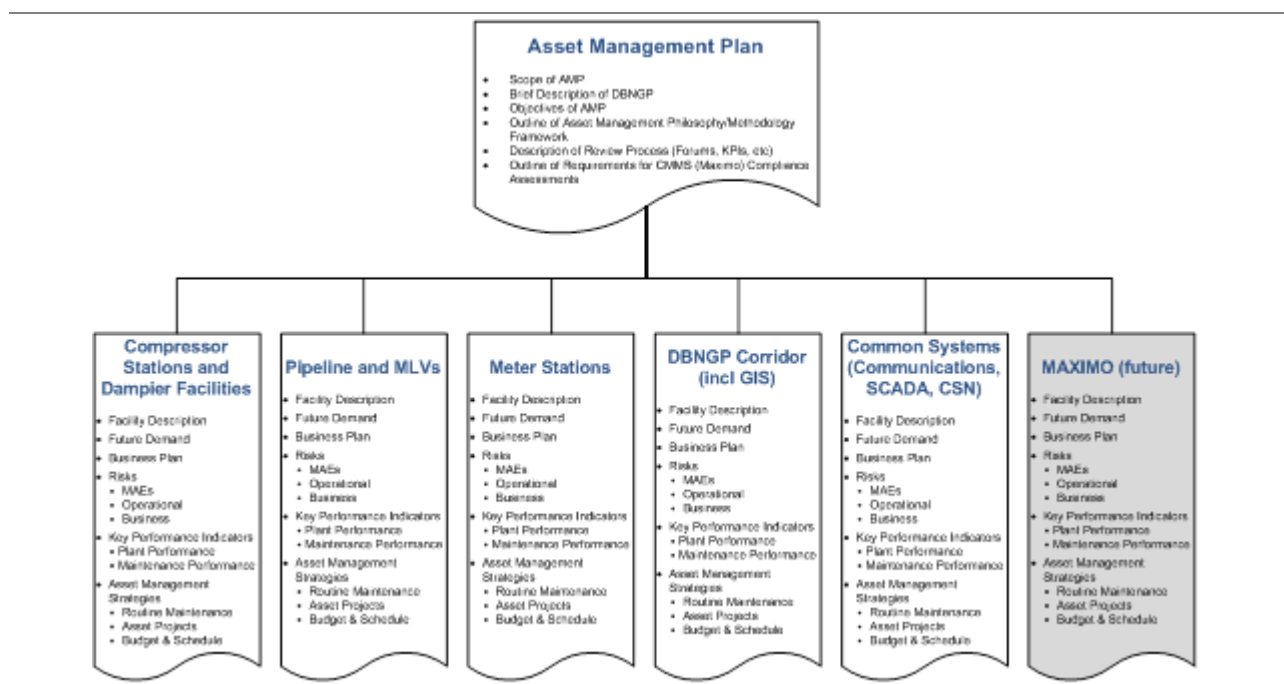
- (b) Crystallising the site-specific environmental control procedures for managing environmental impacts; and
- (c) Providing rational and practical environmental guidelines for pipeline operation activities to ensure environmental impacts associated with the pipeline operations are appropriately managed.

6.12 DBP provides the public summary of the EMP as Appendix H.

Asset Management Plan

6.13 DBP utilises an asset management strategy that ensures asset risks and associated controls are factored into the management of the assets through their lifecycle and by proving a framework for monitoring the effectiveness of controls. This strategy is executed through the Project Management Methodology, Asset Operating Plan, Asset Maintenance Plan and Asset Decommissioning Plan which gives rise to defining specifications and actions required in the development of assets and to keep items and plant in an optimal condition, and appropriate replacement of obsolete equipment (and where required retirement and rehabilitation).

Figure 6: Asset management plan structure



6.14 The main objectives of the Asset Management Plan are to:

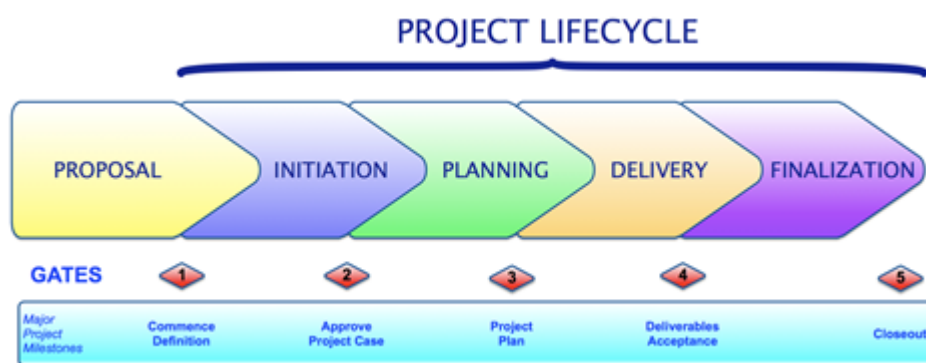
- (a) Link the management of assets to business objectives:
- (b) Effectively manage asset related risks:
 - (i) To ensure that key asset risks, and their controls, are factored into the management of assets
 - (ii) Demonstrate the logical development of asset plans for adequate risk management
 - (iii) To complete the feedback loop by providing a framework for monitoring the effectiveness of controls
- (c) Prescribe the execution requirement; and
- (d) Facilitate continuous improvement in the overall assets management process.

- 6.15 The Asset Management Plan is supported by the following key processes:
- (a) Project Management Methodology
 - (b) Asset Operating Plan
 - (c) Asset Maintenance Plan
 - (d) Emergency Management Plan
- 6.16 DBP provides that the Asset Management Plan (General) as an Appendix I (Appendix I has been provided as a confidential attachment).

Project Management Methodology (PMM)

- 6.17 The Project Management Methodology provides a system and process to ensure that projects are executed consistently in a manner that meets DBP key objectives, including asset integrity standards and operational philosophy, and is consistent with industry best practice. This methodology provides direction on the key areas that need to be applied consistently in project initiation, planning, delivery and finalisation phases. The methodology is explained in more detail in Submissions 8 and 9.

Figure 7: Project lifecycle - PMM



- 6.18 Various strategy and tactical documents forming part of the Asset Strategy function provide input into the different phases of the project lifecycle to ensure that any additional assets are planned, designed, constructed and commissioned in accordance with the requirements of Asset Strategy documents. This enables the additional assets to be operated safely, efficiently, reliably and in an environmentally acceptable manner.

Asset Operating Plan

- 6.19 The Asset Operating Plan provides guidance and structure for the operation of the DBNGP by Transportation Services Control Centre (TSCC) in a manner that supports the achievement of the DBP objectives as outlined in the Asset Operating Strategy and the Asset Management Plan, and in particular driving operational efficiencies and optimisation.

Asset Maintenance Plan

- 6.20 The DBP's maintenance philosophy is to provide timely, quality and cost effective maintenance service to operating plants ensuring that the assets are maintained to support the required level of asset integrity, reliability, availability, output capacity and quality, as well as to ensure compliance with regulatory obligations. Maintenance related activities executed using the following maintenance principles:

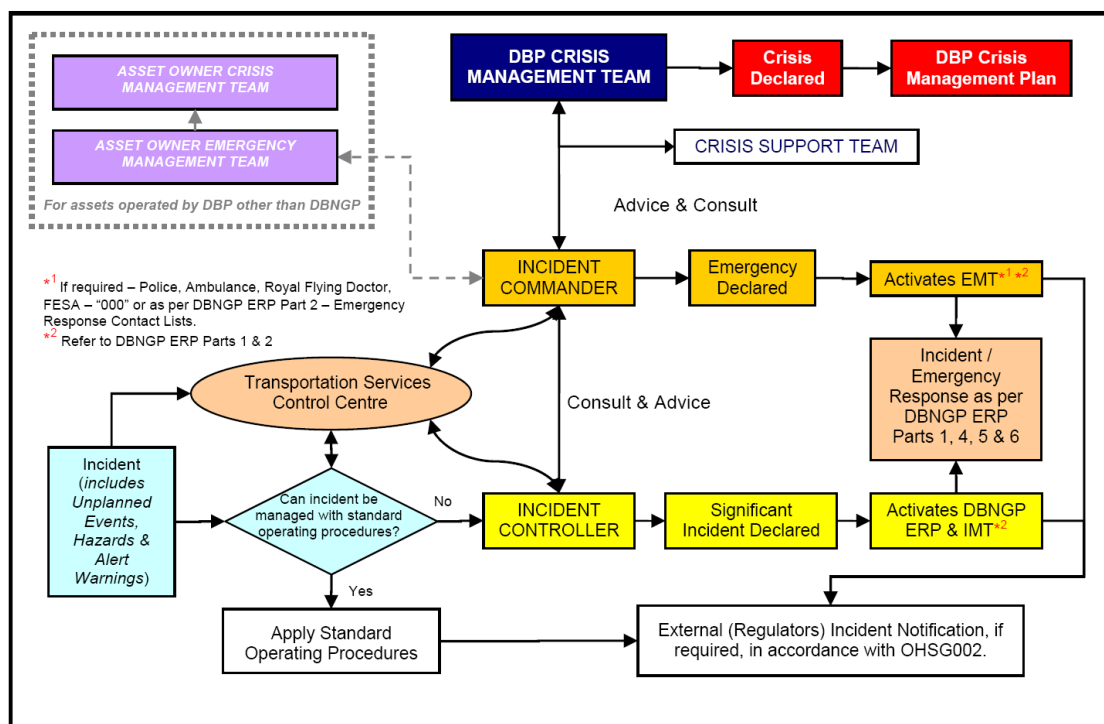
- (a) PDM – Predictive Maintenance (scheduled on condition task) is based on condition and performance monitoring, in accordance with the Asset Reliability Management Plan.
- (b) PM – Preventive Maintenance (scheduled restoration or discard task) is performed at a set frequency dictated by the Asset Management Plan to ensure that an asset continues operating correctly and to therefore avoid any unscheduled breakdown and downtime.
- (c) CM – Corrective Maintenance (no scheduled maintenance) are required to bring an asset back to working order after an item has failed or worn out.

Emergency Management Plan

6.21 Incidents and emergencies are managed through emergency management processes embedded in the DBP Emergency Response Plan, so as to limit the consequences of such events. The Emergency Management Framework adopted for the DBNGP is founded on the concepts and principles of emergency management which have been adapted for the Gas Industry from those developed by Emergency Management Australia.

6.22 The Emergency Response Plan forms the ‘All Hazards Plan’ and addresses the notification, escalation and mobilisation of Incident Management and Emergency Management Teams, organisation of resources and the actions for managing incidents and emergencies.

Figure 8: ERP Escalation and Notification



6.23 These emergency response processes (including storage of strategic emergency response equipment) have been designed to effectively respond to all foreseeable incidents and emergencies, as identified in various safety studies and risk assessments and from operational experience.



7. PRUDENCY & EFFICIENCY INCENTIVE MECHANISMS IN DBP'S SHIPPER CONTRACTS

- 7.1 As is noted in paragraph 1.12, DBP is incentivised under its shipper contracts to ensure its capital and operating costs are at least efficient and prudent. This is done through a number of mechanisms which either expose DBP to capital and operating cost risk (for certain items of expenditure) or which require approval from the shipper before the costs can be included in charges levied under the relevant contract.
- 7.2 In the ERA's draft decision for the current Access Arrangement, the ERA acknowledged that the terms and conditions in the Standard Shipper Contract (SSC) that have a commercially negotiated tariff provide a commercial incentive for DBP to be prudent and efficient in its capital planning and expenditure. In fact, the ERA has noted that these incentives may be stronger than those under the regulatory framework¹. In the AA Period, approximately 85% of DBP's revenue will be contracted with a negotiated tariff. The prevailing tariff is fixed with the exceptions of:
- (a) Escalation for inflation;
 - (b) Changes in taxation;
 - (c) Election to provide system use gas; and
 - (d) Adjustments in respect of certain amounts of expansion capital expenditure.
- 7.3 Incentives on DBP to maintain its level of capital and operating expenditure efficient and prudent also exist in relation to the foundation gas transportation contract entered into with DBP's largest shipper, Alcoa of Australia Limited, and known as the Alcoa Exempt Contract (**AEC**). These incentives are outlined below.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

¹ ERA Draft Decision (May 2010) paragraph 194-197.



APPENDIX A: DBP'S ANNUAL BUDGET PROCESS



APPENDIX B: SIB CAPITAL PROJECT RANKING PROCESS



APPENDIX C: ASSET MANAGEMENT SYSTEM FRAMEWORK



APPENDIX D: SAFETY CASE - INTRODUCTION



APPENDIX E: SAFETY CASE - FACILITY DESCRIPTION [CONFIDENTIAL]



APPENDIX F: SAFETY CASE SAFETY MANAGEMENT SYSTEM [CONFIDENTIAL]

APPENDIX G: SAFETY CASE FORMAL SAFETY ASSESSMENT [CONFIDENTIAL]



APPENDIX H: ENVIRONMENTAL MANAGEMENT PLAN - PUBLIC SUMMARY DOCUMENT



APPENDIX I: ASSET MANAGEMENT PLAN
(GENERAL) [CONFIDENTIAL]



APPENDIX J: CONFIDENTIALITY