

Proposed Revisions DBNGP Access Arrangement

2016 – 2020 Access Arrangement Period

Non-tariff related issues

Supporting Submission: 5

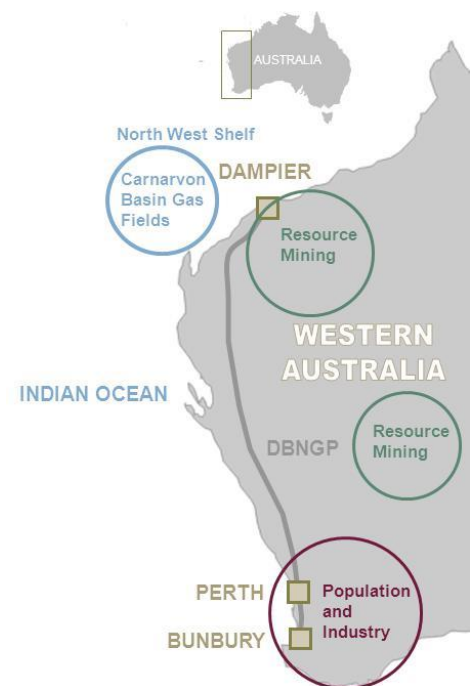


PUBLIC VERSION

Date Submitted: 31/12/2014

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



Trent Leach

Manager Regulatory & Government Policy
P: (08) 9223 4357
M: 0429 045 320

Nick Wills-Johnson

Manager Economic Regulation
P: (08) 9223 4902
M: 0477 374 246

DBNGP (WA) Transmission Pty Limited

ABN 69 081 609 190
Level 6
12-14 The Esplanade
PERTH WA 6000
P: +61 8 9223 4300
F: +61 8 9223 4301



Table of Contents

- 1. INTRODUCTION.....1
- 2. QUEUING REQUIREMENTS2
- 3. EXTENSIONS AND EXPANSIONS3
- 4. CAPACITY TRADING REQUIEMENTS4
- 5. CHANGING RECIPT AND DELIVERY POINTS5
- 6. SPECULATIVE INVESTMENT ACCOUNT.....6

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 This submission contains further supporting information in relation to the matters in the Proposed Revised AA and Proposed Revised AAI that relate to non-tariff related issues, including the proposed revisions to:
 - (a) the queuing requirements;
 - (b) the extension and expansion requirements;
 - (c) the capacity trading requirements; and
 - (d) the requirements relating to the change of receipt and delivery points.

2. QUEUING REQUIREMENTS

- 2.1 NGR 48(1)(e) requires that a full access arrangement contains queuing requirements.
- 2.2 NGR 103 requires that a transmission pipeline must establish a process or mechanism that orders the priority between prospective users of spare or developable capacity in which all prospective users are treated in a fair and equal basis.
- 2.3 Queuing requirements are contained in Section 5 of the DBNGP Access Arrangement. The current arrangements can simply be characterised as a single queue whereby complying access requests submitted by prospective shippers of both spare and developable capacity are dealt with on a "first come, first served" basis ("**Current Queuing Requirements**").
- 2.4 The only revision to the Current Queuing Requirements DBP proposes to make is to include, in clause 5.2 of the Proposed Revised AA, the following additional information a prospective shipper must provide DBP (**Creditworthiness Requirement**):

Relevant financial information that would be required by a reasonable and prudent person to assess the Prospective Shippers' ability to meet financial obligations made under the Access Contract.

- 2.5 DBP submits it is reasonable to include the Creditworthiness Requirement for the following reasons:
- (a) It will be a requirement with respect to which all prospective shippers must comply, thereby ensuring all users are treated on a fair and reasonable basis.
 - (b) DBP's return on the capital base has been set on the basis that it is a benchmark efficient entity. The ERA has defined a benchmark efficient as being an entity with a credit rating in the BBB range (as per the Rate of Return Guidelines published in 2013). A service provider's credit rating is heavily dependent on the likelihood that the entity will be able to have sufficient revenue to service its debt. Given the total revenue is proposed to be recovered from reference service shippers, any shipper that is unlikely to be able to meet its financial obligations will increase the risk that a service provider is unable to earn a total revenue and, in turn, service its debt. This in turn exposes the service provider to no longer being an investment grade credit rated entity.
 - (c) For the above reason, it is consistent with the national gas objective to insert this requirement.
 - (d) the provision has not been required in past access arrangements because, until recently, the pipeline capacity has been fully contracted. DBP was able to manage the prudential requirements of shippers as part of the process of execution of an Access Contract for developable capacity (and as part of DBP's decision to fund any expansion of the pipeline's capacity).
 - (e) In the proposed AA Period, it is envisaged that there will be spare capacity. Under the Current Queuing Requirements, in circumstances where there is spare capacity, any access request for a reference service that is submitted by a prospective shipper will be capable of immediate acceptance by the service provider and the service provider will be bound to accept it within a certain period if the access request is compliant. Seeking access to a reference service in circumstances where there is spare capacity accordingly, prospective shippers will be able to Any additional capacity that additional clause so that information is made available to DBP so that it can perform the assessment of Access Requests as provided for by clause 5.3 of the Access Arrangement, specifically clause 5.3(e)(ii).

3. EXTENSIONS AND EXPANSIONS

- 3.1 NGR 48(1)(g) requires that a full access arrangement contains extension and expansion requirements.
- 3.2 Consistent with the specific provisions at NGR 104, extension and expansion requirements may state whether the applicable access arrangement will apply to incremental service to be provided as a result of a particular extension to, or expansion of the capacity of, the pipeline or may allow for later resolution of that question on a basis stated in the requirements.
- 3.3 Extension and expansion requirements included in a full access arrangement must, if they provide that an applicable access arrangement is to apply to incremental services, deal with the effect of extension or expansion on tariffs.
- 3.4 The extension and expansion requirements cannot require the service provider to provide funds for work involved in making an extension or expansion unless agreed to by the service provider.
- 3.5 Extension and expansion requirements are contained in Section 7 of the DBNGP Access Arrangement.
- 3.6 DBP proposes the amendments to the current extension and expansion requirements that have the following effects:
 - (a) Brings clarity to when an extension or enhancement becomes part of the covered pipeline. DBP proposes that once DBP receives consent to operate an asset under the pipeline licence it becomes part of the covered pipeline.
 - (b) Implement a timeline for the determination of whether an expansion is or isn't part of the covered pipeline.
 - (c) Provides further guideline on matters that should be addressed in a Coverage Notice, specifically that the National Gas Objective and Coverage Criteria are to be addressed.
 - (d) Require the detailed reasons supporting the determination of whether an expansion is or isn't part of the covered pipeline.
 - (e) Make it clear that works completed under the gas quality regime and funded by a third party is not an expansion of capacity.
 - (f) Remove reference to 'expansion' in clause 7.4 which only deals with extension or enhancements.
- 3.7 Accordingly amended drafting has been included in the Proposed Revised AA provided in Submission 1.

4. CAPACITY TRADING REQUIREMENTS

- 4.1 NGR 48(1)(f) requires that a full access arrangement sets out the capacity trading requirements.
- 4.2 Consistent with the specific provisions at NGR 105, capacity trading requirements must provide for transfer of capacity, by way of subcontract, of all or any of the user's contracted capacity without consent with the following consequences:
 - (a) The transferor's rights against, and obligations to, the service provider are (subject to paragraph (b)) unaffected by the transfer; but
 - (b) The transfer must immediately give notice to the service provider of:
 - (i) The subcontract and its likely duration; and
 - (ii) The identity of the third party; and
 - (iii) The amount of the contracted capacity transferred.
- 4.3 With the service providers consent, transfer all or any of the users contracted capacity to another with the following consequences:
 - (a) The transferor's rights against, and obligations to, the service providers are terminated or modified in accordance with the capacity trading requirements; and
 - (b) A contract arises between the service provider and the third party on terms and conditions determined by or in accordance with the capacity trading requirements.
- 4.4 Capacity trading requirements are contained in Section 6 of the DBNGP Access Arrangement.
- 4.5 DBP's amendments to Section 6 of the Access Arrangement are aimed at:
 - (a) recognising that a secondary trading market may be established in the AA Period;
 - (b) adding clarity to costs that that the Shipper must reimburse Operator in processing consent requests.
- 4.6 Accordingly, amended drafting has been included in the Proposed Revised AA provided in Submission 1.

5. CHANGING RECEIPT AND DELIVERY POINTS

- 5.1 NGR 48(1)(h) requires that a full access arrangement state the terms and conditions for changing receipt and delivery points.
- 5.2 Consistent with the specific provisions at NGR 106, an access arrangement must provide for the change of a receipt or delivery point in accordance with the following principles:
 - (a) A user may, with the service provider's consent, change the users receipt or delivery point; and
 - (b) The service provider must not withhold its consent unless it has reasonable grounds, based on technical or commercial considerations, for doing so.
- 5.3 Change of receipt and delivery points are addressed in Section 8 of the Access Arrangement.
- 5.4 DBP does not propose to change Section 8 of the Access Arrangement.

6. SPECULATIVE INVESTMENT ACCOUNT

- 6.1 DBP proposes that the rate of return applied to any funds included in a speculative capital expenditure account (“Speculative Investment Rate”) should be higher than the allowable rate of return for conforming capital expenditure. Speculative capital expenditure carries a higher risk profile than expenditure that it is included in regulated revenue because there is no certainty that a non-conforming investment will result in additional revenue to the service provider.
- 6.2 Accordingly the rate of return provided for non-conforming capital expenditure should be greater than the regulated rate because there is a need:
- (a) to incentivise service providers to undertake prudent non-conforming investments; and
 - (b) to compensate the service provider for undertaking the risk that the non-conforming investment may never result in any additional revenue.

It is therefore reasonable to expect that the Speculative Investment Rate applied to expenditure before it enters the capital base is greater than the allowable rate of return.

- 6.3 DBP proposes that the Speculative Investment Rate is set at the rate of return on equity for the Current Access Arrangement Period as estimated in accordance with NGR87(6).