

# Proposed Revisions DBNGP Access Arrangement

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*2016 – 2020 Access Arrangement Period*

*Cost allocation & verification of costs*

*Supporting Submission: 6*



**PUBLIC**

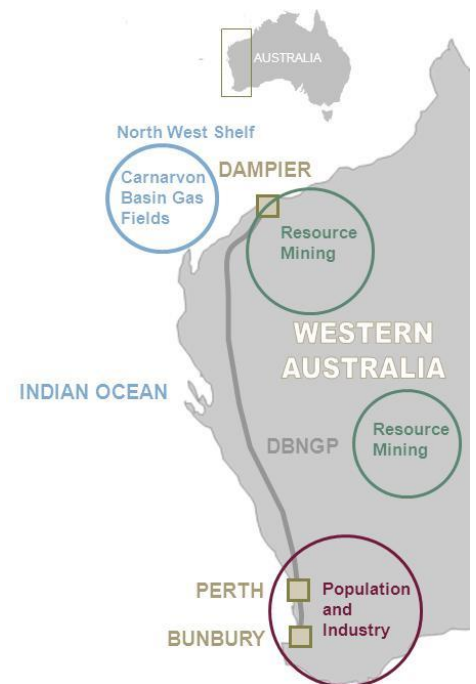
*Date Submitted: 31/12/2014*

## 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 E 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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## 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 In the ERA's Final Decision for the revised access arrangement for 2011 to 2015 (**Current AA**), the ERA indicated its desire for DBP to provide audited statements on capital expenditure before the value of the capital base can be determined.<sup>1</sup>
- 1.6 Also in the Final Decision, the ERA indicated that the verification of stated values of actual operating expenditure in the form of reconciliation of the stated values with the values of operating expenditure in audited financial statements assisted the ERA in approving these values as operating expenditure.
- 1.7 Accordingly, this submission outlines the processes undertaken by DBP to verify DBP's proposed conforming capital expenditure made during the period of the Current AA (**Current AA Period**) and the operating expenditure incurred during the Current AA Period against independently audited financial accounts.

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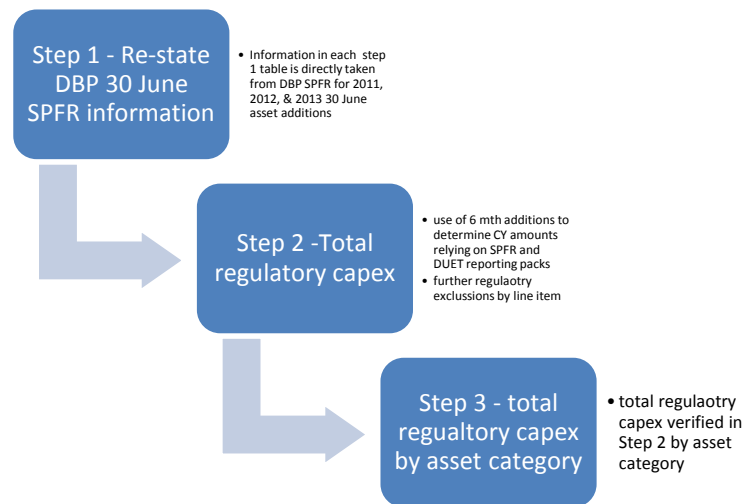
<sup>1</sup> ERA Final Decision on Proposed Revisions to the Access Arrangement for the Dampier to Bunbury Natural Gas Pipeline, as amended on 22 November 2011, para 269

## 2. VERIFICATION OF ACTUAL CAPITAL EXPENDITURE

- 2.1 This section details the steps taken by DBP to verify the amount of conforming capital expenditure made by it during the Current AA Period and included in the Proposed Revised AAI, including the process of verifying the amounts against independently audited financial reports.
- 2.2 The first step involved DBP developing its 30 June Special Purpose Financial Reports (SPFR) (referred to as Statutory Reports) and having these SPFR independently audited.
- 2.3 A report is prepared by the independent auditor identifying any issues with the SPFR. Both the report and the SPFR are tabled with DBP's Board of Directors who then approve the SPFR if there are no material issues raised by the auditors in their report.
- 2.4 DBP's actual amounts of conforming capital expenditure included in the Proposed Revised AAI are not however, identical to the amounts included in the SPFR. This is so for a number of reasons, including:
- (a) The amounts in the SPFR are reported on a financial year basis whereas the amounts included in the Proposed Revised AAI are reported on a calendar year basis;
  - (b) Certain amounts in the SPFR are categorised as capital expenditure whereas they are either treated as operating expenditure in the Proposed Revised AAI or not included as either capital expenditure or operating expenditure amounts in the Proposed Revised AAI; and
  - (c) The value of certain items of plant and equipment in the SPFR is different to the value allowed for as conforming capital expenditure in the Proposed Revised AAI.
- 2.5 Accordingly, a number of adjustments must be made to the amount of capital expenditure used in the SPFR for the financial years 2010/11 to 2014/15 so as to arrive at amounts that have been used as the conforming capital expenditure used in the Proposed Revised AAI. These adjustments include:
- (a) Converting the amounts in the SPFR from being allocated into financial years to being allocated into calendar years;
  - (b) Exclusion of certain costs based on DBP's cost allocation methodology outlined in detail in Section 4 of this submission, including:
    - (i) exclusion of all shipper funded capital contributions;
    - (ii) exclusion of GEA and turbine overhauls from capital expenditure; and
    - (iii) exclusion of certain adjustments to the decommissioning provision.
  - (c) Exclusion of expenditure that has been capitalised for accounting purposes in the SPFR but which the ERA has previously determined as not being conforming capital expenditure. This includes some of the value of the BEP Lease capital expenditure. The ERA only allowed as conforming capital expenditure for the 2011 calendar year an amount of \$18.858m (2010\$) for the BEP Lease.
- 2.6 Figure 1 contains a summary of the steps taken by DBP to verify the amounts of conforming capital expenditure made by it during each year of the Current AA Period and included in the Proposed Revised AAI, including the process of verifying the amounts against the independently audited SPFR. Paragraphs 2.10 onwards in this section of this submission contains a more detailed outline of the steps followed.
- 2.7 The final step in the verification process involved the engagement by DBP of an independent auditor. The auditor was required to perform an "agreed upon procedures" review that verified the amounts of conforming capital expenditure included in the Proposed Revised AAI for the period 1 January 2011 to 31 December 2013 by reference to the amounts in the SPFR and DUET reporting packs for that same period. The agreed upon procedures and factual findings are outlined in Section 7 of this submission.

- 2.8 DBP proposes that the resulting total capital expenditure from this process be accepted as verified capital expenditure for the purpose of NGR 79 and included in the opening capital base under NGR 77(2)(b). Required justification that the capital expenditure is conforming capital expenditure in accordance with NGR 79 is provided in DBP's supporting submission 7 (for expansion capital expenditure) and submission 8 (Parts 1 and 2) for stay in business capital expenditure.
- 2.9 It should be noted that values provided in the tables below may not tally exactly to totals provided. This is a function of applying rounding to each value rather than the occurrence of an error.

Figure 1: Verification of capital expenditure 2011 to 2015



## Step 1 - Special purpose financial reports

2.10 Figure 2, Figure 3 and Figure 4 constitute Step 1, which simply provides tables taken from DBP's SPFR for each of the financial years 2010/11, 2011/12 and 2012/13. As outlined above, the SPFR for each financial year are independently audited prior to DBP's Board and Unitholder accepting them and therefore represent a reliable source of information for this purpose.

2.11 The following figure is an excerpt from the SPFR for the financial year ended 30 June 2011.

**Figure 2: Step 1a: SPFR non-current assets PPE 30 June 2011 (Nominal \$,000)**

	Construction in progress \$'000	Freehold land \$'000	Freehold buildings \$'000	Plant and equipment \$'000	Motor vehicles \$'000	Gas linepack \$'000	Total \$'000
<b>Year ended 30 June 2011</b>							
Opening net book amount	696,716	1,796	5,974	2,311,460	1,785	8,589	3,026,320
Additions	86,662	-	-	-	-	-	86,662
Transfers between class of assets	(687,465)	-	16,953	662,040	150	-	(8,322)
Disposals	-	-	(3)	(28,720)	(146)	-	(28,869)
Depreciation on disposals	-	-	1	27,993	146	-	28,140
Depreciation charge	-	-	(847)	(73,322)	(653)	-	(74,822)
Closing net book amount	<u>95,913</u>	<u>1,796</u>	<u>22,078</u>	<u>2,899,451</u>	<u>1,282</u>	<u>8,589</u>	<u>3,029,109</u>
<b>As at 30 June 2011</b>							
Cost	95,913	1,796	23,710	3,203,907	4,192	8,589	3,338,107
Accumulated depreciation	-	-	(1,632)	(304,456)	(2,910)	-	(308,998)
Net book amount	<u>95,913</u>	<u>1,796</u>	<u>22,078</u>	<u>2,899,451</u>	<u>1,282</u>	<u>8,589</u>	<u>3,029,109</u>

Source: Non-current assets - Property, Plant and equipment (page 24) SPFR for the year ended 30 June 2011

2.12 Figure 2 is taken from note 13 to the financial statements for the DBNGP Trust for Non-current assets - Property, plant and equipment on page 24 of the SPFR for the financial year ended 30 June 2011 a copy of which is attached as Appendix A: .

2.13 The following figure is an excerpt from the SPFR for the financial year ended 30 June 2012.





Figure 3: Step 1b: SPFR non-current assets PPE 30 June 2012 (Nominal \$,000)

	Construction in progress \$'000	Freehold land \$'000	Freehold buildings \$'000	Plant and equipment \$'000	Motor vehicles \$'000	Gas linepack \$'000	Total \$'000
<b>Year ended 30 June 2012</b>							
Opening net book amount	95,913	1,796	22,078	2,899,451	1,282	8,589	3,029,109
Additions	77,253	-	-	-	-	5,462	82,715
Transfers between class of assets	(127,170)	-	5,551	119,253	2,366	-	-
Disposals	-	-	-	-	(146)	(5,495)	(5,641)
Depreciation on disposals	-	-	-	-	142	-	142
Depreciation charge	-	-	(901)	(75,997)	(1,549)	-	(78,447)
Closing net book amount	<u>45,996</u>	<u>1,796</u>	<u>26,728</u>	<u>2,942,707</u>	<u>2,095</u>	<u>8,556</u>	<u>3,027,878</u>
<b>As at 30 June 2012</b>							
Cost	45,996	1,796	29,261	3,323,160	6,412	8,556	3,415,181
Accumulated depreciation	-	-	(2,533)	(380,453)	(4,317)	-	(387,303)
Net book amount	<u>45,996</u>	<u>1,796</u>	<u>26,728</u>	<u>2,942,707</u>	<u>2,095</u>	<u>8,556</u>	<u>3,027,878</u>

Source: Non-current assets - Property, Plant and equipment (Section 13, page 24) SPFR for the year ended 30 June 2012

2.14 Figure 3 is from note 11 to the financial statement for the DBNGP Trust for Non-current assets - Property, plant and equipment on page 24 of the SPFR for the financial year ended 30 June 2012, a copy of which is attached as Appendix B: .

2.15 The following figure is an excerpt from the SPFR for the financial year ended 30 June 2013.

Figure 4: Step 1c: SPFR non-current assets PPE 30 June 2013 (Nominal \$,000)

	Construction in progress \$'000	Freehold land \$'000	Freehold buildings \$'000	Plant and equipment \$'000	Motor vehicles \$'000	Gas linepack \$'000	Total \$'000
<b>Year ended 30 June 2013</b>							
Opening net book amount	45,996	1,796	26,728	2,942,707	2,095	8,556	3,027,878
Additions	43,020	-	-	-	-	52	43,072
Transfers between class of assets	(65,397)	-	327	63,591	1,456	-	(23)
Disposals	-	-	-	-	(843)	-	(843)
Depreciation on disposals	-	-	-	-	798	-	798
Depreciation charge	-	-	(919)	(75,738)	(1,002)	-	(77,659)
Closing net book amount	<u>23,619</u>	<u>1,796</u>	<u>26,136</u>	<u>2,930,560</u>	<u>2,504</u>	<u>8,608</u>	<u>2,993,224</u>
<b>As at 30 June 2013</b>							
Cost	23,619	1,796	29,588	3,386,750	7,026	8,608	3,457,387
Accumulated depreciation	-	-	(3,452)	(456,190)	(4,522)	-	(464,164)
Net book amount	<u>23,619</u>	<u>1,796</u>	<u>26,136</u>	<u>2,930,560</u>	<u>2,504</u>	<u>8,585</u>	<u>2,993,224</u>

Source: Non-current assets - Property, Plant and equipment (page 21) SPFR for the year ended 30 June 2013

2.16 Figure 4 is from note 11 to the financial statement for the DBNGP Trust for Non-current assets - Property, plant and equipment on page 21 of the SPFR for the financial year ended 30 June 2013, a copy of which is attached as Appendix C: .



The following table consolidates the information provided in Step 1. Specifically, DBP has used 'Construction in Progress' (also referred to as CWIP) 'Additions' and 'Transfers between assets classes' from each of the tables and provided in the table below.

Table 1: Summary SPFR 30 June 2011 to 30 June 2013 (Nominal \$m)

Asset Register Additions	31-Dec-10	30-Jun-11	31-Dec-11	30-Jun-12	31-Dec-12	30-Jun-13	31-Dec-13	30-Jun-14	31-Dec-14	30-Jun-15	31-Dec-15
CWIP Additions		86.66		77.25		43.02		0.00		0.00	
CWIP Transfers		(687.47)		(127.17)		(65.40)		0.00		0.00	
<b>TOTAL Asset Register Additions</b>	<b>0.00</b>	<b>(600.80)</b>	<b>0.00</b>	<b>(49.92)</b>	<b>0.00</b>	<b>(22.38)</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>



## Step 2 - Total regulatory capital expenditure by calendar year

2.17 Step 2 involves a number of sub-steps. The first sub-step in step 2 is to use CWIP 'Total Asset Register Additions' from the table above and disaggregate values as follows:

- (a) Expenditure is broken into 6 monthly periods, so that it can be reported on a calendar year basis;
- (b) Expenditure is then allocated into either Expansion or stay in business capital expenditure, required to be consistent with how capital expenditure is reported in the AAI;
- (c) Capital contributions which are not included in conforming capital expenditure; and
- (d) GEA and turbine overhaul expenditure which is excluded from conforming capital expenditure and added to operating expenditure.

2.18 The results of 'FY end additions' in Table 2 are consistent with the 'Total asset register additions' in Table 1 which verifies the approach to determining calendar year values

**Table 2: Half year additions to calendar year & further exclusions for regulatory purposes (Nominal \$m)**

CWIP analysis	31-Dec-10	30-Jun-11	31-Dec-11	30-Jun-12	31-Dec-12	30-Jun-13	31-Dec-13	30-Jun-14	31-Dec-14	30-Jun-15	31-Dec-15
Expansion	42.53	15.22	23.29	11.66	0.24	0.00	0.00				
SIB	4.68	10.79	6.25	17.32	17.78	4.04	7.54				
GEA/Turbine OH	2.28	2.00	0.49	0.20	3.04	(0.33)	0.08				
Capital contr.	5.47	3.69	5.14	15.01	7.72	4.03	0.41				
<b>TOTAL INCURRED</b>	<b>54.96</b>	<b>31.70</b>	<b>35.17</b>	<b>44.18</b>	<b>28.77</b>	<b>7.75</b>	<b>8.03</b>				
Capitalisations	(622.32)	(65.15)	(39.37)	(89.90)	(45.26)	(13.65)	(5.30)				
FY end additions		(600.80)		(49.92)		(22.38)					
<b>CY end additions</b>			<b>66.87</b>		<b>72.96</b>		<b>15.78</b>				

2.19 The second sub-step involves excluding certain amounts from the SPFR from the amounts of capital expenditure to be included as conforming capital expenditure in each year of the Current AA Period. Table 3 demonstrates that DBP has excluded further amounts consistent with the cost allocation methodology outlined in Section 4 from the 'CY end additions' to arrive at calendar year totals that form the basis of DBP's amounts of conforming capital expenditure for each of the calendar years 2011, 2012 and 2013. The following exclusions have been made:

- (a) Capital contributions;
- (b) GEA and turbine overhaul expenditure;
- (c) An adjustment to the amount of the BEP Lease expenditure that is recorded in its asset register for accounting purposes (being \$23.05m). The adjustment is consistent with the revised access arrangement decision pursuant to orders of the Australian Competition Tribunal (ACT) made on 26 July 2012. The ERA's revised decision pursuant to NGR 64(4) determined the BEP Lease valuation to be \$18.858m (2010 dollars). DBP determines the 2011 value at \$19.44m based on inflation of 3.10% (consistent with that outlined in the AAI), therefore DBP has deducted from the value recorded in its asset register (for accounting purposes an amount of \$3.6m, being the difference between \$23.05m and \$19.44m, in 2011.
- (d) Making two line adjustments to the decommissioning provision to ensure movements in the decommissioning provision are not included as conforming capital expenditure. While DBP maintains that additions to the decommissioning provision should be accepted as conforming capital expenditure DBP's approach has been to exclude the amounts that vary the 'base' provision which for accounting purposes is periodically recalculated updating for the prevailing discount rate, the resulting variance (Provision Variance) is included in DBP's SPFR. The following adjustments are made:
  - (i) Decommissioning provision - the first of the two line adjustments removes an amount of \$11.4m where the Provision Variance including the SPFR as CWIP in 2012, the adjustment directly removes the Variance Provision. In 2013, \$11.4m of Provision Variance was added to the CWIP to offset accounting treatment in the SPFR where \$11.4m was removed and reported against a difference general ledger mapped to the 'Property, Plant and Equipment' reporting category of the SPFR. The effect of which reduced the CWIP balance. The reason the \$11.4m Provision Variance was removed from the SPFR CWIP reporting category in 2013 reflected a change in accounting process attempting to better deal with the volatility of the Provision Variance without unnecessarily affecting the asset register; and
  - (ii) The decommissioning provision (SIB) - is removed from the CWIP in 2012 consistent with excluding the Provision Variance from conforming capital expenditure.

**Table 3: Regulatory capital expenditure (Nominal \$m)**

	2011	2012	2013
CY end incurred	66.87	72.96	15.78
<b>Regulatory Adjustments</b>			
Capital contributions	(8.83)	(22.73)	(4.44)
GEA/Turbine overhauls transferred to OPEX	(2.49)	(3.23)	0.25
BEP Lease adjustment	(3.60)	0.00	0.00
Decommissioning provision	0.00	(11.40)	11.40
Decommissioning provision (SIB)	0.00	(3.11)	0.00
<b>Total conforming capital expenditure made</b>	<b>51.94</b>	<b>32.49</b>	<b>22.99</b>
Addition of CWIP at 31 December (SIB & Expansion)	96.62		
<b>Total annual asset additions</b>	<b>148.56</b>	<b>32.49</b>	<b>22.99</b>

2.20 The third sub-step is only undertaken in relation to the expenditure relating to the calendar year 2011. As demonstrated by Table 3, DBP has added the capital works in progress (CWIP) balance at 31 December 2010 to the actual capital expenditure incurred in 2011. Consistent with the

approach accepted in the ERA's 2011 final decision (paragraph 340), DBP has added the value of \$96.62m to the actual capital expenditure incurred in calendar year 2011<sup>2</sup>.

- 2.21 DBP's approach to reporting actual capital expenditure has changed for verification of actual expenditure for 2005 to 2010 in that rather than report capital expenditure on a capitalised accounting basis, DBP is now reporting capital expenditure on an incurred timing basis. As explained above, the single exception to this is in 2011 where part of the reported capital expenditure is on an incurred basis (consistent with 2012 to 2013) and the \$96.62m (CWIP balance at 31 Dec 2010) incurred prior to 2011 and capitalised in 2011 or later is proposed as conforming capital expenditure in 2011. This approach ensures that this amount of capital expenditure is included in the capital base; otherwise DBP would be denied the opportunity of recovering this cost.
- 2.22 The approach will also allow for a better match between forecast expenditure and the timing of actual expenditure.

### Step 3 - Asset additions by regulatory category

- 2.23 The following three tables allocate each calendar year's total conforming capital expenditure into the asset categories proposed in the Proposed Revised AAI.

**Table 4: Capital Expenditure allocated by regulatory asset category CY2011 (Nominal \$m)**

	SIB	Stage 5B Expansion	Stage 5A Expansion	TOTAL
Pipeline	12.78	28.36	4.98	46.11
Compression	5.11	18.13	6.99	30.23
Metering	0.35	0.00	0.00	0.35
Other	34.20	11.18	7.05	52.42
Non-depreciating	0.00	0.00	0.00	0.00
BEP lease	0.00	19.44	0.00	19.44
<b>Total</b>	<b>52.43</b>	<b>77.10</b>	<b>19.02</b>	<b>148.56</b>

**Table 5: Capital Expenditure allocated by regulatory asset category CY2012 (Nominal \$m)**

	SIB	Stage 5B Expansion	TOTAL
Pipeline	4.51	10.09	14.61
Compression	4.80	3.50	8.30
Metering	1.85	0.00	1.85
Other	9.42	(1.69)	7.73
Non-depreciating	0.00	0.00	0.00
<b>Total</b>	<b>20.58</b>	<b>11.90</b>	<b>32.49</b>

**Table 6: Capital Expenditure allocated by regulatory asset category CY2013 (Nominal \$m)**

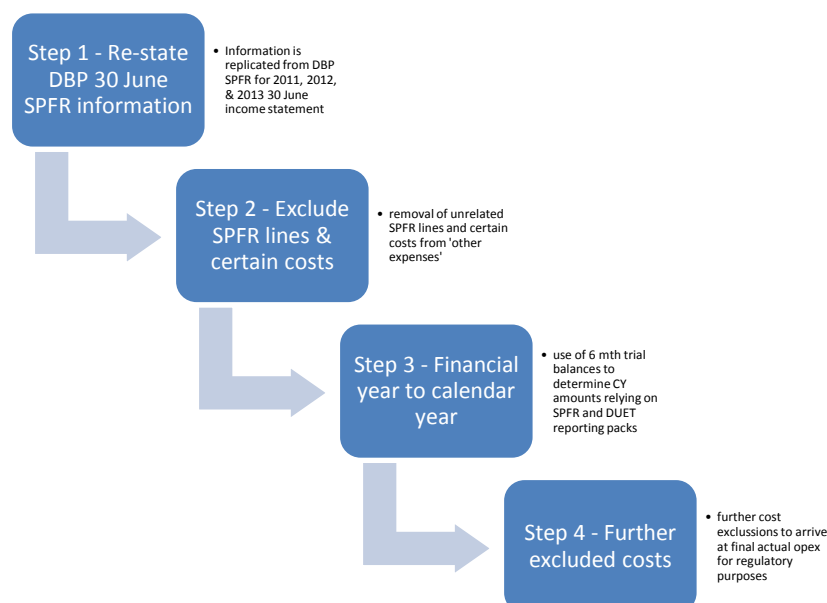
	SIB
Pipeline	4.69
Compression	5.55
Metering	0.95
Other	11.79
Non-depreciating	0.00
<b>Total</b>	<b>22.99</b>

<sup>2</sup> See DBP's Submission 70 (8 September 2011) tariff model

### 3. VERIFICATION OF ACTUAL OPERATING EXPENDITURE

- 3.1 This section details the steps taken by DBP to verify the amount of operating expenditure made by it during each year of the Current AA Period and included in the Proposed Revised AAI, including the process of verifying the amounts against independently audited financial reports.
- 3.2 As is the case with the derivation of the actual conforming capital expenditure outlined in section 2 of this submission, the first step involved DBP developing its 30 June Special Purpose Financial Reports (SPFR) (referred to as Statutory Reports) and having these SPFR independently audited.
- 3.3 A report is prepared by the independent auditor identifying any issues with the SPFR. Both the report and the SPFR are tabled with DBP's Board of Directors who then approves the SPFR if there are no material issues raised by the auditors in their report. This has been the case for each year of the Current AA Period.
- 3.4 DBP's actual amounts of operating expenditure included in the Proposed Revised AAI for the years 2011-2013 are not however, identical to the amounts included in the SPFR for the corresponding period.
- 3.5 Figure 5 contains a summary of the steps taken by DBP to verify the amounts of operating expenditure made by it during each of the 2011, 2012 and 2013 years of the Current AA Period and included in the Proposed Revised AAI, including the process of verifying the amounts against the independently audited SPFR. Paragraphs 3.8 onwards in this section of this submission contains a more detailed outline of the steps followed.
- 3.6 The final step in the verification process involved the engagement by DBP of an independent auditor. The auditor was required to perform an "agreed upon procedures" review that verified the amounts of operating expenditure included in the Proposed Revised AAI for the period 1 January 2011 to 31 December 2013 by reference to the amounts in the SPFR for that same period. The agreed upon procedures and factual findings are outlined in Section 7 of this submission.
- 3.7 It should be noted that values provided in the tables below may not tally exactly to totals provided. This is a function of applying rounding to each value rather than the occurrence of an error.

**Figure 5: Verification of operating expenditure 2011 to 2013**



## Step 1 - Special Purpose Financial Reports

3.8 The following table comprises DBP's SPFR income statements for the years ended at 30 June 2011, 2012 and 2013.

**Table 7: DBP SPFR Income Statement June 2011 to June 2013 (Nominal \$m)**

	31/12/10	30/06/11	31/12/11	30/06/12	31/12/12	30/06/13	31/12/13
Revenue		436.81		459.59		449.64	
Other income		0.02		0.12		0.22	
<b>Employee benefits expense</b>		<b>(23.50)</b>		<b>(26.35)</b>		<b>(28.78)</b>	
Depreciation and amortisation expense		(78.14)		(80.93)		(79.62)	
<b>Operations and maintenance expense</b>		<b>(29.32)</b>		<b>(34.13)</b>		<b>(26.99)</b>	
<b>Management services fee</b>		<b>(4.86)</b>		<b>(7.27)</b>		<b>(5.74)</b>	
<b>Fuel gas expense</b>		<b>(13.25)</b>		<b>(10.18)</b>		<b>(8.36)</b>	
<b>Other expenses</b>		<b>(1.02)</b>		<b>(13.52)</b>		<b>(10.32)</b>	
Finance costs		(247.77)		(230.07)		(209.51)	
Net Profit before income tax		38.98		57.27		80.56	

3.9 DBP's SPFR are attached as Appendix A: (FY2011), Appendix B: (FY 2012) and Appendix C: (FY 2013). The relevant page references are as follows:

- (a) 30 June 2011 SPFR - Page 6
- (b) 30 June 2012 SPFR - Page 6
- (c) 30 June 2013 SPFR - Page 4

## Step 2 - Excluded SPFR reporting lines and certain costs

3.10 The following SPFR Income Statement reporting lines are not used in deriving the operating expenditure for the years 2011-2013 of the Current AA Period and so have been excluded from Table 9:

- (a) Revenue
- (b) Other income
- (c) Depreciation and amortisation
- (d) Finance costs

3.11 Table 8 breaks out asset disposals that were reported as part of the SPFR Other Expenses reporting line.

**Table 8: SPFR Other expenses exclusions (Nominal \$m)**

	31/12/10	30/06/11	31/12/11	30/06/12	31/12/12	30/06/13	31/12/13
Disposal of Assets		0.72					
Other expenses		0.30					
<b>Total</b>		<b>1.02</b>					



### Step 3 - Financial year to calendar year

3.12 Table 9 includes financial year and calendar year end amounts from DBP's SPFR and DUET reporting packs. The table below includes:

- (a) 6 months of costs that originate from DUET reporting packs; and
- (b) 12 months of costs (at June year-end) that originate from DBP's SPFR.

**Table 9: Ending balances - Other costs (Nominal \$m)**

	31/12/10	30/06/11	31/12/11	30/06/12	31/12/12	30/06/13	31/12/13
Employee benefits expense	12.05	23.50	13.69	26.35	14.17	28.78	13.87
Operations and maintenance expense	15.65	29.32	16.19	34.13	14.59	26.99	14.02
Management services fee	2.38	4.86	4.15	7.27	2.71	5.74	2.65
Fuel gas expense	6.32	13.25	5.42	10.18	4.58	8.36	5.98
Other expenses	0.31	0.30	0.27	13.52	6.46	10.32	4.06
<b>Total</b>	<b>36.71</b>	<b>71.23</b>	<b>39.71</b>	<b>91.45</b>	<b>42.51</b>	<b>80.18</b>	<b>40.59</b>

3.13 Table 10 reports each 6 month period on a consistent basis by subtracting the December year end value (from DUET reporting packs) from the full financial year's costs (from SPFR) to determine the costs for the 6 months to 30 June.

**Table 10: Movements for 6 monthly periods - Other costs (Nominal \$m)**

	30/06/11	31/12/11	30/06/12	31/12/12	30/06/13	31/12/13
Employee benefits expense	11.45	13.69	12.66	14.17	14.60	13.87
Operations and maintenance expense	13.67	16.19	17.94	14.59	12.40	14.02
Management services fee	2.47	4.15	3.12	2.71	3.02	2.65
Fuel gas expense	6.92	5.42	4.76	4.58	3.79	5.98
Other expenses	(0.01)	0.27	13.26	6.46	3.86	4.06
<b>Total</b>	<b>34.52</b>	<b>39.71</b>	<b>51.73</b>	<b>42.51</b>	<b>37.67</b>	<b>40.59</b>

### Step 4 - Excluded costs

3.14 According to DBP's cost allocation methodology (outlined in detail at Section 4 of this submission) a number of costs are excluded from operating expenditure. Table 11 provides some amounts that are to be excluded from regulatory accounts.

**Table 11: Operating costs excluded from the AA operating costs (Nominal \$m)**

	30/06/2011	31/12/2011	30/06/2012	31/12/2012	30/06/2013	31/12/2013
Employee benefits expense	0.78	0.28	0.23	0.00	0.00	0.00
Operations and maintenance expense	0.45	0.21	0.09	0.00	0.00	0.00
Management services fee	0.00	0.00	0.00	0.00	0.00	0.00

	30/06/2011	31/12/2011	30/06/2012	31/12/2012	30/06/2013	31/12/2013
Fuel gas expense	0.00	0.00	0.00	0.00	0.00	0.00
Other expenses	0.00	0.00	0.00	0.00	0.00	0.00
<b>Total</b>	<b>1.22</b>	<b>0.49</b>	<b>0.32</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>

3.15 Table 12 adds the 2 relevant 6 month periods to get to a calendar year basis and excludes costs identified in Table 11.

**Table 12: Calendar year adjusted SPFR (Nominal \$m)**

	2011	2012	2013
Other Costs			
Employee benefits expense	24.08	26.60	28.48
Operations and maintenance expense	29.21	32.44	26.42
Management services fee	6.62	5.84	5.68
Fuel gas expense	12.35	9.33	9.77
Other expenses	0.26	19.72	7.91
<b>Total</b>	<b>72.52</b>	<b>93.92</b>	<b>78.26</b>

3.16 Table 13 breaks out the costs provided in Table 12 to reporting categories and demonstrates the following exclusions:

- (a) O&M contracts - expenditure captured under 'cost of goods sold' which is expenditure incurred for activities not related to the DBNGP.
- (b) DDG Services - as per O&M contracts expenditure captured under 'cost of goods sold' which is expenditure incurred for activities specifically related to DDG Services.
- (c) Bad debt - Bad and doubtful debt expenses are not considered to be an operating expenditure for regulatory purposes;
- (d) Intra Group - Costs that represent intra group charges which net out across the DBP group of entities (DBP Finance Co Pty Ltd, DBNGP Compressor Co Pty Ltd, DBNGP (WA) Transmission Pty Ltd, DBNGP (WA) Nominees Pty Ltd, DBNGP WA Pipeline Trust and DBNGP (WA) Finance Pty Ltd) and are not operating expenditure for regulatory purposes;
- (e) OSA Accruals - Amounts representing accruals (not costs) made during the period under the OSA general ledger that would otherwise be reversed in due course but are removed for regulatory purposes; and
- (f) Finance - DBP's actual finance expenses (i.e. interest costs and debt raising costs) are not used in the determination of the total revenue and reference tariff, which includes:
  - (i) DBP's accounting depreciation and amortisation is not used in the determination of the total revenue and reference tariff; and
  - (ii) DBP's actual corporate income tax is not used in the determination of the total revenue and reference tariff.

**Table 13: Calendar year adjusted SPFR mapped to regulatory reporting categories (Nominal \$m)**

	2011	2012	2013
Salaries	23.82	25.41	27.02
Salaries - Contractors	1.09	0.43	0.64
Employee Expenses	0.45	0.38	0.25
Advertising	0.09	0.09	0.06
Consulting	3.61	3.24	3.71
Entertainment	0.46	0.50	0.44

	2011	2012	2013
IT	5.74	6.73	6.59
Insurance	4.76	4.20	3.83
Motor Vehicle	1.54	1.48	1.10
Office & Admin	1.07	0.91	0.93
OHS	0.77	0.25	0.23
Repairs & Maintenance	5.45	5.15	5.22
Training & Development	0.68	0.99	0.67
Travel & Accommodation	2.12	1.96	1.98
Utilities Rates & Taxes	7.95	8.99	6.55
CPRS	0.00	2.87	6.31
Self-insurance	0.00	0.00	0.00
Regulatory	0.95	2.07	1.99
Fuel Gas	12.35	9.33	9.77
<b>General Ledger Exclusions</b>			
O&M Contracts	(0.33)	2.09	0.00
DDG Services	0.00	0.63	0.00
Bad Debt	(0.31)	16.17	0.92
Intra Group	0.00	0.00	0.00
OSA accruals	0.23	(0.00)	(0.00)
Finance	0.04	0.03	0.05
<b>Sub Total</b>	<b>72.52</b>	<b>93.92</b>	<b>78.26</b>
<b>Subtotal GL Exclusions</b>	<b>0.36</b>	<b>(18.91)</b>	<b>(0.97)</b>
<b>Capex treated as Opex</b>			
GEA/Turbines	13.90	3.23	(0.25)
<b>Total Regulatory Opex</b>	<b>86.78</b>	<b>78.24</b>	<b>77.04</b>

3.17 The following table provides verified actual operating expenditure for calendar years 2011, 2012 and 2013.

**Table 14: Verified actual operating expenditure CY 2011 to 2013 (Nominal \$m)**

	2011	2012	2013
Salaries	23.82	25.41	27.02
Salaries - Contractors	1.09	0.43	0.64
Employee Expenses	0.45	0.38	0.25
Advertising	0.09	0.09	0.06
Consulting	3.61	3.24	3.71
Entertainment	0.46	0.50	0.44
IT	5.74	6.73	6.59
Insurance	4.76	4.20	3.83
Motor Vehicle	1.54	1.48	1.10
Office & Admin	1.07	0.91	0.93
OHS	0.77	0.25	0.23
Repairs & Maintenance	5.06	4.39	3.49
Training & Development	0.68	0.99	0.67
Travel & Accommodation	2.12	1.96	1.98
Utilities Rates & Taxes	7.95	8.99	6.55
CPRS	0.00	2.87	6.31
Self-insurance	0.00	0.00	0.00
Fuel Gas	12.35	9.33	9.77
Reactive Opex	0.39	0.76	1.72
GEA/Turbines	13.90	3.23	(0.25)
Regulatory	0.95	2.07	1.99
<b>Total</b>	<b>86.78</b>	<b>78.24</b>	<b>77.04</b>

## 4. COST ALLOCATION

- 4.1 NGR 93(2) requires that costs are to be allocated between reference services as follows:
- (a) Costs directly attributed to reference services are to be allocated to those services; and
  - (b) Costs directly attributable to pipeline services that are not reference services are to be allocated to those services; and
  - (c) Other costs are to be allocated between reference and other services on a basis (which must be consistent with the revenue and pricing principles) determined or approved by the ERA.
- 4.2 When applied to the contracted Full Haul equivalent capacity and throughput forecasts for the Access Arrangement Period, the proposed revised Reference Tariff yields a forecast of revenue which has a present value equal to the present value of the proportion of the total revenue referable to the Reference Service during that period.
- 4.3 It is on this basis that all costs verified by way of this submission are costs directly attributable to reference services and therefore should be allocated to those services in accordance with NGR 93(2)(a).
- 4.4 DBP submits that:
- (a) it has excluded all expenditure (of both a capital and operating nature) that is not directly related to the provision of reference services; and
  - (b) there is no expenditure which is indirectly attributable to pipeline services that are not reference services.
- 4.5 Operating expenditure excluded from that reported in DBP's SPFR, according to DBP's cost allocation methodology, can be split into two categories:
- (a) Costs that are incurred by DBP in the provision of pipeline services that are excluded for regulatory purposes (Non-Regulatory Operating Expenditure).
  - (b) Costs that related to non-DBNGP activities (Non-DBNGP Activity Operating Expenditure).
- 4.6 The methodology for each category is explained in further detail below.
- 4.7 The methodology for the allocation of capital expenditure is explained from paragraph 4.25 onwards.

### Exclusion of non-regulatory costs (opex)

- 4.8 Non-Regulatory Operating Expenditure are those costs excluded from figures reported in SPFR provided above on the following basis:
- (a) Expenditure captured under 'cost of goods sold' which is expenditure incurred for activities not related to the DBNGP.
  - (b) As per O&M contracts expenditure captured under 'cost of goods sold' which is expenditure incurred for activities specifically related to DDG Services.
  - (c) Bad and doubtful debt expenses are not considered to be an operating expenditure for regulatory purposes;
  - (d) Costs that represent intra group charges which net out across the DBP group of entities (DBP Finance Co Pty Ltd, DBNGP Compressor Co Pty Ltd, DBNGP (WA) Transmission Pty Ltd, DBNGP (WA) Nominees Pty Ltd, DBNGP WA Pipeline Trust and DBNGP (WA) Finance Pty Ltd) and are not operating expenditure for regulatory purposes;

- (e) Amounts representing accruals (not costs) made during the period under the OSA general ledger that would otherwise be reversed in due course but are removed for regulatory purposes; and
- (f) DBP's actual finance expenses (i.e. interest costs and debt raising costs) are not used in the determination of the total revenue and reference tariff, which includes:
  - (i) DBP's accounting depreciation and amortisation is not used in the determination of the total revenue and reference tariff; and
  - (ii) DBP's actual corporate income tax is not used in the determination of the total revenue and reference tariff.

4.9 Each of the excluded general ledger item and relevant reporting category for SPFR are provided in Table 15.

**Table 15: Non-regulatory opex general ledger and SPFR reporting category**

Cost category	SPFR Mapping to 30 June 2012	Reason for exclusion	SPFR Mapping post 30 June 2012
Gas Transmission Charges - Intra Group	Fuel Gas Exp	Removed as Intra Group	Fuel Gas Exp
Bad Debt Expense	Other Expenses	Removed as Bad Debt	Other Expenses
Doubtful Debt Expense	Other Expenses	Removed as Bad Debt	Other Expenses
Management Fees - Intra Group	Op Maintenance Exp	Removed as Intra Group	Op Maintenance Exp
Operating Service Agreement Costs	Management Serv Fee	Removed as OSA	Management Serv Fee
Debt Raising & Administration Fees	Other Fin Chgs Exp	Removed as Finance	Other Fin Chgs Exp
Amortisation of Deferred Charges	Interest Exp	Removed as Finance	Amort Capitalised BC
Gain/Loss on IRS - CF Hedge Ineffective Portion	Hedge Ineffectiveness Exp	Removed as Finance	Hedge Ineffectiveness Exp
Realised Foreign Exchange Losses	Other Expenses	Removed as Finance	Foreign Exch Unreal
Unrealised Foreign Exchange Losses	FX Gains	Removed as Finance	FX Gains
Depreciation - Buildings & Structural	Depn Buildings	Removed as Depreciation and Amortisation	Depn Buildings
Depreciation - Network Assets	Depn PlantEquip	Removed as Depreciation and Amortisation	Depn PlantEquip
Depreciation - Plant & Equipment	Depn PlantEquip	Removed as Depreciation and Amortisation	Depn Plant Equip
Depreciation - Motor Vehicles & Mobile Plant	Depn MotorVeh	Removed as Depreciation and Amortisation	Depn Motor Veh
Depreciation - Computer & Office Equipment	Depn PlantEquip	Removed as Depreciation and Amortisation	Depn Furn Fitting
Depreciation - Furniture & Fittings	Depn PlantEquip	Removed as Depreciation and Amortisation	Depn Furn Fitting
Depreciation - PP&E Decommissioning	Depn PlantEquip	Removed as Depreciation and Amortisation	Depn Plant Equip
Depreciation - Accrued Depreciation Expense	Depn PlantEquip	Removed as Depreciation and Amortisation	Depn Plant Equip
Amortisation - Intellectual Property	Amort IntProp	Removed as Depreciation and Amortisation	Amort Int Prop
Amortisation - Information Systems	Amort InfoSyst	Removed as Depreciation and Amortisation	Amort Info Syst
Interest Expense - Intra Group	Interest Exp	Removed as Finance	Interest Exp

Cost category	SPFR Mapping to 30 June 2012	Reason for exclusion	SPFR Mapping post 30 June 2012
Interest Expense - Finance Leases	Interest Exp	Removed as Finance	Interest Exp
Interest Expense - Note Issue	Interest Exp	Removed as Finance	Interest Exp
Interest Expense - Long Term Debt	Interest Exp	Removed as Finance	Interest Exp
Interest Expense - Government Loan	Interest Exp	Removed as Finance	Interest Exp
Interest Expense - Subordinated Debt	Interest Exp	Removed as Finance	Interest Exp
Interest Expense - Decommissioning Cost	Decommissioning Exp	Removed as Decommissioning Provision	Decommissioning Exp
Interest Expense - Deferred Payment	Interest Exp	Removed as Finance	Interest Exp
Interest Expense - Net Domestic Swaps	Interest Exp	Removed as Finance	Interest Exp
Income Tax Expense - Current	IncomeTax Exp	Removed income Tax Expense	IncomeTax Exp

## Exclusion of non-DBNGP activities

- 4.10 DBP's accounts separately for non-DBNGP activities, such as work related to a capital contribution or third party O&M contracts and costs incurred on behalf of DDG are coded to certain general ledger codes or Cost Centre 50642. This practice has been consistently applied during the 2011 to 2013 regulatory period.
- 4.11 While DBP's coding to those general ledgers has been consistent, the reporting of the general ledgers in the SPFR has changed.
- 4.12 For the period up to the end of June 2012, DBP's general ledgers in Table 16 were included as costs incurred under 'Other Costs' in the SPFR and therefore must be excluded from regulatory accounts.

**Table 16: Non-DBNGP activity general ledger and SPFR reporting category**

Cost category	Mapping to 30 June 2012	Classification exclusions	Mapping post 30 June 2012	New Classification Exclusion
Materials Projects	Op Maintenance Exp	Removed as Contracts	Cost Sale Rev	Excluded as Revenue
Project Costs	Op Maintenance Exp	Removed as Contracts	Cost Sale Rev	Excluded as Revenue
Domgas - COGS	Op Maintenance Exp	Removed as Contracts	Cost Sale Rev	Excluded as Revenue
ServiceCo - COGS	Op Maintenance Exp	Removed as Contracts	Cost Sale Rev	Excluded as Revenue
EPIC - COGS	Op Maintenance Exp	Removed as Contracts	Cost Sale Rev	Excluded as Revenue
Land Management - COGS			Cost Sale Rev	Excluded as Revenue
O & M Contract - COGS			Cost Sale Cont Op Rev	Excluded as Revenue
O & M Other - COGS			Cost Sale Cont Op Rev	Excluded as Revenue

- 4.13 Prior to June 2012 costs incurred by DBP in providing service to DDG were coded to the general ledgers in Table 15. At July 2012, coinciding with the increase in activity of business development opportunities pursued under the DBP Development Group (DDG) of companies and the commencement of the Shared Services Agreement between DBP and DDG rather than reporting those GLs as 'other costs' those cost formed the basis of invoicing under the Shared Service Agreement (following the on-cost methodology below) were then mapped to revenue in the SPFR.
- 4.14 Table 16 demonstrates the mapping underpinning the change in SPFR reporting. All costs coded to the general ledgers in Table 15 have been excluded from regulatory accounts as demonstrated in Table 13 of this submission. It should also be noted that operating expenditure captured in Cost Centre 50642 are also removed from regulatory accounts (Table 13)
- 4.15 This step ensures that costs incurred by DBP in providing operating and maintenance services to third parties and which are coded to general ledgers otherwise considered appropriate for regulatory accounts are excluded from the amounts included in the AAI. i.e. a generic general ledger for transport and accommodation will include costs for both DBNGP and non-DBNGP activities. An accommodation cost incurred for a Non-DBNGP activity will be assigned to Cost Centre 50642 so that it can be easily identified and for this purpose excluded from regulatory accounts.
- 4.16 To ensure that all labour related costs incurred in the provision of services provided by DBP to DDG under the Shared Service Agreement have been captured and appropriately charged to the DDG entity, DBP requires that all DBP staff complete time sheets which form the basis for labour charges to DDG. To determine the appropriate level of labour charges, DBP has followed a labour hourly rate build up methodology outlined in the following sub-section of this submission.
- 4.17 There are also a number of direct costs that are charged on to DDG or alternatively directly incurred by DDG. More details on the framework for cost allocation associated with DDG are contained in Submission 2.

## On-Costs in charge out rates

- 4.18 The method for the labour hourly rate build up methodology has been developed in accordance with DBP's internal Property, Plant and Equipment Policy draft in to be consistent with AAS116. The methodology involves the following steps:
- Calculate each cost as a percentage of salaries. These costs are broken down into general ledgers and then sorted into categories e.g. salary on-costs (including superannuation, payroll tax, etc), training costs and motor vehicle expenses;
  - Determine which costs should be included in the on-cost and which costs should be excluded e.g. it is deemed appropriate to include motor vehicle costs as these cannot 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 on-cost percentages is the total on-cost;
  - Sort employees into appropriate categories (e.g. General Managers, Field Maintenance Officers etc.);
  - Determine the average salary and the average hourly rate of each category; and
  - Gross up the hourly rates for the total on-cost percentage.
- 4.19 The following table details the on-costs and reason for including or excluding them:



Table 17: On-costs included in charge out rate

Oncost	Included?	What are these expenses	Reason for including or excluding
<b>Additional Salary costs (superannuation, payroll tax, STIP, leave, etc)</b>	<b>Yes</b>	All the additional salary costs above and beyond the salary paid.	These additional costs represent the actual cost of labour.
<b>Other Employee expenses</b>	<b>Yes</b>	Consists mainly of recruitment costs and FBT.	These are the additional costs of hiring employees and also paying the FBT on vehicles, parking and other employee incentives/costs.
<b>OHSE expenses</b>	<b>Yes</b>	Various OHSE equipment and costs.	These are past through as ZERO Harm is a requirement of DBP.
<b>Training expenses</b>	<b>Yes</b>	The cost of both mandatory and non-mandatory training.	This is another employee cost. All employees require training and this cost should be passed through.
<b>Entertainment expenses</b>	<b>Yes</b>	Employee incentives and rewards.	Another employee expense. A small amount of employee entertainment is normal in all companies. This is a cost pass through.
<b>Director fees</b>	<b>Yes</b>	The fees paid to each director.	Included, as it is reasonable to expect that any company undertaking this work would require a director.
<b>IT provider (currently ATCO) expenses</b>	<b>Yes</b>	This is currently ATCOs cost of providing the various hardware and software service that they manage.	These services are required for all projects and activities and the costs should be therefore be shared with activities outside of DBP opex.
<b>Other IT expenses (licenses, etc)</b>	<b>Yes</b>	This is the cost of the various other licenses and software required by DBP employees - including Maximo, Microsoft, etc.	The use of this software is not limited to work on the DBNGP and should therefore be passed through to non-DBP projects/activities.
<b>Insurance (Workcover, liability, etc) - note this does not include the insurance costs for the DBNGP</b>	<b>Yes</b>	The insurance costs included are the public liability and workcover.	Our employees are required to be insured regardless of what they are working on and therefore this cost is passed through.
<b>Motor vehicle expenses</b>	<b>Yes</b>	Fuel, servicing, licencing and other maintenance costs.	The costs of keeping the DBNGP fleet on the road, which are also used for project work and non-DBNGP maintenance.
<b>Office expenses (Stationary, postage, etc)</b>	<b>Yes</b>	The office expenses for both the Esplanade and the Jandakot facilities.	It is expected that most work will require office supplies to some extent.
<b>Courier expenses</b>	<b>Yes</b>	The cost of couriering parts and equipment along the corridor.	All shipper sites and projects should share in the cost of this expense.
<b>Communication expenses (does not include microwave and meter dialup expenses)</b>	<b>Yes</b>	The cost of the phones in the Esplanade and Jandakot, as well as mobile and satellite phones.	These are a requirement for DBP employees and as such are shared amongst DBP and Non-DBP work.
<b>Utilities/Accommodation expenses (does not include permits, fees and licences)</b>	<b>Yes</b>	Includes the accommodation and utility expenses of the both the Esplanade and the Jandakot facilities.	These are included as this is the cost of having somewhere for an employee to be located
<b>Consulting and audit expenses</b>	<b>No</b>	Consulting expenses for one-off projects and/or DBNGP work.	These consulting expenses are in relation to the DBNGP, any consulting required for a particular project should be passed through separately.
<b>Legal expenses</b>	<b>No</b>	Legal expenses for one-off projects and/or DBNGP work.	These legal expenses are in relation to the DBNGP, any legal required for a particular project should be passed through separately.
<b>Travel &amp; Accommodation</b>	<b>No</b>	Flight and accommodation (hotel) expenses for DBP employees.	These are incurred by employees travelling to complete DBNGP work. Any flights or accommodation expenses which are incurred for non-DBNGP work should be passed through separately.

4.20 An example of how the budgeted amount for a cost is calculated to a percentage of salaries:

- FY-2014 Budgeted Salaries = \$23,329,561
- FY-2014 Budgeted Motor Vehicle Expenses = \$1,189,259
- Motor Vehicle expenses as a percentage of salaries = 1,189,259 / 23,329,561 = 4.7%
- By including this percentage as part of the oncost, in theory, if 100% of DBP labour was charged out to projects then 100% of the motor vehicle expenses would also be charged out.

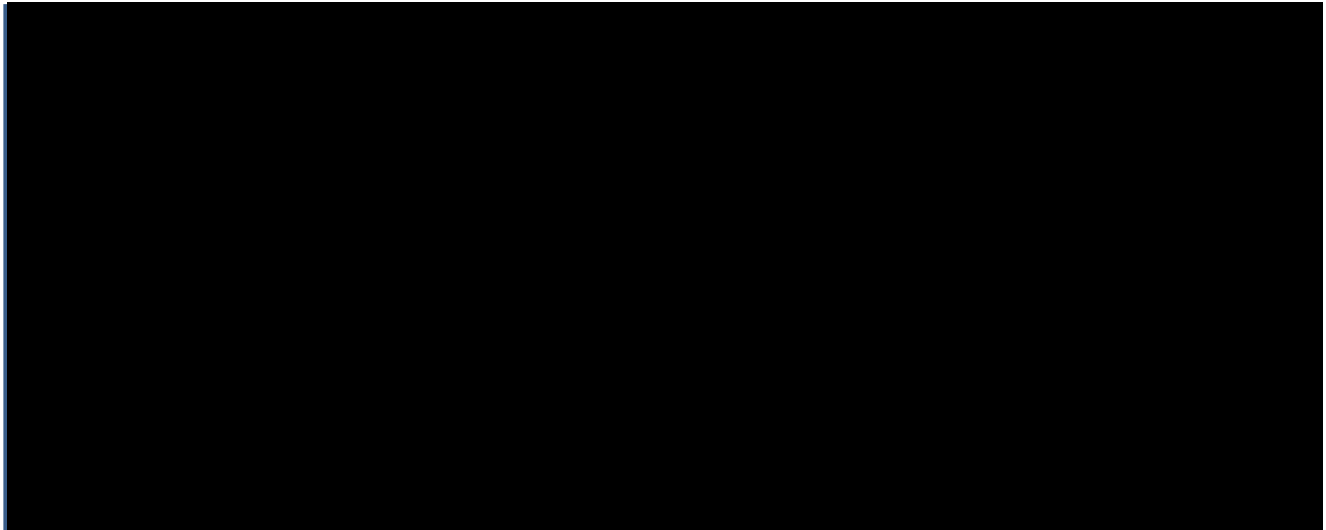
4.21 The following table outlines DBP’s operating costs as a percentage of salary costs for inclusion in the on-cost factor. These costs are based on the actual FY-2013 expenses and the budgeted expenses for FY-2014. These oncost allocations align closely with the previous review’s oncost percentages which were based on the FY-2011 and FY-2012 data.

**Table 18: Breakdown of on-costs**

	Costing Review	FY-2013	FY-2014	Costing Review
As a % of Salaries Ordinary Time	Previous	Act. Costs	Plan Costs	Proposed
Additional Salary costs (superannuation, payroll tax, STIP, leave, etc)	50.00%	51.23%	48.54%	50.00%
Other Employee expenses	2.50%	2.07%	2.27%	2.50%
OHSE expenses	2.50%	0.97%	0.67%	1.00%
Training expenses	4.00%	3.80%	4.38%	4.00%
Entertainment expenses	0.50%	0.70%	1.04%	0.50%
Director fees	0.00%	0.56%	0.99%	0.00%
IT provider (currently ATCO) expenses	20.00%	24.51%	23.65%	24.00%
Other IT expenses (licenses, etc)	4.50%	3.29%	5.82%	4.50%
Insurance (Workcover, liability, etc) - note this does not include the insurance costs for the DBNGP	2.00%	1.64%	1.57%	1.50%
Motor vehicle expenses	6.00%	5.44%	4.70%	5.00%
Office expenses (Stationary, postage, etc)	1.00%	0.83%	0.75%	1.00%
Courier expenses	3.00%	2.85%	3.10%	3.00%
Communication expenses (does not include microwave and meter dialup expenses)	4.00%	5.98%	6.35%	6.00%
Utilities/Accommodation expenses (does not include permits, fees and licences)	13.00%	14.55%	13.59%	14.00%
<b>Total</b>	<b>113.00%</b>	<b>118.40%</b>	<b>117.42%</b>	<b>117.00%</b>

4.22 The base rates are then loaded with the required on-costs, together with a margin for external parties provided in the following table.

Table 19: Loaded hourly charge out rates



- 4.23 Rates will be reviewed by DBP every 5 years, or if opex (excluding fuel gas) changes by +/- 10% in one year.
- 4.24 In between review periods rates increase on 1 July of each year by CPI (Perth – All Groups).

### Capital expenditure cost allocation

- 4.25 Excluded capital costs include:
  - (a) Construction in progress or capital works in progress (CWIP) as DBP's regulatory accounts are provided actual capital expenditure on an 'as incurred' accounting basis as opposed to capitalised or as asset are commissioned;
  - (b) Gas linepack where expenditure related to the accounting of fluctuations in linepack volumes from time to time as opposed to linepack additions required in expansion projects and therefore would be included in the capital base as a non-depreciable asset;
  - (c) De-commissioning provision that have been included for accounting purposes in stay-in-business capital expenditure;
  - (d) Shipper funded capital contributions;
  - (e) Exclusion of costs for GEA and turbine overhauls which DBP elects to treat as operating expenditure for regulatory purposes; and
  - (f) An adjustment for the BEP Lease valuation explained above.
- 4.26 DBP's exclusion of non-regulatory capital expenditure is demonstrated in Table 1 & Table 3 of this submission.

## 5. DISPOSALS

- 5.1 The following excerpts and tables provide verification for disposals for the 2011 to 2015 regulatory period. However, it should be noted that SPFR used to establish disposals to be used for the capital base calculation are reported as purchased cost. Further explanation is provided by DBP on how the purchase cost is treated to arrive at the depreciated value that is to be removed from the regulated asset base.

### 2011 disposals (purchase cost)

- 5.2 The following two figures are excerpts from the DBNGP Trust SFPR for the year ended 30 June 2011.

**Figure 6: June 2011 Non-current assets - property, plant and equipment**

	Construction in progress \$'000	Freehold land \$'000	Freehold buildings \$'000	Plant and equipment \$'000	Motor vehicles \$'000	Gas linepack \$'000	Total \$'000
<b>Year ended 30 June 2011</b>							
Opening net book amount	696,716	1,796	5,974	2,311,460	1,785	8,589	3,026,320
Additions	86,662	-	-	-	-	-	86,662
Transfers between class of assets	(687,465)	-	16,953	662,040	150	-	(8,322)
Disposals	-	-	(3)	(28,720)	(146)	-	(28,869)
Depreciation on disposals	-	-	1	27,993	146	-	28,140
Depreciation charge	-	-	(847)	(73,322)	(653)	-	(74,822)
Closing net book amount	<u>95,913</u>	<u>1,796</u>	<u>22,078</u>	<u>2,899,451</u>	<u>1,282</u>	<u>8,589</u>	<u>3,029,109</u>
<b>As at 30 June 2011</b>							
Cost	95,913	1,796	23,710	3,203,907	4,192	8,589	3,338,107
Accumulated depreciation	-	-	(1,632)	(304,456)	(2,910)	-	(308,998)
Net book amount	<u>95,913</u>	<u>1,796</u>	<u>22,078</u>	<u>2,899,451</u>	<u>1,282</u>	<u>8,589</u>	<u>3,029,109</u>

Source: note 13, page 24, DBNGP Trust SFPR for the year ended 30 June 2011.

- 5.3 In determining the SPFR 30 June 2011 disposals figure in Table 20 DBP has added \$28.86m in the figure above to \$1.96m for information system disposals in the figure below to arrive at \$30.83m.

**Figure 7: June 2011 Non-current assets - Intangible assets**

	Goodwill \$'000	Intellectual property \$'000	Information systems \$'000	Total \$'000
<b>Year ended 30 June 2011</b>				
Opening net book amount	650,847	18,184	540	669,571
Additions	-	-	-	-
Disposals	-	-	(1,961)	(1,961)
Transfers	-	-	8,321	8,321
Amortisation on disposals	-	-	1,960	1,960
Amortisation charge	-	(365)	(2,949)	(3,314)
Closing net book amount	<u>650,847</u>	<u>17,819</u>	<u>5,911</u>	<u>674,577</u>
<b>As at 30 June 2011</b>				
Cost	650,847	20,250	9,608	680,705
Accumulated amortisation and impairment	-	(2,431)	(3,697)	(6,128)
Net book amount	<u>650,847</u>	<u>17,819</u>	<u>5,911</u>	<u>674,577</u>

Source: note 14, page 25, DBNGP Trust SFPR for the year ended 30 June 2011 (attachment 1).

## 2012 disposals (purchase cost)

5.4 The following is an excerpt from the DBNGP Trust SFPR for the year ended 30 June 2012.

**Figure 8: June 2012 Non-current assets - property, plant and equipment**

	Construction in progress \$'000	Freehold land \$'000	Freehold buildings \$'000	Plant and equipment \$'000	Motor vehicles \$'000	Gas linepack \$'000	Total \$'000
<b>Year ended 30 June 2012</b>							
Opening net book amount	95,913	1,796	22,078	2,899,451	1,282	8,589	3,029,109
Additions	77,253	-	-	-	-	5,462	82,715
Transfers between class of assets	(127,170)	-	5,551	119,253	2,366	-	-
Disposals	-	-	-	-	(146)	(5,495)	(5,641)
Depreciation on disposals	-	-	-	-	142	-	142
Depreciation charge	-	-	(901)	(75,997)	(1,549)	-	(78,447)
Closing net book amount	<u>45,996</u>	<u>1,796</u>	<u>26,728</u>	<u>2,942,707</u>	<u>2,095</u>	<u>8,556</u>	<u>3,027,878</u>
<b>As at 30 June 2012</b>							
Cost	45,996	1,796	29,261	3,323,160	6,412	8,556	3,415,181
Accumulated depreciation	-	-	(2,533)	(380,453)	(4,317)	-	(387,303)
Net book amount	<u>45,996</u>	<u>1,796</u>	<u>26,728</u>	<u>2,942,707</u>	<u>2,095</u>	<u>8,556</u>	<u>3,027,878</u>

Source: note 11, page 24, DBNGP Trust SFPR for the year ended 30 June 2011 (attachment 2).

5.5 DBP has reported motor vehicle disposals (\$0.14m) in Table 20 excluding gas linepack as it relates to linepack movements discussed below.

## 2013 disposals (purchase cost)

5.6 The following is an excerpt from the DBNGP Trust SFPR for the year ended 30 June 2013.

**Figure 9: June 2013 Non-current assets - property, plant and equipment**

	Construction in progress \$'000	Freehold land \$'000	Freehold buildings \$'000	Plant and equipment \$'000	Motor vehicles \$'000	Gas linepack \$'000	Total \$'000
<b>Year ended 30 June 2013</b>							
Opening net book amount	45,996	1,796	26,728	2,942,707	2,095	8,556	3,027,878
Additions	43,020	-	-	-	-	52	43,072
Transfers between class of assets	(65,397)	-	327	63,591	1,456	-	(23)
Disposals	-	-	-	-	(843)	-	(843)
Depreciation on disposals	-	-	-	-	798	-	798
Depreciation charge	-	-	(919)	(75,738)	(1,002)	-	(77,659)
Closing net book amount	<u>23,619</u>	<u>1,796</u>	<u>26,136</u>	<u>2,930,560</u>	<u>2,504</u>	<u>8,608</u>	<u>2,993,224</u>
<b>As at 30 June 2013</b>							
Cost	23,619	1,796	29,588	3,386,750	7,026	8,608	3,457,387
Accumulated depreciation	-	-	(3,452)	(456,190)	(4,522)	-	(464,164)
Net book amount	<u>23,619</u>	<u>1,796</u>	<u>26,136</u>	<u>2,930,560</u>	<u>2,504</u>	<u>8,585</u>	<u>2,993,224</u>

Source: note 11, page 24, DBNGP Trust SFPR for the year ended 30 June 2011 (attachment 3).

5.7 DBP has reporting motor vehicle disposals (\$0.84m) in Table 20.

5.8 The following table compiles the information provided above and demonstrated how calendar year disposals have been calculated.

Table 20: Disposals verified to SPFR (purchase cost)

	Dec 2010	June 2011	Dec 2011	June 2012	Dec 2012	June 2013	Dec 2013	June 2014	Dec 2014	June 2015	Dec 2015
Disposal listings	0	(30,831)	(75)	(71)	(361)	(482)	(397)	-	-	-	-
SPFR		(30,830)		(146)		(843)		-	-	-	-
CY reporting			(30,906)		(432)		(879)	-	-	-	-
Exclusions			23,379		0			-	-	-	-
<b>Original cost</b>			<b>(7,527)</b>		<b>(432)</b>		<b>(879)</b>	-	-	-	-

5.9 The following table lists each item disposed of and original purchase date and costs.

Table 21: Disposals by item

Year	Description	Asset Category	Purchase Date	Original Cost
<b>2011</b>	Toyota Hilux 1BRE 193	Other	28/10/2004	[REDACTED]
	Toyota Hilux 1BRD 724	Other	28/10/2004	
	Asset review disposals	Other	various	
	Toyota Landcruiser	Other	30/06/2006	
	<b>2011 disposals</b>			<b>7,527,043.75</b>
<b>2012</b>	Asset 117407 Toyota Landcruiser	Other	1/09/2005	[REDACTED]
	1CWG 969 Toyota Hilux - Vehicle roll-over Insurance	Other	1/11/2008	
	Isuzu 2004 1BTR 014 NPS300 4*4	Other	28/10/2004	
	Toyota Landcruiser white 1COI 036	Other	1/07/2007	
	Toyota Hilux SR5 Extra Cab 1CWG 968	Other	1/11/2008	
	Maintenance vehicles - 1BYF 163	Other	28/02/2006	
		<b>2012 Disposals</b>		
<b>2013</b>	Toyota Landcruiser 100 Series WGN 1BIR-199	Other	28/10/2004	[REDACTED]
	Toyota Hilux Cab Chassis 1BOL 816	Other	28/10/2004	
	Toyota Landcruiser GXL WGN 1BYP 227	Other	28/02/2006	
	Toyota Hilux Dual Cab 1CDO 978	Other	1/05/2009	
	Toyota Landcruiser GXL WGN 1CIM 148	Other	11/09/2006	
	Toyota Prado Wagon 1CLK 668	Other	1/07/2007	
	Toyota LandCruiser Cab Chassis 1COI 035	Other	1/07/2007	
	Toyota Hilux 1CWR 951	Other	1/03/2008	
	Various IT equipment	Other		
	1CDO-995 2006 Toyota Landcruiser Troop Carrier	Other	1/04/2006	
	1CEK-985 2006 Toyota Landcruiser Prado GXL	Other	1/04/2006	
	1CHN-924 2006 Toyota Landcruiser Prado GXL	Other	1/09/2006	
	1BSE-915 Toyota Landcruiser Tray Back Ute	Other	28/10/2004	
	1CNH-917 Toyota Hilux King Cab 4*4	Other	1/07/2007	
	1COH-982 2007 Toyota Landcruiser V8 Diesel	Other	1/07/2007	
	<b>2013 Disposals</b>			<b>879,429.48</b>

## Asset Disposal Treatment

- 5.10 In determining the value to be attributed to individual assets for regulatory purposes a number of assumptions were made:
- items with a capitalisation date prior to 31 December 1999 were included in the regulator's original opening capital base as at 1 January 2000;
  - items with capitalisation date prior of 28 October 2004 were actually capitalised much earlier (pre-2000) and were therefore also included in the regulator's original opening capital base at 1 January 2000<sup>3</sup>;
  - that all building assets were included in the Compression asset category; and
  - that all vehicles and software were included in the Other asset category.
- 5.11 The values have been pro-rated based on the capital base at the time of disposal. DBP used the following formula:
- $$\text{Undepreciated Regulatory Asset Base (Undepreciated RAB)} = \text{Original Statutory Account Value} \times (\$1,550\text{m} / \text{Statutory Account capital base as at 31 December 1999})$$
- 5.12 The undepreciated RAB figures have then been depreciated and adjusted for inflation in a way that is consistent the method of depreciation set out in the reference tariff model.
- 5.13 The following treatment has been applied to arrive at the inputs suitable for inclusion in the reference tariff model.

**Table 22: Regulatory disposal inputs 2011-15 (Real \$m 2015)**

	2011	2012	2013	2014	2015
Pipeline	0.00	0.00	0.00	0.00	0.00
Metering	0.08	0.00	0.00	0.00	0.00
Compression	0.00	0.00	0.00	1.69	0.00
Other	4.34	0.37	0.76	0.11	0.00
Other non-depreciable	0.00	0.00	0.00	0.00	0.00
<b>Total</b>	<b>4.42</b>	<b>0.37</b>	<b>0.76</b>	<b>1.80</b>	<b>0.00</b>

Source: Reference Tariff Model provided as part of Submission 14

<sup>3</sup> This is due to the fact that there was a change to a new accounting system in 2006 and the asset manager at the time who was responsible for the accounting system did not retain sufficiently detailed information in the transfer to the system. DBP is however, able to discern that these assets should be grouped into respective asset categories.

## 6. GAS LINEPACK

- 6.1 31 December Balances in Table 23 have been taken each from Gas Linepack provided in SPFR above in figures 6, 8 and 9 above.
- 6.2 30 June values are from DUET reporting pack values which have been used to calculate calendar year values for input into the reference tariff model.

**Table 23: Gas Linepack (\$m Nominal)**

	June 2010	Dec 2010	June 2011	Dec 2011	June 2012	Dec 2012	June 2013	Dec 2013	June 2014
Balance	8.589	8.589	8.589	8.573	8.556	8.534	8.608	8.723	8.732
Movement FY			0.000		(0.034)		0.052		0.124
<b>Movement CY</b>				<b>(0.016)</b>		<b>(0.039)</b>		<b>0.189</b>	

- 6.3 The 'Movement CY' values have been used as inputs into the reference tariff model.



## 7. INDEPENDENT AUDIT REVIEW

- 7.1 DBP engaged EY to provide a report of factual findings in regard to DBP's verification process outlined in this submission. The procedures agreed upon between EY and DBP are outlined in EY's report of factual findings and referencing back to each of the relevant tables in this submission.
- 7.2 DBP notes that EY have not found exceptions in regards to DBP's verification of actual capital expenditure in the Current AA Period.
- 7.3 While EY has noted a number of exceptions in regards to DBP's verification of operating expenditure to SPFR and DUET reporting packs exceptions have been caused by the differences in 'mapping' used in the preparation of the two audited reports.
- 7.4 Despite mapping issues the process demonstrates that both reports, SPFR and DUET reporting packs, are consistent at an aggregate level and substantiate the actual operating expenditure submitted for 2011, 2012 and 2013 for regulatory purposes. DBP also notes that actual operating expenditure is not an input used in the reference tariff model and presumably only used by the ERA to compare to DBP's forecast operating expenditure.
- 7.5 EY's agreed upon procedures and report of factual finding is provided as Appendix D.

## APPENDIX A: SPFR DBNGP TRUST 30 JUNE 2011 [CONFIDENTIAL]

## APPENDIX B: SPFR DBNGP TRUST 30 JUNE 2012 [CONFIDENTIAL]

## APPENDIX C: SPFR DBNGP TRUST 30 JUNE 2013 [CONFIDENTIAL]

## APPENDIX D: EY REPORT OF FACTUAL FINDINGS



# APPENDIX E: CONFIDENTIALITY