

# Reference Service Proposal for the Dampier Bunbury Natural Gas Pipeline 2026-2030

DBP submission to ERA notice March 2024

# 1. Introduction

As the operator of the Dampier to Bunbury Natural Gas Pipeline (DBNGP), we provide our response to the Economic Regulation Authority's (ERA) Notice of 9 February 2024 and request for public submissions on the Reference Service Proposal (RSP) we submitted to it on 8 December 2023.

The RSP sets out all the pipeline services we propose to be made available on the DBNGP for the 1 January 2026 to 31 December 2030 Access Arrangement period (AA6), and nominates, by application of the Reference Service Factors contained within the National Gas Rules (NGR), which of those pipeline services are to be reference services.

The ERA has posed six consultation questions in its notice, including two questions on whether Data services, Storage services, and Seasonal, Metering/Temperature and Odourisation services should continue to be provided in AA6, two on the classification of our pipelines services as either reference or non-reference services and two on our consultation process regarding the Proposal. We address each of these questions in our submission.

In general, we contend that our RSP is compliant with Rule 47A(1) as we submitted and that the reasons for omitting the services in question are consistent with the test of 'reasonableness' that is required under the NGR (47A(1)(b)). However, as part of this submission we propose that we continue to offer Data services to marketers and producers, as appropriate.

In addition, the non-reference services we proposed do not meet each of the Reference Service Factors (RSF) for reference services under NGR 47A 1(15) and should not over the entirety of the Access Arrangement period from 1 January 2026 to 31 December 2030 (AA6). Therefore, classification of these services as non-reference services remains appropriate.

Our consultation process has sought to engage shippers on the services proposed. We carefully considered the sole submission we received and met with a representative from this company to discuss the issues that were raised. We then responded to each of the issues in our Proposal, consistent with NGR 47A1(d).

In accordance with its notice, the ERA does not require us to submit a revised RSP and it must issue its decision by 1 July 2024.

We wish to emphasise to all our stakeholders that the timeframe for this process means that we will need to publish our Draft Plan for AA6 in July 2024, rather than in June 2024, as we have previously indicated.

## 2. Why we excluded certain services

The ERA has asked two questions regarding our proposed service offerings:

1. Do you consider that DBP can no longer reasonably provide some pipeline services (storage services and data services) approved in the current access arrangement period in the suite of pipeline services that will be offered on the DBNGP for AA6? Similarly, do you agree that some ancillary services (seasonal service, metering and temperature service, and odourisation service) should be excluded in the list of pipeline services for AA6?
2. Are there any other pipeline services that you think DBP can reasonably provide on the DBNGP for AA6?

In general, a requirement to continue to offer services because they were offered in a previous Access Arrangement (AA) period removes our ability to respond to changing market conditions or operational dynamics on the pipeline. In addition, an unintended consequence of this regulatory requirement could be that it sets a higher standard for consideration of any new service since it implies that the service must be offered in perpetuity, not for a single AA.

Very low or nil demand should be sufficient reason to discontinue offering services that were offered in the current AA, particularly when that level of low or non-existent demand is expected to continue into the next AA period and the services are not essential to shippers transporting gas on the pipeline.

Offering services on a one-off period over a long period of time requires more resources and reduces any opportunity to achieve scale or knowledge upkeep in delivery. Therefore, it is uneconomic, and so unreasonable, to provide services that do not have sufficient demand. We provided evidence of the very low or nil demand for both pipeline services we proposed to be omitted from our list (i.e., Data services and Storage services). However, we remain open to offering the Data service to producers or marketers.

The ancillary services that we proposed to exclude are not stand-alone services, they form part of standard contractual terms for shippers. We do not collect any revenue for these services distinct from the haulage services which they apply to.

We received only one submission on our RSP (from Citic Pacific Mining (CPM)) but all shippers had an opportunity to comment. The submission from CPM recommended that we do not exclude these services. We address the main issues raised by CPM and our position on these services in more detail below.

### 2.1 Data services

The Data services are allocation services which have been provided in AA5 to assist gas producers in providing gas allocations to shippers on the DBNGP (subject to operational availability). Shippers do not require this service at Inlet points because they can already provide allocations under Clause 6.4 of the reference service terms and conditions.

We propose to remove the Data services from our offerings for AA6 because of the very low demand and therefore, difficulty in providing the service efficiently. There have been few requests for this service in recent years and average revenue has been low (\$8,000 to \$30,000 for each service) over 2021, 2022 and 2023.

In its submission to the RSP, CPM opposed the removal of the service but only insofar as they wanted it to be offered as a service to shippers to share information about pressure obligations and gas quality at Inlet points. This was never the nature of the data allocation services provided, and we have explained in our RSP how metering data and information which is not commercially sensitive can be provided under cl.15.5 of the Standard Shipper Contract (SSC).

No other shippers requested the reinstatement of the Data service during our consultation process. However, we agree to continue to offer the service to producers and marketers, as appropriate.

## **2.2 Storage services**

The Storage service, which was offered in AA5, refers to pipeline storage, which is not designated as either a firm or interruptible service. We have proposed removing the Storage service due to the low demand with the availability of dedicated storage facilities such as Mondarra and Tubridgi and the change in operational dynamics on the pipeline. Since 2021, no shippers have used the Storage service on the pipeline.

As we noted in our RSP, the availability of gas storage on the pipeline is complex – it depends on the displacement of fuel gas and line pack, which has recently been close to its higher and lower range limits during unplanned producer outages. In early January 2023, when incidents at three separate facilities (Varanus Island, Devil Creek and Wheatstone) removed around 20 per cent of total gas production from the WA gas market, linepack on the pipeline approached critical levels.<sup>1</sup> While these events do not necessarily prohibit the provision of a pipeline storage service, it dramatically impacts the value, availability and attractiveness to shippers as firm withdrawal rights cannot be offered at times they are of most value.

Further, due to the imbalance between gas production volumes and shipper transportation demand at a given time, we do not consider that we can reasonably offer pipeline storage service, without compromising the reliability of firm haulage services.

## **2.3 Seasonal, Metering/Temperature and Odourisation services**

Contractual rights for reference services already provide access to Seasonal, Metering / Temperature and Odourisation services, as follows:

- Odourisation obligations are provided for under cl.7.12 of the SSC in accordance with the Gas Standards (Gas Supply and System Safety) Regulations 2000 (WA)
- Gas temperature and pressure conditions are provided for under cl.7.4.
- Seasonal needs can be catered for via the standard nomination of capacity for each month of the year (cl.8 of the SSC), capacity expansion options (cl.16) and the general right of relinquishment (cl.26).

---

<sup>1</sup> Economics and Industry Standing Committee, *Report 7 – Domestic Gas Security in a Changing World - Inquiry into the WA Domestic Gas Policy: Interim Report*, February 2024, p 20.

These are not stand-alone services, and no additional revenue was generated for them in AA4 or AA5, which is why we consider they should not be listed with our other stand-alone services.

However, these “services” would continue to be offered as part of standard shipper and reference contracts, regardless of whether they are listed as non-reference services or not.

A shipper cannot separately request to access a seasonal, metering, temperature and odourisation service; they need to be already accessing the gas haulage services and then, as part of their contract, they can negotiate the specifications and conditions of that service that relate.

We acknowledge that it is no more than an administrative inconvenience to list the ancillary services. However, other gas transmission pipeline operators around Australia (such as for the Roma Brisbane Pipeline, the Goldfields Gas Pipeline, the Amadeus Gas Pipeline and the Victorian Transmission System) do not list these types of ancillary services in their public service offerings.

In our view, the practical and reasonable option is to exclude them from our list of non-reference services.

### 3. Classification of non-reference services

The ERA appears to have found our RSP to be compliant regarding the classification of reference and non-reference services however it has asked two questions regarding the classification of non-reference services:

3. Do you agree with DBP's assessment of pipeline services against the reference service factors? In particular, is there current and future demand for some of the pipeline services that were not proposed as reference services?
4. Are there any pipeline services that should be specified as reference services for AA6 and how would you assess these services against the reference service factors?

The ERA also noted that while it "determined those services as non-reference services for AA5, circumstances may change in the future that may warrant a change in classification of these services".

#### 3.1 Non-reference services do not meet the RSFs

The single submission we received during our consultation on the Draft RSP (from CPM) advocated for certain non-reference services to be reference services: the Spot Capacity service (as three separate services aligned with the three reference services (Full Haul (F1), Part Haul (P1) and Back Haul (B1)), the Pilbara service and the Ullage or Backflow service.

The CPM submission also suggested that these non-reference services would meet the Reference Service Factors (RSFs) under NGR 47A (15).

As we stated in our RSP:

- The Spot Capacity service has a lower order on the curtailment plan than other firm haulage services and is not provided in its own right. It can only be offered to a shipper if it has an SSC in place for T1, P1 or B1 services. This service also has highly variable demand, which is difficult to forecast.
- The Pilbara service continues to be demanded by a small number of shippers only. As the ERA noted (in its AA5 decision), the Pilbara Service tariff was derived from the part haul and back haul reference services, so the reference services provided a constraint on prices. The service is limited in its usefulness for access negotiations and dispute resolution (NGR 47A 15(d)).
- The Ullage service is relatively substitutable with the Back Haul service although its bespoke nature means it is also limited in its usefulness for access negotiations and dispute resolution. The demand for the service is also difficult to forecast.

As we also identified in our RSP, the firm nature of our reference services provides an efficient allocation of the DBNGP costs, which are mostly fixed costs. Our reference services provide a price constraint for other non-reference services. Shippers are encouraged to access firm capacity (T1, P1, B1) first or when they require a more bespoke service to meet their needs, more customised terms can be discussed. Our non-reference services are offered to meet different customer needs.

Our assessment of our proposed non-reference services against the RSFs, as shared at our first and second shipper roundtables in August 2023 and March 2024 respectively, is summarised below:

	Actual & forecast demand / customers (15)(a)	Substitutability with other pipeline reference services (15)(b)	Feasibility of allocating costs (15)(c)	Usefulness as a 'reference' in other service negotiations (15)(d)	Likely regulatory costs (15)(e)
<b>Reference services</b>					
T1 Full Haul	✓	✓	✓	✓	✓
P1 Part Haul	✓	✓	✓	✓	✓
B1 Back Haul	✓	✓	✓	✓	✓
<b>Non-reference services</b>					
Spot capacity service	✗	✓	✗	✗	✗
Pilbara service	✓	✗	✓	✗	✗
Peaking service	✗	✗	✗	✗	✗
Ullage (backflow) service	✗	✗	✗	✗	✗
Others: <b>PIA, Inlet sales</b> and <b>Other Reserved</b> – low revenue, variable demand & difficult to allocate costs					

As we stated in our RSP, we made the following considerations against the RSFs which vary across each service:

- varying degrees of certainty for demand and revenue forecasts. The Spot capacity, Peaking, Pilbara and Other reserved services are variable services demanded more when additional capacity is required (eg, to support gas-powered electricity generation needs due to wind generation and coal outages, or when temporary gas supply shocks occur).
- high level of substitution with reference services where the pricing applied to reference services provides an appropriate basis on which to consider the reasonableness of prices for non-reference services (eg, the Part Haul and Back Haul reference services help to determine the needs of the Pilbara service).
- costs which are difficult to allocate due to the variable demand for the services (such as Spot capacity, Peaking and Ullage services).
- minimal usefulness as an aid to negotiations for other services (eg, the Spot Capacity service is an adjunct to the SSC and the Ullage service is a highly bespoke service to facilitate a temporary exporting opportunity only).
  - We acknowledge that there is a Parliamentary Inquiry underway at present reviewing the State Government's WA Domestic Gas Policy in light of expected future gas shortfalls in the market, and that the Committee is expected to table its final report by 30 May 2024. However, even if the Ullage service is demanded more (should there be a lift on the exporting ban), it would still need to be on a bespoke basis, distinct from our Back Haul reference service.

- imposes a high regulatory cost burden relative to the benefits, specifically where revenues generated are small relative to the likely regulatory costs (individual non-reference services all make up less than 5% of revenues in the current AA period) and demand is highly variable.

Should demands on the pipeline change, it does not follow that the nature of the non-reference services and their failure to meet each of the RSFs would also change. For example, the Ullage service would still not form a useful reference point for other service negotiations, should the export ban be lifted. Existing delays to the take-up of the Ullage service also demonstrate the difficulty in forecasting demand, and this is likely to only be exemplified should there be additional demand.

The Pilbara Service would also still be substitutable with our reference services if there is more gas supply from the Perth Basin in the future, and demand for our interruptible services could become even more variable and difficult to forecast. Therefore, we see no reason to classify any of the non-reference services as reference services.



## 4. Consultation on our Draft RSP

The ERA has asked two questions regarding our consultation process for the RSP:

5. Do you think you were given sufficient opportunity to provide your views on the draft reference service proposal?
6. Was your feedback adequately considered and addressed in the reference service proposal?

### 4.1 Consultation on our RSP

The ERA acknowledged the consultation we undertook on our RSP:

- we engaged with our pipeline customers regarding our proposed services by holding a roundtable discussion and one-to-one meetings, and
- we shared our draft RSP at the roundtable and published it for feedback.

As stated, we received one written submission on our draft proposal. A summary of the issues raised and our response were provided in Table 2 of our RSP.

It is important to point out that we also met with the shipper who provided the submission to discuss the issues raised and that they accepted the reasons provided at that time and acknowledged this liaison in joint correspondence with the ERA. Our responses were reported in detail in our RSP.

### 4.2 Demonstrating a responsive approach

Our engagement process has been developed in response to feedback from our current AA process (AA5) where shippers requested less roundtables and more one-to-one meetings during our process.

We have maintained a transparent and open approach regarding our RSP and have been responsive to feedback, including explaining in detail the reasons for our positions and being willing to be flexible where we can be.

### 4.3 Next steps in our engagement process

Our Engagement Plan regarding our plan for AA6 can be found here:

<https://gasmatters.agig.com.au>

We will continue to offer further roundtables and one-to-one meetings on the issues concerning our plans for AA6 as we remain committed to a 'no surprises' approach.

As shown over the page, we are approaching Stage 3 of our engagement process where we will consult on issues integral to our plans and we will publish and distribute our Draft Plan, focusing on consultation to discuss the Plan. We will publish our Draft Plan in July 2024 to ensure our plans align with the ERA's decision on our RSP (due by 1 July 2024).

In Stage 4 (August to December 2024), we will use consultation feedback from Stage 3 to finalise our Plan for AA6 for submission to the ERA by 1 January 2025.

## 5. Conclusion

We thank the ERA for the opportunity to respond to its notice published on 9 February 2024. We maintain our view that:

- Full Haul, Part Haul and Back Haul services meet the Reference Service Factors set out in NGR47(A) 15, and therefore are the reference services we will provide on the DBNGP for AA6,
- The Storage service should not be offered as a pipeline service in AA6 as we consider it cannot be reasonably offered because it will compromise our provision of firm haulage reference services,
- Seasonal, Metering/Temperature and Odourisation services no longer be listed as standalone services because they will continue as part of our contract offering regardless, and
- All the other pipelines services identified in our proposal, such as Spot Capacity, Inlet Sales, Other Reserved etc. do not meet the reference service factors in accordance with the NGR, and therefore should remain classified as non-reference services.

We also agree to continue to offer the Data service to gas producers and marketers as a non-reference service.

