

Attachment 5.3

# Draft Plan Feedback

---

January 2025

**PUBLIC**



**Dampier Bunbury  
Pipeline**

Ms Rachel Smith  
Australian Gas Infrastructure Group  
Sent by email: [rachael.smith@agig.com.au](mailto:rachael.smith@agig.com.au)

9 September 2024

Dear Rachel

### **2026-2030 DRAFT PLAN FEEDBACK**

NewGen Kwinana welcomes the opportunity to provide feedback on the Draft Plan released by AGIG in relation to the Access Arrangement for 2026 to 2030.

#### **Shipper Engagement**

The shipper engagement and roundtable discussions conducted by AGIG have been valuable in providing transparency and understanding of the building blocks that form the regulated tariff. NPK has appreciated this engagement, which has allowed the business to comment on the Draft Plan inputs with a greater understanding.

Our overall feedback is that the Draft Plan clearly identifies the reasons for the large AA6 forecast increases in expenditure and prices but has not provided enough supporting information for NPK, or in our view, for the Regulator to test the reasonableness of all that is being proposed. This is particularly the case in relation to the AA6 forecasts for capex, opex and accelerated depreciation. NPK understands that AGIG continues to develop analysis that will support its submission to the ERA in the Final Plan, however until such analysis is complete, full appreciation of the merits of the spend is uncertain. More detailed feedback is provided below.

#### **Forecast capex**

The 2025 Draft Plan presents brief summaries and forecast amounts for many but not all of the proposed AA6 capex projects. Figure 9.4 in the 2025 Draft Plan provides a breakdown of capex forecast by major category. The largest components of the AA6 forecasts, including the compression reduction project, are Pipelines (\$131m or 32%), SCADA, ECI and Comms (\$89.6m or 22%) and Computers and Motor Vehicles (\$68.6m or 17%). The compressor reduction project is the largest individual project (\$122.6m or 30%) and appears to make up most of the AA6 Pipeline forecast.

There is high probability for the ERA to approve lower AA6 capex, particularly if the forecast increase in stay-in-business capex is not well substantiated across the relevant capex programs. In NPK's view the ERA will not support the proposed AA6 capex program given the large step increase and limited supporting information provided in the 2025 Draft Plan.

NPK notes that the 2025 Final Plan will include business cases for many of the capex projects and we urge AGIG to provide as much detail as possible on these. In particular, the business case for the compression reduction project should be communicated via the shipper engagement process ahead of the 2025 Final Plan. NPK looks forward to seeing the completed business cases for the capex spend.

#### **Forecast opex**

The 2025 Draft Plan forecasts that AA6 opex will increase by 12% in the 2026-30 period compared to the AA5 actual/estimate arguing that this primarily reflects inflationary cost pressures.

NPK's comments on the forecast opex echo our capex comments. In NPK's view the ERA will not support the proposed AA6 forecast opex given the large step increase and limited supporting information provided in the 2025 Draft Plan and we urge AGIG to provide more detail on the opex spend ahead of the Final Plan submission.

#### Demand Assumptions

Demand is forecast to drop from 605 TJ/day in AA5 to 596 TJ/day in the AA6 period (a 1.5% reduction).

The 2025 Draft Plan notes that its forecast is currently informed by shippers on their expected plans and expectations for gas use across the AA6 period. It also notes that the DBNGP demand forecast for contracted capacity and throughput will be reviewed by an independent expert and reconciled to AEMO's WA 2023 Gas Statement of Opportunities (2023 WA GSOO).<sup>1</sup>

NPK notes that AEMO expects domestic gas demand to grow 2.2% per annum between 2023 and 2033 partly driven by an increase in gas powered electricity generation in the SWIS, which rose 6% in 2022 compared to 2023, and is forecast to grow by 50% up to 2033 as anticipated coal powered generation retirements increase the reliance on gas powered generation.

NPK acknowledges and supports that AGIG has committed to undertaking an independent review of the demand assumptions ahead of their final submission therefore NPK will defer any further comments until this assessment has been completed.

#### Accelerated depreciation

ERA approved an accelerated depreciation amount for DBNGP in the AA5 period primarily based on capping the economic life of DBGNP's pipeline assets at 2063 (previously it was 70 years), plus reductions in the metering asset class (50 years to 30 years) and 'other' asset class (30 years to 10 years).

The 2025 Draft Plan maintains this position and flags that detailed modelling of future accelerated depreciation profiles is still being undertaken. However, the timing for completion of this modelling work prior to submittal of DBGNP's 2025 Final Plan is not stated however, it is understood from the Shipper Roundtable held on 27 August 2024 that this modelling is anticipated to be completed ahead of the next Shipper Roundtable.

Section 6.6 of the 2025 Draft Plan provides an outline of the modelling approach to its depreciation modelling focusing on two key risks:

- to prevent remaining shippers from suffering a high price shock if and when a shipper fully ceases to transport gas; and
- to lower the cost of the 'insurance' aspect of gas transport capacity rights.

Based on the Section 6.6 outline, there appears to be three interconnected models being utilised to generate multiple possible future depreciation profiles and the associated revenue and price implications of these profiles.<sup>2</sup> AGIG notes that feedback loops are built into its modelling approach because demand depends on price, so the modelling needs to simulate how demand changes when price changes because of the changing depreciation profiles.

NPK notes that the description of its accelerated depreciation modelling provides a reasonable guide to model design and the type of outcomes that its models will generate. However, the basis of some key assumptions, such as the assumed price elasticity of final demand for gas, or at what price gas is displaced by other generation sources in the Wholesale Electricity Market, are not revealed.

---

<sup>1</sup> AEMO (2023),

<sup>2</sup> The three models are named: GridCog model; AGIG Tariff Model; and AGIG Demand Model

Given the importance of this modelling to the proposed increase in AA6 forecast revenues, NPK is very interested in seeing the completed accelerated depreciation modelling well ahead of the 2025 Final Plan to provide NPK and other stakeholders' reasonable opportunity to review key underlying modelling assumptions and model outputs.

#### Forecast revenue smoothing

NPK notes that the application of NPV revenue smoothing appears to be to smooth the AA6 first year revenue (and tariff) increase, with a further smaller revenue increase in year two and a relatively flat revenue profile in each of the final three years of the AA6 period. This type of smoothing profile is reasonable to partially reduce price shocks but is not the only way that smoothing could have been applied e.g. the revenue smoothing could have been applied more evenly across all five years of the AA6 period.

NPK requests an explanation the approach to NPV revenue smoothing at the next Shippers' Roundtable, including whether alternative smoothed revenue profiles were considered.

#### Capital base roll-forward

Table 10.1 of the 2025 Draft Plan presents the capital base roll-forward from 2021 to 2025. This roll-forward is presented in December 2024 dollar terms, which means it does not show the impact of actual inflation on the roll-forward. Presenting the roll-forward in December 2024 dollar terms also means that the actual annual capex and forecast depreciation components of the capital base have also been re-based rather than presented in nominal dollar terms.

Given actual inflation has exceeded forecast inflation over the 2025-30 period, indexation of the capital base has likely increased the opening capital base value for the 2026-30 period by materially more than forecast at the start of the AA5 period.

NPK recommends for AGIG to present its 2021-25 capital base roll-forward in nominal dollar terms to enable a better understanding of the individual drivers of the roll-forward and the basis of the opening capital base value for the AA6 period.

Additionally, given the high cost environment and the importance of the Regulated Asset Base on the tariff outcomes, NPK recommends that AGIG carefully review the Regulated Asset Base to ensure that only assets with carrying value are included in the roll-forward.

NPK looks forward to further engaging on these matters at upcoming Shippers' Roundtable meetings. Should you have any queries in relation to the above feedback please email [Bobby.Ditric@sscpower.com.au](mailto:Bobby.Ditric@sscpower.com.au).

Yours sincerely



Bobby Ditric  
Executive General Manager – Trading, Commercial & Regulatory

## 9 September 2024

**Peter Bucki**  
**Australian Gas Infrastructure Group**  
**Level 6, 400 King William Street**  
**Adelaide, SA, 5000**

RE: Draft Plan Consultation Questions

Dear Mr. Peter Bucki,

South32 Energy is pleased to respond on behalf of Worsley Alumina Pty Ltd (**South32 Worsley**) to the Australian Gas Infrastructure Group's (**AGIG**) consultation on its Draft Plan for the Dampier to Bunbury Natural Gas Pipeline (**DBNGP**) for the Access Arrangement period from 1 January 2026 to 31 December 2030 (**AA6**).

South32 Limited (**South32**) is a globally diversified metals and mining company. We produce commodities including alumina, aluminium, bauxite, copper, lead, manganese, metallurgical coal silver, nickel, and zinc from our operations in Australia, southern Africa and South America. Our strategy includes identifying opportunities to sustainably reshape our business for the future, increasing our exposure to commodities critical to the transition to a low-carbon world. Our Climate Change Action Plan describes the actions we are taking to address the risks and opportunities that climate change presents, including our approach to decarbonising our operations, our goal of net zero greenhouse gas (GHG) emissions by 2050 and our medium-term target to halve operational GHG emissions by 2035 from our FY21 baseline.

South32 Worsley is a joint venture between South32 (86%), Japan Alumina Associates (10%) and Sojitz Alumina Pty Ltd (4%). Bauxite is mined near the town of Boddington, transported via overland conveyor to the refinery and turned into alumina powder before being transported by rail to Bunbury port. A combination of coal, gas and biomass are used to fuel the onsite boilers for steam and electricity generation. Natural gas is drawn through the DBNGP as a direct fuel source to the power station and for use in the alumina refining process. DBNGP capacity is secured via a full haul (**T1**) Standard Shipper Contract (**SSC**) with DBNGP (WA) Transmission Pty Ltd (**DBP**).

South32 Worsley's response is centred around the Draft Plan Consultation Questions for AA6. South32 Worsley notes:

- **Interest rates have increased significantly** | relative to the previous Access Arrangement period (AA5) where the rate of return was 3.54%, less than half of AA6's drafted rate of 7.52% which reflects current market conditions;
- **Future of Gas** | accelerated depreciation of A\$113 million has been drafted to reflect long-term uncertainty of natural gas infrastructure, to reflect the economic life of the DBNGP until 2063, while acknowledging Australia's net-zero target of 2050; and
- **Demand and Price** | demand forecasting reflects current contracted capacity, with indicative full-haul equivalent price for AA6 of \$2.41/GJ, an uplift of \$0.84/GJ on the current AA5 price of \$1.57/GJ.

South32 Worsley recommends AGIG to consider the following as part of our response:

- Planned & unplanned coal power station closures in AA6, the subsequent impact on gas capacity & demand and determine appropriate response scenarios; and
- Explore the potential for an official or contracted demand-side response mechanism for AA6 and beyond.

## South Worsley's responses to the Draft Plan Consultation Questions

### What We Will Deliver

1. *Do you have any feedback on our overall plans and performance targets for AA6?*

South32 Worsley has no commentary on this query.

### Stakeholder Engagement

2. *Do you have any feedback on our stakeholder engagement program including our remaining engagement plans for AA6?*

South32 Worsley has no commentary on this query.

### Future of Gas

3. *Do you agree that we need to consider accelerating depreciation to address future risks?*
4. *Is achieving stability in prices through the long term important?*
5. *Do you have any other feedback on our accelerated depreciation approach for AA6?*

South32 Worsley agrees that accelerating depreciation is applicable to address the DBNGP's future risk and should be earlier than the original 2090 estimate.

Price stability is important. However, the right balance between price stability, predictability and costs to shippers must be found. Large and/or sudden increases in cost have a direct impact on a Shipper's short to medium term views on domestic gas (viewed as volatility in the market), and this may deter future investment into gas as a viable fuel source to support business requirements. This will have a domino effect unto other shippers if there are less and less Shipper's sharing the total costs to sustain the DBNGP.

DBNGP's current anticipated economic life to 2063 was set early on during the AA5 period, this anticipated date should be reviewed on a regular basis as the energy market continues to transition and different solutions emerge.

### Operating Expenditure

6. *Do you support our approach to forecasting opex? Is there sufficient information to understand our proposals and the basis of the costs included?*
7. *Do you support our proposed input cost assumptions? If not, why?*
8. *Do you think the forecast level of opex is justified, particularly given the current cost environment?*
9. *Do you have any other feedback on our opex forecast for AA6?*

The Draft Plan recognises that gas is the likely source of firming power in AA6 and beyond.

- Has the demand behaviour due to increased firming reliance on gas as we proceed into the future been considered and its implications on operating expenditure/asset management as units will likely move towards running harder for relatively shorter periods of time regularly, alongside extended run periods across renewable droughts and extended zero/low usage when renewables are abundant?

### Capital Expenditure

10. *Do you support our approach to forecasting capex? Have we provided sufficient information to understand our proposals and the basis of the costs included?*
11. *Do you think the forecast level of capex in AA5 and AA6 is justified?*
12. *Do you have any other feedback on our capex forecast for AA6?*

The Meter Stations Business Case is to provide AGIG GC visibility as gas enters the DBNGP, although similar data is measured within the gas processing facilities. The additional GCs are to provide a layer of contingency and verification of the operator's GC data. However, this requirement should be put in place by and at cost of the producer/operator of the gas processing facility. This is presumed to better inform the DBNGP control room if any potential off-specification gas can be accepted into the pipeline. If the

DBNGP is knowingly accepting an operator's indicated off-specification gas into their asset, the DBNGP should shoulder a degree of responsibility (alongside the operator) and be liable for any consequent impacts to the asset and their Shippers, who currently bear majority of any off-specification risk, with the DBNGP and gas processing operators holding minimal to no risk.

- The Compression Reduction Project, what does the timing look like for the economic benefit to be realised by shippers?
- Are the apparent cost reductions worth the investment of A\$120M upfront during AA6? Should timing be delayed until a lower interest environment returns?

#### Capital Base

**13. Is our approach to adjusting the capital base, including to account for the impacts of accelerated depreciation, appropriate?**

South32 Worsley has no commentary on this query.

#### Financing Costs

**14. Do you have any comments on our approach to setting the financing and tax costs in this Draft Plan?**

South32 Worsley has no commentary on this query.

#### Incentive Scheme

**15. Do you support our proposed calculation of the Efficiency Carryover Mechanism (ECM) for AA5?**

**16. Do you support our proposed continuation of the ECM in AA6 and the proposed exclusion of "inspections and asset management" items?**

South32 Worsley would like to request AGIG to provide an estimated impact of the cumulative savings to tariff adjustments in (\$/GJ) in years 2027+, as it would be helpful to understand the impact of AA5's results and the quantified benefit to Shippers.

#### Demand

**17. Do you support our proposed approach to forecasting demand?**

**18. Are there any other factors, including any of your own plans, you think we should consider?**

The approach is largely based on contracted full-haul equivalent capacity of Shippers before the start of AA6. There is potential that the contracted FHE amount will significantly increase in response to several WA energy market factors.

- How as AGIG considered the likely increase in Perth Basin supply during AA6 and its impact to the DBNGP's operation and its services to Shippers, particularly from a demand capacity, asset management and opex perspective?
- How as AGIG considered the current announced coal power station closures and the subsequent impact to the DBNGP's capacity demand (season to season, day to day and hour to hour) post closure? What impact will there be to Shippers?
- How as AGIG considered the potential event(s) where coal power station closures occur on an unexpected timeline? How will such an event(s) be managed to ensure demand is met safely and reliably, with minimal to no impact to existing capacity contracts/Shippers?
- The Draft Plan refers to mechanisms used in electricity markets. Does AGIG expect Shippers to participate more often in demand-side responses in AA6 to alleviate pressures on the DBNGP during low supply/high demand scenarios (as done previously in an unofficial capacity)? South32 Worsley is likely to be one of the largest Shippers on the DBNGP in AA6 and beyond. We are open to considering a demand-side response in an official or contracted manner.

#### Revenue and Prices

**19. Have we provided enough information to understand the basis of our proposed price, including how it is split between the capacity and commodity components?**

**20. Do you support the proposed cost pass through for Safeguard Mechanism costs?**

The cost pass through for Safeguard Mechanism is fair.

### **Pipeline Access**

- 21. Do you support our proposed changes to our reference service contracts?**
- 22. Do you have any other feedback on the terms and conditions for our reference services?**

In addition to our response in the capex section.

- How will the review of off-specification provisions in the Reference Service Contracts interact with a Shippers SSC? Will any revisions be mirrored into existing SSCs? AGIG's review should consider all capacity contracts (existing and new).

### **Other**

- 23. Is there anything that our Draft Plan hasn't considered that is important to you?**

South32 Worsley has no further commentary.

### **Summary**

We hope the responses this letter adequately addresses AGIG's queries. For further information, please contact Marten Russell, South32, Energy Manager at [Marten.Russell@south32.net](mailto:Marten.Russell@south32.net).

Regards,



Marten Russell

South32, Energy Manager on behalf of South32 Worsley Alumina