

NOTICE

FINAL DECISION – DAMPIER TO BUNBURY NATURAL GAS PIPELINE

The Economic Regulation Authority (**Authority**) today issued its Final Decision on the revisions proposed by DBNGP (WA) Transmission Pty Ltd (**DBP**) to the Access Arrangement for the Dampier to Bunbury Natural Gas Pipeline (**DBNGP**).

The Final Decision of the Authority is to not approve the proposed revisions to the Access Arrangement. The Authority's decision is based on its evaluation of information made available by DBP, reports commissioned by the Authority and information provided by other interested parties through submissions.

An Access Arrangement sets out the terms and conditions for third party use of a regulated pipeline. Third party access to pipelines such as the DBNGP is provided for under the *National Third Party Access Code for Natural Gas Pipeline Systems (Code)*. Under the Code, the Authority is the Relevant Regulator responsible for approving Access Arrangements for regulated pipelines.

BACKGROUND

The DBNGP consists of the gas pipeline system as described by Western Australian pipeline licences WA: PL 40, WA: PL 41 and WA: PL 47. The pipeline system links gas suppliers in the north-west of Western Australia with markets principally in the south-west of the State.

The DBNGP is operated by DBP and is owned by DBNGP (WA) Nominees Pty Ltd as Trustee for the DBNGP (WA) Pipeline Trust. The ultimate ownership of the DBNGP is 60 per cent by DUET - Diversified Utilities and Energy Trusts - with Alcoa of Australia Ltd and Alinta Ltd each owning 20 per cent.

An initial Access Arrangement for the DBNGP was approved by the then Western Australian Independent Gas Pipelines Access Regulator on 30 December 2003. The functions of the Regulator were transferred to the Authority on 1 January 2004. On 21 January 2005, DBP submitted proposed revisions to the Access Arrangement and the Authority issued its Draft Decision on the proposed revisions to the Access Arrangement for the DBNGP on 11 May 2005.

KEY ASPECTS OF THE FINAL DECISION

Rate of Return and Total Revenue

The Authority's Final Decision is to approve the real pre-tax rate of return of 7.24 per cent proposed by DBP for the DBNGP.

The Authority has considered the total revenue (in present value terms) that DBP would earn over the Access Arrangement period (2005 to 2010) under the proposed tariffs and has concluded that an amount of \$1,200 million is consistent with the Code. Calculated on a comparable basis, DBP submitted a figure of \$1,212 million. The difference in value between these amounts is attributable to the Authority not being satisfied that the values proposed by DBP for the starting value of the capital base and non capital costs were consistent with the relevant provisions of the Code.

Reference Services

DBP proposed a single reference service, known as the "Tf Service". The Authority determined that the "Tf Service" should be removed and replaced by a "T1 Service" as a reference service on the terms and conditions set out in the Final Decision. The Authority also determined that part haul and back haul services should be reference services on the terms and conditions set out in the Final Decision.

All three reference services are required to be available based on a minimum contract term of two years when made available by utilising spare capacity and a minimum term of 15 years when made available through developable capacity.

DBP has indicated to the Authority that the full haul capacity of the DBNGP is currently fully contracted for the Access Arrangement Period. The reference tariff for the T1 Service that is required as a reference service by the Authority in its Final Decision is not expected to affect these existing contracts and, on this basis, is only expected to have practical effect if full haul spare capacity becomes available during the Access Arrangement Period. The Authority understands, however, that spare capacity may currently be available for provision of part haul and back haul services, additional to those currently contracted, that the Authority is requiring to be included as reference services in the Access Arrangement. Consequently, the reference tariff for these services may have practical effect if additional demand for gas transmission on a part haul or back haul basis eventuates during the Access Arrangement Period and spare capacity for such services is available.

Part Haul and Back Haul Reference Tariffs

In its Draft Decision, the Authority required a pro rata distance-based methodology to be applied for calculating tariffs for the part haul and back haul reference services from the full haul service tariff. Subsequent to the Draft Decision, DBP proposed to the Authority a different tariff calculation methodology for part haul and back haul tariffs. The Authority invited public submissions on DBP's alternative tariff calculation methodology.

Based on the submissions received and the requirements of the Code, the Authority has determined that the tariff calculation methodology proposed by DBP does not comply with the Code. Accordingly, the Authority has maintained the same requirement for the calculation of tariffs for part haul and back haul reference services in its Final Decision, as was outlined in its Draft Decision.

Gas Quality

Prior to the Draft Decision, several parties made submissions to the Authority that the gas quality specification for the reference services included in the Access Arrangement should conform to a specification known generally as the "Broadest Specification", which was originally set out in the *Dampier to Bunbury Pipeline (WA) Regulations 1998*.

In its Draft Decision, the Authority proposed a broader gas quality specification to apply to the DBNGP that was based on the 1998 Regulations and the subsequent *Gas Standards Regulations 2000*.

Subsequent to the Draft Decision, the Authority commissioned a report from PB Associates to evaluate submissions received on broadening the gas quality specification. In particular, the report examined the impact of this issue on pipeline capacity, which DBP had raised in its submissions as a matter of concern. Based on the findings of the PB Associates report, the Authority determined that introducing the broader gas quality specification (as set out in its Draft Decision) was not likely to have a material impact on the capacity of the DBNGP, at least during the Access Arrangement period to 2010.

The Authority invited submissions on the PB Associates report from parties who had made submissions to the Draft Decision and subsequently commissioned a second report from PB Associates to review submissions on the first report. Public versions of the first PB Associates report, submissions received on this report and the subsequent PB Associates report evaluating these responses are available on the Authority's website (www.era.wa.gov.au).

Based on the submissions received, the PB Associates report and the requirements of the Code, the Authority considered that a broader gas quality specification is in the public interest and represents a reasonable balance of interests between users of the DBNGP, end users of gas and DBP.

New Facilities Investment

Following the Draft Decision, DBP provided the Authority with revised forecasts for new facilities investment. Most of this forecast investment relates to expansion of pipeline capacity. The revised total forecast new facilities investment was \$1,027 million (real). The Authority subsequently invited submissions on these revised forecasts. Based on the submissions and the requirements of the Code, the Authority is satisfied that the revised forecast new facilities investment submitted by DBP complies with the requirements of the Code for inclusion in the capital base of the DBNGP.

DBP TO SUBMIT AMENDED REVISIONS

As the Final Decision of the Authority was not to approve the proposed revisions to the access arrangement, the Authority has stated in the Final Decision the revisions that DBP would have to make to the Access Arrangement in order for the Authority to approve it.

DBP is required to submit amended revisions to the Access Arrangement to the Authority no later than **4:00 pm (WST) on Wednesday, 30 November 2005**.

FURTHER INFORMATION

The Final Decision (including the proposed terms and conditions for each reference service) is available on the Authority's website (www.era.wa.gov.au). Printed copies of the Final Decision and revised Access Arrangement Information are available from the Authority on request at a cost of \$25.00 each.

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CHAIRMAN

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