Economic Regulation Authority

Draft decision on revisions to the access arrangement for the Dampier to Bunbury Natural Gas Pipeline (2026 to 2030)

Attachment 3: Revenue and tariffs

7 July 2025

D293484

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Note

This attachment forms part of the ERA's draft decision on the proposed revisions to the access arrangement for the Dampier to Bunbury Natural Gas Pipeline. It should be read in conjunction with all other parts of the draft decision, which is comprised of the following document and attachments:

- Draft decision on revisions to the access arrangement for the Dampier to Bunbury Natural Gas Pipeline - Overview, 7 July 2025
  - Attachment 1: Access arrangement and services
  - Attachment 2: Demand
  - Attachment 3: Revenue and tariffs (this document)
  - Attachment 4: Regulatory capital base
  - Attachment 5: Operating expenditure
  - Attachment 6: Depreciation
  - Attachment 7: Return on capital, taxation, incentives
  - Attachment 8: Other access arrangement provisions
  - Attachment 9: Service terms and conditions

Attachment 3. Summary

As part of this decision, the ERA must set tariffs for reference services and a mechanism to vary these tariffs over the access arrangement period. To calculate reference tariffs, the ERA must approve a total revenue requirement to provide DBP with sufficient revenue to recover its efficient costs to operate its transmission pipeline. Total revenue is then allocated between reference services and other pipeline services (non-reference services) offered by DBP to calculate the reference tariffs.

For AA6, DBP will offer three reference services (Full Haul (T1), Part Haul (P1) and Back Haul (B1) gas haulage services). All other pipeline services that DBP can reasonably provide will be offered as non-reference services, of which the ERA has approved four to be specified as non-reference rebateable services. Not all non-reference services can be classified as "rebateable services" as these services are characterised by substantial demand and/or revenue uncertainty. Given this uncertainty it is difficult to allocate costs to these services as part of this decision and instead a portion of the actual revenue from the sale of these services will be rebated (refunded) back to reference service users via lower reference tariffs during the access arrangement period.

DBP has proposed a material increase to its total revenue requirement for the sixth access arrangement period (AA6), increasing from an approved $1,542.5 million (nominal) for AA5 to $2,543.7 million (nominal) in AA6.

The ERA has reduced DBP's proposed increase in revenue to $2,390.94 million (nominal) in this draft decision, reflecting reductions in proposed operating and capital expenditure and an increase in demand for AA6. The ERA has also decreased the allocation of total revenue to reference services from 99.5 per cent (as proposed by DBP) to 95 per cent. These factors have led to a more moderate tariff increase than proposed by DBP, with that tariff increase largely driven by rising inflation and the increased cost of capital subsequent to AA5.

Reference tariffs are comprised of a capacity (fixed) charge and a commodity (variable) charge. While DBP proposed no changes to the two-part tariff structure for AA6, it did propose to change the capacity to commodity ratio from 94:6 to 95:5.

While the ERA has agreed to retain the two-part tariff structure, it does not agree with DBP's proposed change to the capacity to commodity ratio. For AA6, the ERA has retained the ratio of 94:6 to reflect a higher proportion of variable costs to fixed costs than proposed by DBP.

The ERA's draft decision indicative Full Haul (T1) reference tariff for 1 January 2026 is $2.19, which is 10.7 per cent lower than DBP's proposed T1 tariff.

The Part Haul (P1) and Back Haul (B1) tariffs for 1 January 2025 are $0.001563; determined using the full haul tariff but on a per kilometre basis. That is, part haul and back haul users are charged based on the number of kilometres from their inlet point to their outlet point.

Reference tariffs for 2027 onwards will be determined in accordance with the tariff variation mechanism, which remains largely unchanged from the current AA5 mechanism. The tariff variation mechanism is comprised of an annual scheduled variation (to adjust tariffs for inflation, the cost of debt and a proportion of revenue from rebateable services), and variations for tax changes and cost pass through events.

For AA6, DBP has proposed an amendment to the tariff variation formula to address the Commonwealth Government's Safeguard Mechanism for greenhouse gas emissions.

The ERA has considered the tariff variation mechanism to apply for AA6 and has:

- Identified some general drafting amendments that are required to correct administrative errors.
- Required an increase to the rebateable portion for rebateable services revenue to rebate 90 per cent of revenue back to reference service users (instead of 70 per cent).
- Approved DBP's proposed amendments to cover the Safeguard Mechanism, subject to DBP making some further amendments to better clarify certain provisions.

The ERA has also decided against introducing a tariff variation mechanism to address demand forecasting uncertainty as was suggested in a submission to the ERA. Demand forecasts, like other forecasts, are inherently uncertain; the regulatory framework acknowledges this uncertainty with explicit provisions for forecasting. The ERA considers that the focus should remain on assessing DBP's forecasting and estimating methods to ensure these methods produce demand forecasts that are arrived at on a reasonable basis and represent the best forecast possible.

Summary of Required Amendments

Required Amendment 3.1

DBP must amend the values for total revenue (nominal) to reflect the values as set out in Table 3.5 of Draft Decision Attachment 3.

Required Amendment 3.2

DBP must amend clause 18.19 of the proposed access arrangement to remove the reference to the Pilbara Service being a rebateable non-reference service.

Required Amendment 3.3

The reference tariffs set out in the proposed access arrangement must be amended to reflect the tariffs set out in Table 3.8 of Draft Decision Attachment 3.

Required Amendment 3.4

DBP must address the administrative errors identified in Annexure A (tariff variation mechanism) of the proposed access arrangement to reflect the amendments set out in Table 3.9 of Draft Decision Attachment 3.

Required Amendment 3.5

DBP must amend clause 18.20 of the proposed access arrangement as follows:

- Amend the "Rebateable Amount" for rebateable services revenue to ninety per cent (90%).
- Amend the table in subclause (a) to include Periods 5 and 6 from the previous access arrangement period (AA5) and update Period 6 for the current access arrangement (AA6) to reflect the end date of the access arrangement period; as set out in paragraph 68 of Draft Decision Attachment 3.

Required Amendment 3.6

DBP must amend the provisions of Annexure A6 (Adjustments for Safeguard Mechanism) in the proposed access arrangement to:

- Make it explicit that only incremental incurred (actual) costs that are directly attributable to DBP's compliance with the Safeguard Mechanism are recoverable.
- Clarify that the allocation ratio of shared costs applies to costs incurred complying with the Safeguard Mechanism.
- Make the adjustment mechanism symmetrical in its operation, to recover costs from users and return revenue to users.

- Ensure no duplication of the recovery of costs under the existing carbon cost pass through event provisions and any proposed Safeguard Mechanism tariff variation adjustment.

Regulatory requirements

1. The *National Gas Access (WA) Act 2009* implements a modified version of the National Gas Law (NGL) and National Gas Rules (NGR) in Western Australia. The rules referenced in this decision are those that apply in Western Australia.[1]

2. Section 24 of the NGL sets out revenue and pricing principles to guide the construction of reference tariffs.[2] This primarily involves determining a total revenue amount that is needed by the service provider to recover the efficient costs incurred in operating the pipeline. Once the total revenue for the pipeline is determined, reference tariffs can be determined to recover this revenue (that is, the reference tariffs are set to recover the service provider's efficient costs).

3. The NGR sets out specific provisions relating to the determination of each of the respective "building blocks" that together determine total revenue.[3] In addition to these provisions, rule 93 requires total revenue to be allocated between reference services and other pipeline services in the ratio in which costs are allocated between these services:

    - Costs that are directly attributed to reference services must be allocated to those services.
    - Costs that are directly attributed to other pipeline services (that are not reference services) must be allocated to those services.
    - Other costs (that are not directly attributed to a reference or other pipeline service) must be allocated between reference and other pipeline services on a basis determined or approved by the regulator. The basis on which this occurs must be consistent with the revenue and pricing principles.
    - Costs for the provision of rebateable services may be allocated to reference services if there is a rebate mechanism to apply an appropriate portion of the revenue from the sale of rebateable services to reduce the reference tariff.[4]

4. Each reference service must have a reference tariff. There must also be a mechanism to vary the reference tariff over the course of the access arrangement period. The NGR sets out the following provisions for the calculation of reference tariffs and the development of a tariff variation mechanism:

    - Provisions for revenue equalisation (rule 92):
        - The reference tariff variation mechanism must be designed to equalise (in terms of present values) forecast revenue from reference services for the

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1 The current rules that apply in Western Australia are available from the Australian Energy Market Commission: AEMC, 'National Gas Rules (Western Australia)' (online) (accessed July 2025).
At the time of this decision, *National Gas Rules – Western Australia version 12 (1 February 2024)* was in effect.

2 The NGL as implemented in Western Australia is set out as a note in the *National Gas Access (WA) Act 2009*. See: Western Australian Legislation (online) (accessed July 2025).
At the time of this decision, *National Gas Access (WA) Act 2009, 25 January 2024 was in effect.*

3 The specific provisions relating to each of the building block components are discussed in the relevant attachments to the ERA's decision.

4 A rebateable service is a service that is not a reference service and substantial uncertainty exists concerning the extent of the demand for the service or of the revenue to be generated from the service.

access arrangement period and the portion of total revenue allocated to reference services for the access arrangement period.

  - Where there is an interval of delay between the revision commencement date for an access arrangement and the date on which revisions to the access arrangement commence, reference tariffs in force at the end of the previous access arrangement period must continue without variation for the interval of delay. When fixing the reference tariff for the new access arrangement period there may be an adjustment for any under/over recovery that resulted from the continuation of reference tariffs from the previous access arrangement period during the interval of delay.

- Provisions for transmission pipeline tariffs (rule 95).
  - A reference service tariff must be designed to generate the portion of total revenue referable to that reference service and, as far as reasonably practicable, generate from the user or class of users to which the reference service is provided, the portion of total revenue referable to providing the reference service to that user or class of users.
  - The portion of total revenue referable to a reference service must be determined as follows:
    - Costs directly attributable to each reference service must be allocated to that service.
    - Other costs attributable to reference services must be allocated on a basis determined or approved by the regulator (and must be consistent with the revenue and pricing principles).
  - The portion of total revenue referable to providing a reference service to a user or class of users must be determined as follows:
    - Costs directly attributable to supplying the user or class of users must be allocated to the relevant user or class.
    - Other costs are to be allocated between the users or class of users and other users or classes of users on a basis determined or approved by the regulator (and must be consistent with the revenue and pricing principles).
- Provisions for prudent discounts (rule 96):
  - Despite other tariff provisions, the regulator may approve a discount for a particular user or prospective user, or a particular class of users or prospective users.
  - To approve a discount, the regulator must be satisfied that the discount is necessary to respond to competition from other pipeline service providers or other sources of energy, or to maintain efficient use of the pipeline. It must also be satisfied that the provision of a discount is likely to result in tariffs that are lower than they would have otherwise been.

  - Where a discount is approved, the regulator may also approve the allocation of the cost (or part of the cost) of providing the discount to the costs of providing a service in one or more future access arrangement periods.

- Provisions for reference tariff variation (rule 97):

  - The reference tariff variation mechanism may provide for variation of a reference tariff in a variety of forms, including one or more of the following: a schedule of fixed tariffs, a formula in the access arrangement, a cost pass through for a defined event, or the sale of rebateable services (as contemplated under rule 93).

  - When deciding whether the reference service tariff variation mechanism is appropriate, the regulator must consider the need for efficient tariff structures, the possible effects of the mechanism on administrative costs, any existing regulatory arrangements in place before operation of the mechanism, the desirability of consistency between regulatory arrangements within and beyond the relevant jurisdiction, the risk-sharing arrangements in the access arrangement, and any other factor considered to be relevant.

  - The reference tariff variation mechanism must give the regulator adequate oversight or powers of approval over the variation of the reference tariff.

  - Except as provided by the reference tariff variation mechanism, a reference tariff cannot vary during an access arrangement period.

5. The NGR requires the following revenue and tariff information to be included in the service provider's Access Arrangement Information (AAI):[5]

   - Information on the proposed approach to set the reference tariffs, including the suggested basis for the reference tariffs (including the method used to allocate costs and a demonstration of the relationship between costs and tariffs), and a description of any pricing principles employed (rule 72(1)(j)).

   - The service provider's rationale for any proposed reference tariff variation mechanism (rule 72(1)(k)).

   - The total revenue to be derived from pipeline services for each year of the access arrangement period (rule 72(1)(m)).

6. In addition, the AAI must state the basis on which financial information is provided. Under the NGR, financial information must be provided on a nominal or real basis, or some other recognised basis for dealing with the effects of inflation (rule 73).

[5] AAI is information that is reasonably necessary for users (including prospective users) to understand the background to the access arrangement; and the basis and derivation of the various elements of the access arrangement.

DBP proposal

Total revenue

7. Applying the building block approach, DBP proposed a total revenue requirement for AA6 of $2,543.7 million. This is an increase of $1,001.2 million (65 per cent) when compared to the approved revenue requirement for AA5 ($1,542.5 million). DBP submitted that the key driver for the increase in revenue is higher interest rates following a period of historically low rates during AA5, which has resulted in a higher rate of return.[6] Table 3.1 sets out DBP's proposed building block components for total revenue.

Table 3.1: DBP proposed revenue requirement for AA6 ($ million, nominal)

Building block	2026	2027	2028	2029	2030	Total
Return on capital base	248.16	241.47	241.28	239.98	237.79	1,208.67
Regulatory depreciation						
Depreciation	241.43	160.32	165.10	166.49	173.10	906.45
Inflationary gain	(78.19)	(76.08)	(76.02)	(75.61)	(74.92)	(380.83)
Operating expenditure	132.70	137.46	134.10	139.34	155.32	698.92
Regulatory corporate income tax						
Corporate income tax	58.88	33.95	34.78	45.92	47.46	221.00
Imputation credits	(29.44)	(16.98)	(17.39)	(22.96)	(23.73)	(110.50)
Total revenue (unsmoothed)	**573.54**	**480.15**	**481.85**	**493.16**	**515.02**	**2,543.72**

Source: DBP, Final Plan 2026-30, Attachment 14.1: Tariff Model, January 2025.

Allocation of total revenue

8. For AA6, DBP has proposed a change in the allocation ratio to allocate total revenue between reference and rebateable non-reference services, and other non-reference services from 99:1 to "99.5 : 0.5". DBP submitted:

> For the first three years of AA5, the revenue earned from these non-reference services (excluding the Pilbara Service which we are proposing as a rebateable non-reference service in AA6) was $5 million out of a total reference and non-reference service revenue of around $1,000 million. Therefore, the share of non-reference services in total revenue (reference plus rebateable non-reference plus non-reference, as per the ERA approach) is roughly 0.5 percent of the total.[7]

9. DBP's reference, rebateable non-reference and other non-reference services are set out in Draft Decision Attachment 1. DBP did not propose any changes in the way costs are allocated between the reference services (T1, P1 and B1 Services). DBP will continue to allocate costs using a Full Haul Equivalent (FHE) value of each service

6 DBP, *Final Plan 2026-2030*, January 2025, p. 129.

7 DBP, *Final Plan 2026-2030*, January 2025, p. 66.

(determined as the quantity in terajoules (TJ) multiplied by the proportion of pipeline used by the service). DBP submitted that this was in line with stakeholder feedback and consistent with the approach adopted in previous access arrangements.

Reference tariff

10. For AA6, DBP will provide three reference services: T1 Service, P1 Service and B1 Service, each with their own tariff (T1 Tariff, P1 Tariff and B1 Tariff, respectively).

11. Consistent with the current AA5 access arrangement, DBP proposed a two-part tariff structure for each reference service for AA6 that comprises:

    - A capacity (or reservation) charge to recover the fixed costs of delivering reference services; calculated as the sum of the fixed cost elements of unsmoothed total revenue (determined as building block total revenue minus the cost of System Use Gas [SUG]) divided by forecast capacity demand.

    - A commodity (or throughput) charge to recover the variable costs of delivering reference services; calculated as the sum of the variable cost elements of unsmoothed total revenue (determined as the cost of SUG) divided by forecast throughput.

12. To reflect non-SUG costs increasing at a faster rate than SUG costs, DBP has proposed a change to the ratio of capacity to commodity charges. For AA6, DBP has changed the capacity to commodity ratio to 95:5 (from 94:6 in AA5). That is, 95 per cent of the AA6 reference tariff will recover the fixed costs of delivering the reference service; the remaining 5 per cent will recover the variable costs of delivering the reference service.[8]

13. DBP's forecast reference tariffs for 2026 are set out in Table 3.2.

Table 3.2: DBP proposed reference tariffs for AA6 – indicative only

Tariff component	Tariff on 1 January 2026 Note1
T1 Tarriff	
Capacity (reservation) charge ($/GJ/day)	2.323912
Commodity (throughput) charge ($/GJ/day)	0.123728
Total ($)	**2.447640**
P1 Tariff	
Capacity (reservation) charge ($/GJ/km/day)	0.001661
Commodity (throughput) charge ($/GJ/km/day)	0.000088
Total ($)	**0.001750**

[8] DBP, *Final Plan 2026-2030*, January 2025, p. 131.

Tariff component	Tariff on 1 January 2026 Note1
B1 Tariff	
Capacity (reservation) charge ($/GJ/km/day)	0.001661
Commodity (throughput) charge ($/GJ/km/day)	0.000088
Total ($)	**0.001750**

Note1: Excludes any rebate for non-reference rebateable services.

Source: DBP, Final Plan 2026-30, Attachment 14.1: Tariff Model, January 2025.

Tariff variation mechanism

14. DBP has proposed amendments to the tariff variation mechanism for AA6 as set out in section 18 and Annexure A of the proposed access arrangement.

15. The current AA5 tariff variation mechanism comprises an annual scheduled variation (to adjust tariffs for inflation, the cost of debt and rebateable services), and variations for tax changes and cost pass through events. For AA6, DBP has proposed to amend the tariff variation formula to allow it to recover costs incurred to comply with the Federal Government's Safeguard Mechanism, which is intended to reduce industrial greenhouse gas emissions.

16. The DBNGP is a "safeguard facility", and as the operator of this facility, DBP is required to keep net emissions below an emissions limit ("baseline").[9] DBP may therefore incur costs in complying with the Safeguard Mechanism, either to reduce emissions or to purchase and surrender emissions credits to ensure that net emissions from the DBNGP remain below the baseline. Regarding the recovery of Safeguard Mechanism expenses via the tariff variation mechanism, DBP submitted:

> This approach is consistent with that applied by the Australian Energy Regulator to recover Safeguard Mechanism costs through the tariff variation mechanism for the three Victorian gas distribution businesses (AusNet Gas Services, Australian Gas Networks and Multinet Gas Networks) for the 2023/24 to 2027/28 Access Arrangement periods. The approach also accommodates the potential variability in the Safeguard Mechanism Amount from year to year.[10]

17. DBP further submitted that during its engagement program, it consulted with stakeholders to determine whether there was support for the proposed cost pass through of Safeguard Mechanism costs. DBP concluded that shippers were supportive of its proposed approach.[11]

9 As set out in the *National Greenhouse and Energy Reporting Act 2007 (Cth)*.

10 DBP, *Final Plan 2026-2030*, January 2025, p. 132.

11 DBP, *Final Plan 2026-2030*, January 2025, p. 50.

Submissions

18. Several submissions addressed matters related to revenue and tariffs. These submissions are summarised as follows, with further details provided as part of the ERA's draft decision considerations.

Allocation of revenue and costs

19. Wesfarmers Chemicals Energy and Fertilisers (WesCEF) made several submissions related to the Ullage Service and Peaking (or Peaker) Service, including a submission that these services should be offered as reference services for AA6.[12] WesCEF also submitted that DBP had not provided enough information about the allocation of costs involved in the provision of these services. WesCEF submitted that DBP has not demonstrated that the proposed allocation of costs is compliant with the allocation requirements in rule 93(2) of the NGR. WesCEF was of the view that there should be more costs allocated to the provision of the Ullage and Peaker Services.[13]

20. NewGen Power Kwinana considered that DBP's proposed allocation of revenue and costs does not comply with rule 93 of the NGR. NewGen submitted "rule 93 does not allow revenue allocation based on past revenue splits," and that DBP must allocate costs between reference and non-reference services using a reasonable cost allocation method that is reflective of rule 93(2). NewGen further submitted that "given the very different nature of some of the non-reference services, a separate allocation is required for each of them so that they are cost reflective".[14]

Reference tariffs

21. On DBP's proposed change to the capacity to commodity ratio to determine reference tariffs, WesCEF considered that there are other variable costs, other than SUG costs, which should be recovered through the commodity charge. WesCEF submitted that "[DBP's assertion that SUG is the only variable cost attributed to the commodity charge] should be tested, including whether or not there are rotating equipment costs, both capex and opex, that are determined as a function of the throughout in the pipeline".[15]

22. NewGen submitted that "SUG is not the only variable cost incurred by DBP (for example, maintenance on compressors, which is driven by pipeline throughput, is also a variable cost)".[16] NewGen considered all variable costs should be included in determining the capacity to commodity ratio. NewGen also noted that "sharp increases in reference tariffs are inconsistent with DBP maintaining demand for its reference services in AA6 and beyond, and as such are contrary to the long term interests of gas consumers".[17] NewGen suggested that it would be possible to model a net present

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12 WesCEF's submissions for the Ullage and Peaker Services becoming reference services are considered in Draft Decision Attachment 1.

13 Wesfarmers Chemicals, Energy & Fertilisers, *Submission in response to DBP proposal and/or ERA issues paper*, 31 March 2025, pp. 9-11.

14 NewGen Power, *Submission in response to DBP proposal and/or ERA issues paper*, 31 March 2025, pp. 7-8.

15 Wesfarmers Chemicals, Energy & Fertilisers, *Submission in response to DBP proposal and/or ERA issues paper*, 31 March 2025, p. 14.

16 NewGen Power, *Submission in response to DBP proposal and/or ERA issues paper*, 31 March 2025, p. 3.

17 NewGen Power, *Submission in response to DBP proposal and/or ERA issues paper*, 31 March 2025, p. 3.

value (NPV) smoothed price path starting from the final year of AA5, and that this NPV-smoothed approach to tariffs would better achieve the national gas objective.

23. Horizon Power considered the change to the ratio was not material and would provide DBP with more certainty over its revenue income.[18] Horizon Power did however express concern over the proposed tariff increase for AA6. It submitted that the tariff increase will have a material increase in its cost to supply, which will ultimately be passed onto its large customers.

Rebate mechanism

24. WesCEF, NewGen and Horizon Power all made submissions concerning the rebateable portion for rebateable non-reference services:

- WesCEF submitted that if the ERA did not accept its submission to make the Ullage and Peaker Services reference services (that is, they are to remain as non-reference rebateable services), the rebateable and non-rebateable portions from the sale of these services needed to be reviewed.[19] WesCEF further submitted that there may be a case for having different rebateable portions for each specific non-reference rebateable service.

- NewGen considered that the rebateable portion for rebateable services needed to be reviewed because it considered the portion retained by DBP (the non-rebateable portion of 30 per cent) is "unnecessarily generous to DBP". NewGen submitted that the ERA should consider changing the rebateable service ratio from 70:30 to 90:10 (after allowing for a share of DBP's common costs).[20]

- Horizon Power indicated support for DBP's proposal to retain the existing (AA5) rebateable portion for rebateable services because it considered it was in line with other access arrangement decisions, such as, for example, the Australian Energy Regulator's decision for the Roma to Brisbane Pipeline.[21]

Amendments for Safeguard Mechanism

25. NewGen submitted that in principle, DBP's proposed changes to the tariff variation mechanism to include provisions to recover the costs associated with the Safeguard Mechanism is reasonable and reflects both the national gas objective and the revenue and pricing principles in the NGL. NewGen expressed concern over the application of the proposed provisions, and submitted "only DBP's incremental incurred costs that demonstrably arise from [DBP] achieving compliance with the Safeguard Mechanism and that have been verified by the ERA should be subject to the reference tariff variation mechanism".[22]

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18 Horizon Power, *Submission in response to DBP proposal and/or ERA issues paper*, 26 March 2025, pp. 1-2. Horizon Power did indicate acceptance of DBP's proposal, subject to DBP accommodating Horizon Power's other submissions made in relation to out of specification gas.

19 Wesfarmers Chemicals, Energy & Fertilisers, *Submission in response to DBP proposal and/or ERA issues paper*, 31 March 2025, pp. 11-12.

20 NewGen Power, *Submission in response to DBP proposal and/or ERA issues paper*, 31 March 2025, pp. 4-5 and p. 13.

21 Horizon Power, *Submission in response to DBP proposal and/or ERA issues paper*, 26 March 2025, p. 2.

22 NewGen Power, *Submission in response to DBP proposal and/or ERA issues paper*, 31 March 2025, p. 4.

Mechanism for demand uncertainty

26. WesCEF submitted that the ERA should consider including a mechanism to address the uncertainty associated with demand forecasting. Specifically, WesCEF submitted that the ERA should consider including either a trigger event mechanism or tariff variation mechanism into the access arrangement for AA6.[23] WesCEF considered that either (or both) of these mechanisms would only need to be asymmetrical in nature (that is, the mechanism only needs to operate if actual demand is higher than the approved demand forecast) because, if actual demand is lower than the approved forecast, DBP can voluntarily submit a revised access arrangement and is financially incentivised to do so given the price cap form of regulation that applies.

[23] Wesfarmers Chemicals, Energy & Fertilisers, *Submission in response to DBP proposal and/or ERA issues paper*, 31 March 2025, p. 16.

Draft decision

27. DBP has confirmed the basis of its financial information in its Final Plan.[24] All financial information is expressed in December 2024 dollars (real dollars), unless otherwise stated. Table 3.3 shows the Consumer Price Index (CPI) and inflation values used by DBP to express financial information in real prices (dollars) as at 31 December 2024.

Table 3.3: DBP actual and forecast consumer price index and inflation rates

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
	Actual				Forecast					
December CPI	121.3	130.8	136.1	139.6	144.8	148.0	151.2	154.5	157.9	161.3
Inflation (%)	3.50	7.83	4.05	2.60	3.70	2.18	2.18	2.18	2.18	2.18

Source: DBP, Final Plan 2026-30, Attachment 14.1: Tariff Model, January 2025.

28. The ERA has provided its financial information in real dollars (where stated) using the CPI and inflation values in Table 3.4, which has revised forecast inflation values from 2025 onwards. The revised forecast inflation values are consistent with the forecast values that were used to calculate the rate of return for this draft decision as set out in Draft Decision Attachment 7.

Table 3.4: ERA actual and forecast consumer price index and inflation rates

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
	Actual				Forecast					
December CPI	121.3	130.8	136.1	139.4	142.0	144.7	147.5	150.3	153.2	156.1
Inflation (%)	3.50	7.83	4.05	2.42	1.90	1.90	1.90	1.90	1.90	1.90

Source: ERA, Revenue Model, July 2025.

Total revenue

29. The regulatory framework provides for an amount of revenue to be determined for each year of the access arrangement period to allow DBP to recover its efficient costs to operate the DBNGP for the long term interest of consumers of natural gas. Table 3.5 sets out the ERA's draft decision total revenue building block components as determined elsewhere in the draft decision attachments.

30. Consistent with the ERA's considerations on the Efficiency Factor (E Factor) scheme as set out in Draft Decision Attachment 7, the ERA has included in its total revenue

[24] DBP, *Final Plan 2026-2030, Attachment 1.1: Regulatory Framework*, January 2025, p. 8.

building block calculation an adjustment for the operation of the scheme as per rule 76(d) of the NGR.[25]

Table 3.5: ERA draft decision total revenue building blocks for AA6 ($ million, nominal)

Building block	2026	2027	2028	2029	2030	Total
Return on capital base	248.68	245.79	242.50	238.33	233.98	1,209.28
Regulatory depreciation						
Depreciation	157.46	168.14	172.26	175.51	181.15	854.52
Inflationary gain	(66.33)	(65.56)	(64.68)	(63.57)	(62.41)	(322.55)
Operating expenditure	109.82	117.31	117.37	113.72	118.64	576.86
Regulatory corporate income tax						
Corporate income tax	33.22	41.52	42.68	53.45	54.17	225.04
Imputation credits	(16.61)	(20.76)	(21.34)	(26.72)	(27.09)	(112.52)
Incentive mechanism adjustment (E factor)	(3.70)	(11.86)	(13.98)	(10.15)	0.00	(39.69)
Total revenue (unsmoothed)	**462.54**	**474.58**	**474.81**	**480.57**	**498.44**	**2,390.94**

Source: ERA, Revenue Model, July 2025.

Required Amendment 3.1

DBP must amend the values for total revenue (nominal) to reflect the values as set out in Table 3.5 of Draft Decision Attachment 3.

Allocation of total revenue

31. The total revenue shown in Table 3.5 includes shared costs for the provision of other services in addition to the reference services. To calculate reference tariffs, the ERA has made an allocation to these other services, which includes non-reference and non-reference rebateable services.[26]

32. WesCEF and NewGen both raised concerns over the allocation of costs not being done in accordance with the requirements of rule 93(2) of the NGR. WesCEF also considered that there should be more costs allocated to the provision of the Ullage and Peaker Services (both rebateable services); and NewGen considered that the rules do not allow for revenue allocation based on past revenue splits.

[25] DBP included the adjustment in the operating expenditure building block, which is inconsistent with the requirements of rule 76(d). Under this rule, the building block calculation must separately include any increments or decrements for the year resulting from the operation of an incentive mechanism to encourage gains in efficiency.

[26] The classification of services is considered in Draft Decision Attachment 1.

Rebateable service costs

33. Rule 93 of the NGR requires total revenue to be allocated between reference services and other pipeline services either directly to those services where costs are direct service costs, or otherwise on a basis approved by the regulator where costs are shared costs. The NGR further allows for the allocation of rebateable service costs to reference services provided there is a rebate mechanism which applies an appropriate portion of the revenue generated from the sale of rebateable services to reduce the reference tariff.[27]

34. A rebateable service is a non-reference service that is characterised by substantial uncertainty concerning the extent of demand for or revenue to be generated from the service.[28] As such, it is inherently difficult to allocate costs to such services, especially variable costs that are a function of demand. The ERA has assessed the rebate mechanism for rebateable services elsewhere in this decision (paragraph 59) and for AA6 has decided to increase the rebateable portion from 70 per cent to 90 per cent.[29] On this basis, the ERA has decided not to separately allocate costs to rebateable services when allocating costs under rule 93 of the NGR.

35. For AA6, DBP has largely retained the tariff variation mechanism that operated for AA5. This mechanism includes an annual scheduled variation to adjust tariffs for inflation, the cost of debt and rebateable services. The provisions to adjust tariffs for rebateable services is set out in Annexure A5 (clauses 18.19 and 18.20) of the access arrangement. DBP has proposed minor amendments to these clauses to make reference to the Pilbara Service (which is consistent with its proposal to reclassify the Pilbara Service as a rebateable non-reference service) and update date references to reflect the dates that are relevant to AA6.[30] DBP has kept the rebateable portion at 70 per cent, meaning that 70 per cent of the revenue generated from the sale of rebateable services would be applied to reduce the reference tariff (DBP would keep the other 30 per cent of revenue).

36. The ERA considered and rejected DBP's proposal to reclassify the Pilbara Service as a rebateable non-reference service in Draft Decision Attachment 1. The ERA's draft decision is to specify four non-reference services as rebateable services, being the Peaker Service, Other Reserved Service, Ullage Service and Spot Capacity Service. Consistent with this decision, DBP must amend clause 18.19 of the access arrangement to remove the reference to the Pilbara Service being a rebateable non-reference service.

37. The ERA's consideration of the rebateable mechanism for rebateable services, including the rebateable portion, is discussed at paragraph 59.

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27 NGR, rule 93(3).

28 NGR, rule 93(4).

29 The ERA considers more revenue from rebateable services should be rebated back to reference service users via the reference tariff to compensate these users for the pipeline costs they cover through the reference tariff. The reference tariff covers the majority of DBP's costs to provide reference and rebateable services. System use gas (gas used to operate the pipeline) is the material cost for rebateable services which is not included in the tariffs payable. System use gas costs are included in reference tariffs and is for reference services only. The amount rebated for rebateable services should take into account the additional system use gas costs that DBP incurs to provide rebateable services. The ERA considers that the 10 per cent of revenue from rebateable services that DBP will retain would compensate DBP for these additional system use gas costs.

30 The ERA considers DBP's amendments to update date references necessary and consequential amendments to reflect the next (AA6) access arrangement period.

Required Amendment 3.2

DBP must amend clause 18.19 of the proposed access arrangement to remove the reference to the Pilbara Service being a rebateable non-reference service.

Allocation of costs

38. Consistent with rule 93, costs must be allocated between reference and non-reference services. However, in the case where costs cannot be separated, meaning the costs are shared costs for the provision of both reference and non-reference services, these other (shared) costs must be allocated on a basis approved by the ERA. For all shared costs, the ERA has previously approved cost allocation on a basis that reflects the ratios of the provision of the relevant services. Consistent with the approach applied in AA5, the ERA considers that shared costs for the provision of pipeline services should continue to be allocated in the same proportion of the expected revenue from those services. Shared costs include all building block costs, except for SUG operating expenditure, which is an operating cost that is directly attributable to reference services.[31]

39. For AA6, DBP has forecast that non-reference services will generate approximately 0.5 per cent of total revenue (excluding the Pilbara Service, which DBP proposed to reclassify as a rebateable non-reference service), with the remaining 99.5 per cent of total revenue generated from reference services.

40. Given the ERA's decision to reject DBP's proposal to reclassify the Pilbara Service from a non-reference service to a non-reference *rebateable* service, the ERA has applied a different percentage allocation of total revenue to reflect this decision. Leaving the Pilbara Service as a non-reference service will increase the forecast revenue from non-reference services and increase the percentage allocation for non-reference services.[32]

41. Additionally, the ERA considers that the revenue generated from gas overrun should be accounted for as non-reference service revenue given its magnitude. Gas overrun is the volume of gas received by a shipper on a gas day that exceeds the total quantity of gas the shipper is contractually entitled to receive under all their capacity services.

42. The ERA observes that in the Regulatory Information Notice data for 2024, DBP has recorded a total of $46.14 million of revenue that was generated from gas overrun for the 2021 to 2024 period (Table 3.6). The explanatory note for the revenue states:

> Overrun isn't specifically a service, but has all the characteristics of a service (defined tariff, throughput, etc). Overrun is defined under multiple agreements, but isn't directly linked to a particular service, so can only tenuously be categorised as T1, P1, etc.
>
> NOTE: DBP have added Overrun as a Service to the [Regulatory Information Notice] template. Any Service Type description in [Customer Reporting System] containing

[31] Expenditure for system use gas is calculated based on reference service throughput forecasts and does not include any non-reference service costs.

[32] DBP's proposal to treat the Pilbara Service as a rebateable service was for 70 per cent of the actual revenue from the Pilbara Service during AA6 being rebated back to reference service users.

"Overrun" maps to Other non-reference Services - Overrun.[33]

Table 3.6: Non-reference services revenue generated from gas overrun ($ million, nominal)

	2021	2022	2023	2024	Total
Total non-reference service revenue[Note1]	**10.26**	**18.42**	**20.77**	**24.31**	**73.76**
Revenue from overrun	3.99	12.44	12.35	17.37	46.14
Percentage of overrun revenue (%)	39	68	59	71	63

Note1: Includes revenue from Storage Service, Pilbara Service, Data Services, Park and Loan, Imbalance, Inlet Sales and Overrun.

Source: DBP, 2024 Regulatory Information Notice.

43. Overrun revenue has materially increased over the four year period from 2021 to 2024 and represents more than 60 per cent of DBP's total non-reference services revenue earned during this time. The overrun charges set by DBP are significant, which provides DBP with returns above the reference service tariffs.[34] Hence, the overrun revenue generated provides DBP with a reasonable opportunity to recover the costs incurred in providing overrun services.

44. Based on the above considerations, the ERA's draft decision allocation of efficient costs between reference and non-reference services is 95:5. Consistent with DBP's method and reasoning for its allocation ratio (refer paragraph 8), using 2024 Regulatory Information Notice data, DBP generated $73.76 million from the provision of non-reference services (inclusive of overrun charges) over the period 2021 to 2024. This represents 5 per cent of total revenue generated for that period.[35]

45. The ERA's application of the 95:5 allocation ratio is set out in Table 3.8 below.

Table 3.7: ERA allocation of total revenue between reference and other (non-reference) services for AA6 ($ million, nominal)

	2026	2027	2028	2029	2030	Total
Total revenue	**462.5**	**474.6**	**474.8**	**480.6**	**498.4**	**2,390.9**
Allocation to reference services	440.6	452.0	452.1	457.5	474.5	2,276.7
Allocation to other (non-reference) services	21.9	22.6	22.7	23.1	23.9	114.2

Source: ERA, Revenue Model, July 2025.

33 DBP, *Regulatory Information Notice 2024, Attachment 2: Basis of Preparation (public)*, p. 5.

34 Clause 11.1(b) of the reference service terms and conditions states that the Overrun Rate (charge) is the greater of 115% of the reference service tariff; and the highest price bid for spot capacity which was accepted for that gas day. Schedule 2 states that the Unavailable Overrun Charge (payable for unauthorised overrun) is the greater of 250% of the reference service tariff; and the highest price bid for spot capacity which was accepted for that gas day.

35 DBP generated $1,203.74 million and $165.07 million from the provision of reference and rebateable non-reference services, respectively; totalling $1,368.81 million.

Reference tariffs

46. Once total revenue and the allocation of total revenue between reference and non-reference services has been determined, reference tariffs can be calculated. Reference tariffs are calculated by dividing the amount of total revenue to be generated from reference services by the forecast demand for those services. Table 3.5 (above) sets out the ERA's determination of total revenue for AA6. The ERA's demand forecast for AA6 is set out in Draft Decision Attachment 2.

47. DBP has retained the two-part tariff structure for each of the three reference services (that is, each reference tariff is comprised of a capacity and commodity charge). In the absence of any submissions against the two-part tariff structure, the ERA considers that there is no reason to change the tariff structure because it is consistent with the requirements of the NGR.

48. DBP has proposed to adjust the tariff structure ratio. DBP submitted that the capacity to commodity ratio, which is designed to recover fixed and variable costs respectively, needs to be adjusted for AA6 to reflect fixed costs (non-SUG costs) increasing at a faster rate than variable costs (SUG costs). On this basis, DBP has changed the capacity to commodity ratio from 94:6 to 95:5.[36]

49. Submissions received from Horizon Power, WesCEF and NewGen all addressed the capacity to commodity ratio:

    - Horizon Power indicated support for the amended ratio on the basis that it was not a material change and provided DBP with more revenue income certainty. However, its support was subject to DBP accommodating its proposed suggested amendments for out of specification gas liability.

    - WesCEF and NewGen both made similar submissions that SUG is not the only variable cost that is incurred by DBP because of gas throughput. WesCEF and NewGen identified the maintenance of compressors which are required at more regular intervals as a variable cost (that is, there is increased wear and tear on compressors when they are required to be ramped up and down quickly to meet customer throughput requirements). WesCEF additionally listed turbine and Gas Engine Alternator (GEA) overhauls as a variable cost, noting that these costs are a function of unit of run hours and therefore a function of throughput.

50. The observations made by WesCEF and NewGen that costs that are a function of gas throughput and/or unit run time would be variable in nature is reasonable. Turbine and GEA overhaul operating expenditure is determined as a function of the run hours which is based on throughput. As a result, the ERA has included turbine and GEA overhaul forecast operating expenditure as a variable cost in addition to the SUG forecast expenditure for determining the tariff ratio.

51. The ERA has also assessed additional costs that could be considered variable and notes WesCEF's submission that there might be costs related to the quick ramp up and ramp down of compressors to meet variable demand. It appears that this is more of a problem with non-reference service demand, which can be more variable and is an issue with cost allocation and not reference tariff structure.

[36] The proposed ratio of 95:5 means that 95 per cent of the tariff will recover the fixed (capacity) charge, and 5 per cent of the tariff will recover the variable (commodity) charge.

52. Given the above observations, the ERA considers that the capacity to commodity ratio should be 94:6. Hence, for this draft decision, the ERA has calculated the reference service tariffs to recover 94 per cent of total revenue from the capacity (fixed) charge and 6 per cent of total revenue from the commodity (variable) charge.

53. Table 3.8 (below) sets out the reference tariffs proposed by DBP and calculated by the ERA based on its draft decision considerations for total revenue and the allocation of this between reference and non-reference services, the two-part tariff ratio, and forecast capacity and throughput for AA6. The calculated tariffs are indicative and will vary based on the application of the tariff variation mechanism. The ERA's draft decision:

- T1 Tariff is 10.7 per cent lower than DBP's proposed tariff.
- P1 and B1 Tariffs are 10.7 per cent lower than DBP's proposed tariffs.

54. DBP's proposal for reference tariffs included a material step change on 1 January 2026 of 56 per cent, followed by no real price increase over the course of the access arrangement period (2027 to 2030).[37] NewGen submitted that an NPV-smoothed price path starting from the final year of AA5 would better mitigate the impact of a sharp price increase and would better achieve the national gas objective. While the ERA's draft decision tariffs result in a lower tariff increase compared to DBP's proposed tariffs, the increase from 2025 tariffs is still significant at 33 per cent in real terms.[38]

55. For the purposes of this draft decision, the ERA has decided to apply its tariffs on the same basis that DBP proposed; that is, a step change for the 2026 tariff followed by no real price increase for the 2027 to 2030 tariffs. A step change on 1 January 2026 will result in a more stable price path during AA6. A smoothed annual tariff change starting with lower tariff increases in the first year was also considered. However, this approach would result in higher overall nominal tariffs over the period. The smoothed annual tariff change approach would also lead to higher tariffs at the end of the period compared to the building block revenue for the final year, which then may require a larger correction in the next access arrangement period (AA7), resulting in less price stability. The ERA notes that the tariffs for the final decision will also include a reduction based on revenue from rebateable services between 1 October 2024 to 30 September 2025. As per the AA5 access arrangement, 70 per cent of rebateable service revenue earned during that period will be rebated back to reduce the reference tariff that is applicable on 1 January 2026. The size of this reduction will be known by the time the ERA makes its final decision. For the 2025 tariff variation, there was a $0.2417 per GJ reduction to the Full Haul (T1) tariff to account for rebateable services revenue.

56. Tariffs for the years 2027 to 2030 would then be determined by the tariff variation mechanism, which includes adjustments for inflation, debt risk premium updates, rebateable service revenue and cost pass through events.

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37 DBP, *Final Plan 2026-2030*, January 2025, p. 132.
There would still be a nominal price increase each year as part of the tariff variation to increase the tariff for inflation.

38 The stated step increase for DBP's proposal and the ERA's draft decision are a comparison of tariffs before any adjustment for rebateable service revenue has been made to ensure a consistent basis. The T1 Tariff applying from 1 January 2025 is $1.37. See: ERA, 'Tariff Variations' (online) (accessed July 2025), which excludes rebateable revenue The draft decision tariffs would represent a higher tariff increase than 33 per cent on actual 2025 tariffs, but the ERA will also be adjusting the tariffs in the final decision for rebateable services revenue.

Table 3.8: Comparison of DBP proposed and ERA draft decision reference tariffs for 2026 ($, nominal) – indicative only

Tariff component	DBP proposed 2026 tariff	ERA draft decision 2026 tariff	Change (%)
Full Haul (T1)			
Capacity (reservation) charge ($/GJ/day)	2.323912	2.054124	(11.6)
Commodity (throughput) charge ($/GJ/day)	0.123728	0.131888	6.6
Total	**2.447640**	**2.186012**	**(10.7)**
Part Haul (P1)			
Capacity (reservation) charge ($/GJ/km/day)	0.001661	0.001468	(11.6)
Commodity (throughput) charge ($/GJ/km/day)	0.000088	0.000094	6.8
Total	**0.001749**	**0.001562**	**(10.7)**
Back Haul (B1)			
Capacity (reservation) charge ($/GJ/km/day)	0.001661	0.001468	(11.6)
Commodity (throughput) charge ($/GJ/km/day)	0.000088	0.000094	6.8
Total	**0.001749**	**0.001562**	**(10.7)**

Source: ERA, Revenue Model, July 2025.

Required Amendment 3.3

The reference tariffs set out in the proposed access arrangement must be amended to reflect the tariffs set out in Table 3.8 of Draft Decision Attachment 3.

Tariff variation mechanism

57. The tariff variation mechanism is set out in Annexure A of the proposed access arrangement. It remains largely unchanged from the current mechanism that has operated for AA5, which includes an annual scheduled variation (to adjust tariffs for inflation, the cost of debt and rebateable services), and variations for tax changes and cost pass through events.

58. For AA6, DBP has a proposed an amendment to the tariff variation formula that is related to the Commonwealth Government's Safeguard Mechanism. The ERA has considered this amendment below (paragraph 70), in addition to the rebate mechanism for rebateable services (paragraph 59). The ERA has also identified several administrative errors in the drafting of Annexure A that need to be addressed. Table 3.9 sets out these errors and the required amendments.

Table 3.9: Administrative errors in Annexure A (tariff variation mechanism) of the proposed access arrangement

Administrative error	Required amendment
A2: CPI formula variation (page A) Access arrangement period (years) requires amending to reflect the years of AA6.	Limit on varied Reference Tariff Components and the Tariff Basket for Access Arrangement Period (years) ~~2022, 2023, 2024 and 2025~~ 2027, 2028, 2029 and 2030.
Clause 18.8 (page A) The formula for tariff variation in accordance with the CPI needs amending to change the base CPI year from September 2025 to September 2023.	$Tariff_N^{i,j} \leq Tariff_R^{i,j} \times \frac{CPI_{Sep(N-1)}}{CPI_{Sep~~2025~~2023}}$ Where: … $CPI_{Sep~~2025~~2023}$ is the value of the CPI All Groups, Weighted Average of Eight Capital Cities … ending on 30 September ~~2025~~2023.
Clause 18.3 (page A) and 18.11 (page C) References to the ERA Final Rate of Return Guideline (2018) need to be amended to the ERA's current gas instrument: the *2022 Gas Rate of Return Instrument*. The Instrument is available on the ERA website.	[18.3] The Service Provider has … The trailing average approach is a method of the type referred to in the ~~ERA Final Rate of Return Guidelines (2018)~~ ERA's 2022 Gas Rate of Return Instrument. [18.11] … the forward looking DRP estimators for the calendar year 2027, 2028, 2029 or 2030, estimated during the 20 trading days averaging period, using the method set out in the ERA's ~~December 2018 Rate of Return Guideline~~ 2022 Gas Rate of Return Instrument …
Clause 18.11 (page C) The ERA's estimate of the DRP (years) requires amending to reflect the recent 10 years (2016 to 2025). Redundant years for the debt risk premium (DRP) can be deleted (i.e. years 2012 to 2015).	[18.11] … and from the ERA's estimate of the DRP for years ~~2015 to 2021~~ 2016 to 2025, as follows, as set out in the Final Decision: ~~calendar year 2012: DRP2012: 3.168 per cent;~~ ~~calendar year 2013: DRP2013: 3.043 per cent;~~ ~~calendar year 2014: DRP2014: 2.251 per cent;~~ ~~calendar year 2015: DRP2015: 2.070 per cent;~~ calendar year 2016: DRP2016: 2.612 per cent calendar year 2017: DRP2017: 2.274 per cent calendar year 2018: DRP2018: 1.756 per cent calendar year 2019: DRP2019: 1.712 per cent calendar year 2020: DRP2020: 1.995 per cent calendar year 2021: DRP2021: 1.712 per cent calendar year 2022: DRP2022: 1.568 per cent calendar year 2023: DRP2023: 2.228 per cent calendar year 2024: DRP2024: 1.913 per cent calendar year 2025: DRP2025: 1.606 per cent
A4: Automatic formulas for updating the Debt Risk Premium (page D)	[18.16] The first estimate of the DRP … which has been included in the trailing average estimate of the DRP for calendar year ~~2021~~2026 included in the Final Decision.

Administrative error	Required amendment
Amendments are required to reflect the years of AA6 (clauses 18.16, 18.17, 18.18). Clause 18.18 also requires amending to reference the ERA's current gas rate of return instrument.	[18.17] The next DRP estimate that will be made will be based on the nominated 20 days falling in the period July to October ~~2021~~2026 (for DRP~~2022~~2027). That next DRP estimate will be incorporated in the trailing average DRP (that is, TA DRP~~2022~~2027), and hence the updated rate of return, which will then apply in ~~2022~~2027 through the annual tariff variation. [18.18] The method of automatic formulas applies for updating the estimates of the DRP, and will remain unchanged for the duration of the ~~AA5~~ AA6 period, and hence will apply for the estimates made for DRP~~2022~~2027, as well as for the estimates DRP~~2023~~2028, DRP~~2024~~2029 and DRP~~2025~~2030. They are described in the ERA's ~~December 2018 Rate of Return Guideline~~ 2022 Gas Rate of Return Instrument (available here).

Required Amendment 3.4

DBP must address the administrative errors identified in Annexure A (tariff variation mechanism) of the proposed access arrangement to reflect the amendments set out in Table 3.9 of Draft Decision Attachment 3.

Rebate mechanism

59. The rebate mechanism for rebateable services is set out in Annexure A5 of the access arrangement. DBP did not propose any changes to the rebateable portion, meaning that for AA6, 70 per cent of the revenue generated from the sale of rebateable services would be rebated back to reference service users through a reduction in the reference tariff in the following year. DBP would retain the remaining 30 per cent (the non-rebateable portion) of the rebateable services revenue.

60. While DBP proposed no changes to the rebateable portion for AA6, the submissions from WesCEF and NewGen suggested that the rebateable portion needed to be reviewed (see paragraph 24). However, Horizon Power thought that the rebateable portion was reasonable because it was in line with other access arrangement decisions, such as the Australian Energy Regulator's (AER) decision for the Roma to Brisbane Pipeline.

61. The ERA's AA5 final decision did cite, along with other considerations, the AER's Roma to Brisbane Pipeline decision as one of the reasons that supported the approval of the 70 per cent rebateable amount for AA5.[39] The AA5 decision stated:

> The amount of revenue to be kept by DBP should be such to:
>
> - Allow DBP a reasonable opportunity to recover at least the efficient costs associated with providing the rebateable services.

[39] ERA, *Final decision on proposed revisions to the Dampier to Bunbury Natural Gas Pipeline access arrangement 2021 to 2025*, 1 April 2021, pp. 455-456, paragraphs 1958 to 1965.

- Incentivise DBP to maintain the provision of rebateable and other pipeline services and to respond to customer needs and charge efficient tariffs.

> The AER's final decision for the Roma to Brisbane Gas Pipeline and the ERA's approval of DBP's proposed E Factor incentive mechanism support DBP's proposal to retain 30 per cent of the revenue generated from the sale of rebateable services and to return 70 per cent back to customers (that is, 70 per cent being the "rebateable amount").
>
> The NGR requires the rebateable amount be applied to reduce the reference tariff. Therefore, only customers that have a contract for a reference service (that is, reference service customers) will directly receive the benefit of the rebate. Customers with services other than reference services would need to separately negotiate any reduction to their tariff.[40]

62. WesCEF and NewGen both raised questions about whether the rebateable portion of 70 per cent is too generous to DBP (with DBP retaining the other 30 per cent of the rebateable services revenue). WesCEF also suggested that there may be a case for having different rebateable portions for each of the rebateable services.

63. The ERA considers that given the current circumstances surrounding the operation of the DBNGP, there is merit in reviewing the rebateable portion for the following reasons:

- DBP is operating in an environment of continual energy transformation toward a net zero carbon emissions future. While the role of natural gas and the DBNGP is still unfolding, DBP is incentivised to fully utilise its pipeline.

- At present the DBNGP is not fully utilised. With shippers reducing their reference service capacity to adopt renewable forms of energy (solar, wind) to meet their own carbon emissions strategies and targets, there is spare pipeline capacity. This spare capacity enables DBP to provide other (negotiated) pipeline services.

64. Given the current operating environment for and utilisation of the DBNGP, the ERA considers that DBP is sufficiently incentivised to continue with the provision of rebateable and other (non-reference) services. However, DBP must continue to have the opportunity to recover the efficient costs associated with providing these services.

65. DBP has confirmed that the material cost for the provision of rebateable services is SUG.[41] The SUG included in the cost of service (as an operating cost) is only for reference services. DBP must be able to recover its SUG costs from the non-rebateable portion of rebateable services revenue (the portion of rebateable services revenue that DBP can keep and not returned (rebate) to reference service users).

66. SUG costs are directly related to gas throughput (that is, as gas throughput increases, SUG costs increase). Given this, the ERA considers that users of rebateable services that have gas throughput, should cover their SUG costs and make a reasonable contribution to cover the shared costs that are incurred to provide rebateable services. The rebateable portion for rebateable services should compensate reference service users for the shared costs of the pipeline by lowering the reference service tariff.

67. The ERA considers that a reasonable estimate of SUG costs associated with the provision of rebateable services is, on average, 10 per cent of the rebateable services revenue. The ERA notes that SUG costs for reference services represent around

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40 ERA, *Final decision on proposed revisions to the Dampier to Bunbury Natural Gas Pipeline access arrangement 2021 to 2025*, 1 April 2021, p. 456, paragraphs 1963 to 1965.

41 DBP response to ERA information request ERA14.

five per cent of the allocated reference service revenue forecast for AA6, but that SUG costs would be more with additional throughput as more fuel for compressor use would be required.[42] Given this, the ERA considers that DBP should keep 10 per cent of rebateable services revenue (which would compensate DBP for rebateable services SUG costs) and rebate back the other 90 per cent of revenue to reference service users for the shared costs of the pipeline. Consistent with this position, the ERA requires DBP to change the rebateable portion for rebateable services revenue from 70 per cent to 90 per cent in clause 18.20 of the proposed access arrangement.

68. The ERA also requires DBP to amend the table in clause 18.20 to be consistent with the required amendments for fixed principles. Fixed principles may be included in an access arrangement to provide certainty that specific elements of the access arrangement will remain unchanged for a set period, which may extend across more than one access arrangement period. The ERA's consideration of DBP's proposed fixed principles is set out in Draft Decision Attachment 8, where the ERA has decided that amendments to the fixed principle for the rebate mechanism are needed to better clarify the distinction between AA5 and AA6 and how the fixed principle works across these access arrangement periods. Consistent with this decision, the table in clause 18.20 must be amended to include Periods 5 and 6 from AA5 as set out as follows:

Period	Column A	Column B
AA5, 5	1 October 2024 until 30 September 2025	1 January 2026 until 31 December 2026
AA5, 6	1 October 2025 until 31 December 2025	1 January 2027 until 31 December 2027
AA6, 1	1 January 2026 until 30 September 2026	1 January 2027 until 31 December 2027
AA6, 2	1 October 2026 until 30 September 2027	1 January 2028 until 31 December 2028
AA6, 3	1 October 2027 until 30 September 2028	1 January 2029 until 31 December 2029
AA6, 4	1 October 2028 until 30 September 2029	1 January 2030 until 31 December 2030
AA6, 5	1 October 2029 to 30 September 2030	1 January 2031 until 31 December 2031
AA6, 6	1 October 2030 to ~~30 September 2031~~ 31 December 2031	1 January 2032 until 31 December 2032

69. The ERA's required amendments make changes to Period 6 for both AA5 and AA6 to reflect the end of the respective access arrangement periods. The ERA considers this is necessary to take into account any changes that are made to the rebate mechanism in subsequent access arrangement periods so that the mechanism can continue to work in accordance with the fixed principle, which provides for it to work across access arrangement periods.

[42] The additional costs on a percentage basis could be offset somewhat with greater use of the Ullage Service, which delivers gas south of the Perth basin and should result in less compression costs for the delivery of other pipeline services.

Required Amendment 3.5

DBP must amend clause 18.20 of the proposed access arrangement as follows:

- Amend the "Rebateable Amount" for rebateable services revenue to ninety per cent (90%).
- Amend the table in subclause (a) to include Periods 5 and 6 from the previous access arrangement period (AA5) and update Period 6 for the current access arrangement (AA6) to reflect the end date of the access arrangement period; as set out in paragraph 68 of Draft Decision Attachment 3.

Amendments for Safeguard Mechanism

70. For AA6, DBP has proposed an amendment to the tariff variation formula that is related to the Federal Government's Safeguard Mechanism. The proposed amendment introduces new provisions to Annexure A (clause 18) of the access arrangement as follows:

[New Annexure A6 Adjustment for Safeguard Mechanism]

18.21 The Safeguard Mechanism is legislated as part of the National Greenhouse and Energy Reporting Act 2007 and Safeguard Mechanism Rules. It requires facilities in Australia which are responsible for more than 100,000 tonnes of carbon dioxide equivalent per annum to keep their net emissions below an emissions limit ('baseline'). Reforms which commenced on 1 July 2023 apply a declining rate to facilities' baselines so that they are reduced predictably and gradually over time, consistent with the national emission reduction targets.

18.22 The DBNGP is a Safeguard facility that is subject to a designated baseline declining over time. The Operator may therefore incur costs in complying with the Safeguard Mechanism (as set out in the National Greenhouse and Energy Reporting Act 2007 (Cth)); either to reduce emissions or to purchase and surrender emissions credits to ensure that net emissions from the DBNGP remain within the baseline (Safeguard Mechanism Amount).

18.23 Any Safeguard Mechanism Amount incurred by the Operator to meet compliance requirements under the Safeguard Mechanism will be applied to increase the Reference Tariff as follows:

(a) any determined Safeguard Mechanism Amount under clause 18.22 incurred during the time period specified in Column A will result in an adjustment to the Reference Tariff for the adjacent period in Column B below.

Period	Column A	Column B
1	1 January 2026 until 30 September 2026	1 January 2027 until 31 December 2027
2	1 October 2026 until 30 September 2027	1 January 2028 until 31 December 2028

3	1 October 2027 until 30 September 2028	1 January 2029 until 31 December 2029
4	1 October 2028 until 30 September 2029	1 January 2030 until 31 December 2030
5	1 October 2029 to 30 September 2030	1 January 2031 until 31 December 2031
6	1 October 2030 to 30 September 2031	1 January 2032 until 31 December 2032

18.24 The Safeguard Mechanism Amount in clause 18.23 excludes any costs already recovered in Reference Tariffs or as a Cost Pass Through Event. The amount is expressed in dollars of the day and accounts for the time value of money.

71. The proposed new annexure to the tariff variation mechanism will operate in an *ex-post* manner where costs that are incurred during the time period indicated in Column A of clause 18.23, will result in an adjustment to the reference tariff for the duration of the time period indicated in Column B. DBP would report the actual Safeguard Mechanism compliance costs to the ERA ahead of the scheduled tariff variation and these costs would be incorporated into reference service tariff price for the following time period.

72. DBP submitted that the above amendments are needed to prevent a scenario where net emissions exceed the set baseline under the Safeguard Mechanism. According to DBP, planned decarbonisation activities are reasonably likely to reduce net emissions below the facility baseline limit and it should therefore be allowed to recover any expenditure incurred to comply the Safeguard Mechanism.[43] DBP further submitted:

- This approach provides a clear mechanism for recovery of the pipeline's Safeguard Mechanism costs, which the operator may incur in accordance with its obligations under the *National Greenhouse and Energy Reporting Act 2007 (Cth)*, which currently cannot be forecast.
- The approach also accommodates the potential variability in the Safeguard Mechanism amount from year to year.
- The proposed change is also consistent with the approach applied by the AER to recover Safeguard Mechanism costs through the tariff variation mechanism for the three Victorian gas distribution businesses (AusNet Gas Services, Australian Gas Networks and Multinet Gas Networks) for the 2023/24 to 2027/28 access arrangement periods.

Safeguard Mechanism

73. The Commonwealth Government's Safeguard Mechanism applies to industrial facilities that emit more than 100,000 tonnes of carbon dioxide equivalent (CO_2-e) annually. The policy sets legislated limits, known as "baselines", on facilities that emit greenhouse gas emissions.

[43] DBP, Final Plan 2026-2030, *DBNGP Access Arrangement Information (Final Plan 2026-2030)*, January 2025, p.132.

74. A reformed Safeguard Mechanism commenced on 1 July 2023. The reforms to baseline limits applied a 4.9 per cent decline rate each year until 2030; targeting a reduction in Australia's largest industrial facility emissions at predictable and gradual rate over time, on a trajectory consistent with achieving the Federal Government's emission reduction target of 43 per cent below 2005 levels by 2030, and net zero by 2050.[44]

75. Industrial facilities that are captured by the Safeguard Mechanism that are given baseline limits (safeguard facilities) have a range of options to meet the schemes emissions budget, and to avoid civil penalties. For example, safeguard facilities may adopt decarbonisation activities that will shift emissions below their baseline, and facilities below the coverage threshold are also then able to generate Safeguard Mechanism Credits. Facilities can also purchase and surrender domestic offsets in the form of Australian Carbon Credit Units to meet their compliance obligations, with one unit representing one tonne of emissions avoided or sequestered.

DBP proposal

76. DBP has proposed its new Annexure A6 (Adjustment for Safeguard Mechanism) to provide a way to recover Safeguard Mechanism costs. The new provisions of the annexure are in addition to the existing cost pass through variation provisions that provide for the cost pass through of carbon costs under the tariff variation mechanism.[45] Carbon costs are defined as in the access arrangement as "any costs arising in relation to the management of and complying with any obligations or liabilities that may arise under any Law in relation to greenhouse gas emissions".

Cost pass through variations

77. The ERA considers that the existing provisions for cost pass through events for carbon costs would allow DBP to recover Safeguard Mechanism costs, similar to the recovery of these costs in the access arrangement for the Goldfields Gas Pipeline (GGP).

78. Like the DBNGP, the GGP is a transmission pipeline that is captured by the Federal Government's Safeguard Mechanism scheme. To address the recovery of costs that are incurred to comply with the scheme, Goldfields Gas Transmission (GGT) proposed a carbon cost pass through for its access arrangement commencing in 2025. The ERA determined that GGT's proposal to include a cost pass through event for carbon costs that are reasonably incurred and directly attributable to the operation of the pipeline was appropriate given its obligations under the Safeguard Mechanism.[46] In respect of this decision, the following points should be noted:

- GGT's Safeguard Mechanism costs are included in its operating expenditure forecast for the access arrangement period and included the purchase of carbon offsets.
- The provisions for the cost pass through event make clear that a carbon cost event applies to both material increase and material decrease.

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44 Department of Climate Change, Energy, the Environment and Water, "*Safeguard Mechanism"* (online) (accessed July 2025).

45 Clause 11.5 of the proposed access arrangement, which remains unchanged from the current AA5 access arrangement.

46 ERA, *Draft decision on revisions to the access arrangement for the Goldfields Gas Pipeline Attachment 3: Revenue and tariffs*, July 2024, p. 22.

- There is a minimum materially threshold for cost pass through events.[47]

79. DBP has submitted that its proposed tariff variation mechanism for Safeguard Mechanism costs is consistent with the approach applied by the AER in the access arrangements for the Victorian gas distribution networks. AusNet Gas Services, Australian Gas Networks and Multinet Gas Networks all adopted a tariff variation mechanism for Safeguard Mechanism costs. The AER considered that the reference variation mechanism was the least costly and least administratively burdensome approach available to capture costs incurred by pipelines complying with the Safeguard Mechanism. The AER stated:

    - is likely to minimise the cost burden on gas customers by passing through only costs incurred – this will ensure no over-or under-recovery of revenues; and
    - minimises administrative burden for the distributors by dealing with the issue via the control mechanism, akin to a jurisdictional scheme – avoiding the administrative costs of annual cost pass through applications.[48]

80. As mentioned, unlike the Victorian gas distribution networks regulated by the AER, the DBNGP access arrangement already includes provisions for cost pass through events for carbon costs. While these provisions were not originally designed to address Safeguard Mechanism costs (the provisions were implemented prior to the Safeguard Mechanism existing), they do provide a suitable foundation for doing so. With appropriate amendments and clarification, the existing provisions of clause 11.5 of the access arrangement could be adapted to capture Safeguard Mechanism costs incurred by DBP, alongside other relevant carbon-related costs.

81. However, given DBP's proposal for new specific provisions to address the Safeguard Mechanism that explicitly exclude any costs already recovered in the reference tariffs or costs recovered as a cost pass through event (new proposed clause 18.24), the ERA has given consideration to the benefits that a separate adjustment mechanism may create.

Separate adjustment mechanism

82. DBP has indicated that its planned decarbonisation activities are reasonably likely to reduce its facility emissions below the baseline limit. Information about DBP's planned activities to reduce emissions are within in its Final Plan and in DBP's application to the Clean Energy Regulator to provide Multi-Year Monitoring Period (MYMP) data.[49] [50] The opportunity to provide MYMP data is available to facilities that have exceeded their baseline, but have a firm and credible plan to undertake activities to reduce cumulative emissions before the end of the reportable five-year period. MYMP reporting provides "responsible emitters" more time to implement emissions reduction projects at their facility, and the ability to receive Safeguard Mechanism Credits at the end of the reporting period.[51]

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47 A cost pass through event is considered material where the cumulative costs of the event exceed $1 million in the years in which the costs are incurred. Unforeseen costs that fall below this materiality threshold are to be managed as part of GGT's usual business operations.

48 AER, *Final Decision AusNet Gas Services Attachment 10 – Reference tariff variation mechanism*, June 2023, p. 6.

49 DBP, *Final Plan 2026-2030, DBNGP Access Arrangement Information (Final Plan 2026-2030),* January 2025, p. 132.

50 Australian Gas Infrastructure Group, *Multi-year Monitoring Plan Summary Plan - FY2023 – 2027,* November 2023, p. 4.

51 Clean Energy Regulator, "*Multi-year monitoring period data", 15 April 2025* (online) (accessed July 2025).

83. Table 3.10 shows that DBP's emissions for the financial years 2022/23 and 2023/24 has exceeded the baseline emissions limit throughout the MYMP.

Table 3.10: DBP's multi-year monitoring period performance (tCO_2-e)

Financial year	Safeguard baseline limit	DBP's emissions	Exceedance	MYMP cumulative net exceedance
2022/23	246,362	267,179	20,817	20,817
2023/24	241,857	250,024	8,167	28,984

Source: Clean Energy Regulator, "Multi-year monitoring period data", 15 April 2025 (online) (accessed July 2025).

84. Should DBP's decarbonisation activities reduce net emissions below its facility baseline number and surpass the cumulative net exceedance from previous years, DBP would qualify to generate Safeguard Mechanism Credits. The ERA considers that in circumstances where DBP generates and decides to sell these credits, any revenue generated from the sale of those credits, should be returned to users through the proposed tariff variation adjustment for the Safeguard Mechanism.

85. As currently drafted, DBP's proposed Safeguard Mechanism tariff variation adjustment is asymmetrical – only costs are being recovered from users. The ERA considers that amendments are needed to make the adjustment symmetrical. That is, the provisions for the Safeguard Mechanism tariff variation adjustment should recover from users any costs incurred by DBP to comply with the Safeguard Mechanism *and* return any revenue to users that DBP generates from the Safeguard Mechanism.

86. Noting the submission made by NewGen, the ERA further considers that the provisions for the Safeguard Mechanism tariff variation adjustment should be specific about the costs that can be recovered. NewGen submitted that only DBP's "incremental incurred costs" that arise from DBP achieving compliance with the Safeguard Mechanism should be included; and for these costs to verified by the ERA. Additionally, the ERA considers cost incurred to comply with the Safeguard Mechanism are shared costs. To be consistent with the ERA's draft decision of the allocation of efficient costs between reference and non-reference services which is 95:5 (paragraph 44), the same should apply to Safeguard Mechanism costs.

87. Based on the above considerations, the ERA's draft decision is to not approve DBP's proposed Annexure A6 (clauses 18.21 to 18.24) in the access arrangement. DBP must amend the Annexure A6 provisions to:

- Make explicit that only incremental incurred (actual) costs that are directly attributable to DBP's compliance with the Safeguard Mechanism are recoverable.
- Clarify that the allocation ratio of shared costs applies to costs incurred complying with the Safeguard Mechanism.
- Make the adjustment mechanism symmetrical in its operation, to recover costs from users and return revenue to users.

- Ensure no duplication of the recovery of costs under the existing carbon cost pass through event provisions and any proposed Safeguard Mechanism tariff variation adjustment.[52]

88. Alternatively, instead of amending the provisions in Annexure A6 to address the required amendments set out in this decision, DBP may wish to remove Annexure A6 from the proposed access arrangement and amend existing clause 11.5 (New Cost Pass Through Variation) to encompass the Safeguard Mechanism.

Required Amendment 3.6

DBP must amend the provisions of Annexure A6 (Adjustments for Safeguard Mechanism) in the proposed access arrangement to:

- Make it explicit that only incremental incurred (actual) costs that are directly attributable to DBP's compliance with the Safeguard Mechanism are recoverable.
- Clarify that the allocation ratio of shared costs applies to costs incurred complying with the Safeguard Mechanism.
- Make the adjustment mechanism symmetrical in its operation, to recover costs from users and return revenue to users.
- Ensure no duplication of the recovery of costs under the existing carbon cost pass through event provisions and any proposed Safeguard Mechanism tariff variation adjustment.

Mechanism for demand uncertainty

89. In its submission, WesCEF suggested a need to consider a mechanism within the access arrangement to address the uncertainty associated with demand forecasting. WesCEF set out two possible mechanisms:

    - A **trigger event mechanism** to the extent that the actual demand in any year of AA6 is above the approved forecasts by, say, 10 per cent. This is consistent with trigger event mechanisms that the ERA's predecessor adopted for the Parmelia Pipeline access arrangement when there was a significant uncertainty associated with forecast demand.
    - A **tariff variation mechanism** that requires [DBP] to revisit its demand forecasts for reference services each year and, to the extent that the updated demand forecasts are above the approved AA6 forecasts for the relevant year by, say, 10 per cent, this will require the reference tariff to be amended.[53]

90. WesCEF considered that either (or both) of the suggested mechanisms would only need to operate if actual demand is higher than the approved demand forecast because, if actual demand is lower than the approved forecast, DBP can voluntarily submit a revised access arrangement and is financially incentivised to do so given the price cap form of regulation that applies.

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52 The ERA considers that proposed clause 18.24 does provide some assurance by specifically excluding "any costs already recovered in Reference Tariffs or as a Cost Pass Through Event".

53 Wesfarmers Chemicals, Energy & Fertilisers, *Submission in response to DBP proposal and/or ERA issues paper*, 31 March 2025, p. 16.

91. The ERA has considered WesCEF's suggested inclusion of a trigger event mechanism in Draft Decision Attachment 8. In summary, the ERA has decided against such a mechanism based on high regulatory costs for all parties and the likelihood of the trigger event happening in the later years of the access arrangement period, which significantly erodes any benefits of reopening the access arrangement.

92. The ERA's consideration of WesCEF's suggested tariff variation mechanism for demand is set out as follows.

93. Intuitively, WesCEF's suggested tariff variation mechanism to address demand forecasting risk has merit given that under the current price cap form of regulation, there is no mechanism to adjust reference tariffs downward in response to higher than forecast demand, which may result in users paying more than necessary. As highlighted by WesCEF, service providers can reopen their access arrangement in circumstances where actual demand is lower than forecast demand.[54] In these circumstances, service providers are financially incentivised to do so to adjust (increase) tariffs to mitigate any under-recovery of allowed tariff revenue. However, there is no equivalent pathway for users or the regulator to adjust (decrease) tariffs to mitigate any over-recovery of allowed tariff revenue in circumstances where actual demand is higher than forecast demand.

94. Using WesCEF's suggestion, the tariff variation mechanism would operate in a scenario where actual demand exceeds the forecast demand by a threshold value (10 per cent) in any year of AA6. Where actual demand is within the threshold value (was less than 10 per cent), no adjustments would need to be made to reference tariffs. Conversely, if actual demand exceeded the threshold value (was greater than 10 per cent) reference tariffs would be adjusted (reduced) to ensure DBP's revenue remained close to the demand forecasts approved by the ERA and used to determine the total revenue requirement for the access arrangement period.

95. The mechanism as proposed by WesCEF aims to provide a balanced approach by preserving regulatory revenue certainty when demand variations are minor, while enabling tariff adjustments when variations in demand exceed a material threshold to ensure the reference tariffs remain aligned with actual reference service usage demand.

96. The ERA notes the AER's consideration of hybrid tariff variation mechanisms, such as "cap and collar" mechanisms, in its 2023 review of the of gas distribution network reference tariff variation mechanism and declining block tariffs. WesCEF's suggested tariff variation mechanism to address demand uncertainty appears to be a "cap and collar" mechanism. In its review, the AER stated:

> The National Gas Rules do not provide an equivalent regulatory pathway for customers, nor the AER, to reduce haulage tariffs to ensure customers pay no more than necessary under price caps.
>
> 'Cap and collar' tariff variation mechanisms are one potential way of mitigating this price risk faced by customers under price cap regulation. However, subject to design of the hybrid tariff variation mechanism, it would also absolve distributors of their volume risk.[55]

97. Considering the AER's review findings, the ERA is cautious about introducing any tariff variation mechanisms that may increase regulatory complexity, or dilute incentives for

54 NGR, rule 65.

55 AER, *Review of gas distribution network reference tariff variation mechanism and declining block tariffs: Final decision,* October 2023, *p.6.*

accurate forecasting or to grow customer demand which could reduce the long term price for pipeline users.

98. Demand forecasts, like other forecasts, are inherently uncertain. The regulatory framework acknowledges this with explicit provisions for forecasting: rule 74 of the NGR requires that a forecast or estimate be arrived at on a reasonable basis; and represent the best forecast or estimate possible in the circumstance. Given these provisions, the ERA considers that the focus should remain on assessing DBP's forecasting and estimating methods to ensure these methods have produced demand forecasts that were arrived at on a reasonable basis and represent the best forecast possible.

99. Demand forecasts are also a key input into other access arrangement elements (for example, operating and capital expenditures, tariff revenue) and hence, any change to demand forecasts during an access arrangement period would need to factor in the flow-on effects to these other access arrangement elements. Given these complexities, the ERA considers that a tariff variation mechanism for demand would not be workable in practice. Unless the flow-on effects to other access arrangement elements can be isolated and adjusted appropriately, there may be unintended consequences that affect the approval and operation of these access arrangement elements for and during the access arrangement period.

100. Also, where there is a material uplift in demand that is driven by the incentive properties for DBP to increase its demand under a price cap arrangement, the resulting higher revenue would benefit DBP during the access period, and flow on benefits should be passed on to customers at the next access arrangement if this demand persists. This is because when there is an increase in demand, total revenue would be divided by more units of demand than would have otherwise been the case, resulting in lower per unit prices.

101. Based on the above considerations, the ERA has decided against requiring the introduction of a tariff variation mechanism to address demand forecast uncertainty.

Appendix 1 List of Tables