Dawson Valley Pipeline Access Arrangement - Non Capital Costs

by

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August 2007

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Introduction

On 23 May 2007 the Australian Competition and Consumer Commission (ACCC) released its Draft Decision on the Access Arrangement for the Dawson Valley Pipeline. In response to the Draft Decision the Service provider (the Dawson Valley Joint Venture[1]) provided a submission via its lawyers, Minter Ellison, dated 8 June 2007. Subsequently the Joint Venture also issued a revised Access Arrangement and Access Arrangement Information[2].

In the Draft Decision the ACCC found that while the proposed direct operating costs of $163,000 per annum (real 2006-07 $) were reasonable in accordance with the Gas Code[3], the proposed indirect costs of $488,000 were excessive. The ACCC proposed that total Non Capital Costs be reduced to $300,000 per annum with indirect costs (overheads) of $137,000 (for 2006-07) in its calculation of total revenue[4].

In its determination of what might be reasonable Non Capital Costs the ACCC accepted a recommendation made by Ross Calvert Consulting Pty Ltd[5]. The ACCC noted that the proposed level of overheads was reliant on staff estimated time and considered that

> *despite best efforts, staff inexperienced with regulatory processes ……may report an over estimate of time due to the substantial time and effort recently spent on regulatory matters*[6].

In its submission on the Draft Decision the Joint Venture raised four issues including the direct and indirect components of Non Capital Costs. In particular, it submitted that the Non Capital Costs should be adjusted to include:

(a) An estimate of marketing expenses and regulatory costs in the forecast direct costs; and
(b) A more reasonable amount for indirect costs given that the majority of indirect costs are incurred regardless of the length (or optimized replacement cost) of the relevant pipeline.[7]

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[1] The joint venture comprises Anglo Coal (Dawson) Limited, Mitsui Moura Investment Pty Ltd and Anglo Coal (Dawson Management) Pty Ltd.
[2] undated
[3] *National Third Party Access Code for Natural Gas Pipeline Systems.*
[4] Draft Decision, p56.
[5] *Report on Dawson Valley Pipeline Access Arrangement and Access Arrangement Information*, April 2007, p .
[6] Draft Decision, p55.
[7] p4

New Information

In its original Access Arrangement documentation the service provider did not indicate what, if any, marketing expenses it had included in its forecast Non capital costs nor did it identify its forecast regulatory costs. In its submission dated 8 June 2007 it advised that Anglo Coal (Dawson Management) Pty Ltd intends to engage external consultants on a contractual basis to undertake its marketing functions[8]. It further submitted that an additional amount of $20,000 should be included in the forecast non capital costs to provide for the recovery of regulatory costs[9]. No allowance was made for either marketing or regulatory expenses in the previous recommendation of $300,000 per annum because the service provider had not identified any such costs in the original Access Arrangement Information.

While the access arrangement documentation submitted by the service provider did not forecast additional volumes of gas to be transported on behalf of third parties, submissions from third parties have indicated that there is a reasonable prospect that contracts for additional gas will be secured during the forthcoming access arrangement period. Moreover, the Draft decision provides for a trigger mechanism in the event that volumes exceed forecast by more than 25%. In addition, it is accepted that existing arrangements for gas transportation entail administrative effort. An annual allowance of $25,000 is therefore considered to be reasonable for marketing-related activities.

It is noted that regulatory costs are typically higher around the time of submission of an access arrangement but many service providers average their regulatory costs over the access arrangement period. An aggregate amount of $200,000 is considered reasonable for a service provider such as the Dawson Valley Joint Venture. Accordingly an annual allowance of $20,000 is also considered to be reasonable in accordance with the Gas Code.

When these additional amounts are added to the amount previously proposed in the Draft Decision for Non Capital Costs the revised total amount is $345,000 per annum. This compares with a total amount of $367,000 sought by the service provider in its revised Access Arrangement documentation. The difference of $22,000 per annum is not considered material in the circumstances.

Recommendation

It is recommended that the total amount of $367,000 proposed by the Dawson Valley Joint Venture in its revised Access Arrangement Information be accepted as being in accordance with costs that would be incurred by a prudent service provider acting in accordance with the Gas Code.

[8] p2
[9] p3