Draft Decision

Roma to Brisbane Pipeline Access Arrangement 2022 to 2027

(1 July 2022 to 30 June 2027)

Overview

November 2021

AUSTRALIAN ENERGY REGULATOR

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AER reference: AER201614

Invitation for submissions

In response to our draft decision, APT Petroleum Pipelines Pty Limited (APTPPL) has the opportunity to submit a revised proposal for its upcoming 2022–27 access arrangement period by **14 January 2022**.

Interested stakeholders are also invited to make submissions on both our draft decision and APTPPL's revised proposal (once submitted) by **18 February 2022**.

We will consider and respond to all submissions received by that date in our final decision, which will be published on **29 April 2022**.

Subject to stakeholder interest we will also consider holding a public forum following submission of the revised proposal.

Submissions should be sent to: RBP2022@aer.gov.au

Alternatively, submissions can be sent to:

Sebastian Roberts
General Manager
Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601

Submissions should be in Microsoft Word or another text readable document format.

We prefer that all submissions be publicly available to facilitate an informed and transparent consultative process. Submissions will be treated as public documents unless otherwise requested.

Parties wishing to submit confidential information should:

(1) clearly identify the information that is the subject of the confidentiality claim
(2) provide a non-confidential version of the submission in a form suitable for publication.

All non-confidential submissions will be placed on our website.[1]

[1] For further information regarding our use and disclosure of information provided to us, see the *ACCC/AER Information Policy* (June 2014), which is available on our website: https://www.aer.gov.au/publications/corporate-documents/accc-and-aer-information-policy-collection-and-disclosure-of-information.

Note

This Overview forms part of the AER's draft decision on the access arrangement that will apply to APTPPL's Roma to Brisbane Pipeline (RBP) for the 2022–27 access arrangement period. It should be read with all other parts of the draft decision.

Our revisions are reflected in, *Draft decision – Roma to Brisbane Pipeline access arrangement 2022–27 – Approved access arrangement – November 2021*, which gives effect to this draft decision.

The draft decision includes the following documents:

Overview

Attachment 1 – Services covered by the access arrangement

Attachment 2 – Capital base

Attachment 3 – Rate of return

Attachment 4 – Regulatory depreciation

Attachment 5 – Capital expenditure

Attachment 6 – Operating expenditure

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Executive summary

The Australian Energy Regulator (AER) regulates gas transmission and distribution networks in all Australian jurisdictions except Western Australia. As part of this process, a regulated gas network business must periodically apply to us for a ruling on network charges which, in turn, influences the expected revenue it will recover from consumers for using its network. We generally regulate gas networks using a price cap form of price control, whereby the forecast for gas demand is a key factor in setting network charges (reference tariffs) over the access arrangement period. The National Gas Law and Rules (NGL and NGR) provide the regulatory framework governing gas transmission and distribution networks. Our work under this framework is guided by the National Gas Objective (NGO).[2] We use our insights and expertise to determine how much money the network business can recover.

We are currently doing this for APT Petroleum Pipelines Pty Limited's (APTPPL) Roma to Brisbane Pipeline (RBP) in Queensland for the 2022–27 access arrangement period, starting 1 July 2022 to 30 June 2027 (2022–27 period).[3] APTPPL owns and operates the RBP, which is a 438 kilometre bi-directional transmission pipeline transporting natural gas between the Wallumbilla gas supply hub (near Roma) and Brisbane, and regional centres in between.

This draft decision acknowledges the 8 November 2021 announcement by one of the RBP's large consumers of gas, Incitec Pivot, to cease manufacturing at its Gibson Island plant six months after the start of the RBP 2022–27 access arrangement.[4] While the magnitude and nature of the impact of this announcement is yet to be determined, we recognise it will affect aspects of our draft decision, such as forecast demand, tariffs, revenue and retail bill impacts. These impacts will be addressed in our April 2022 final decision once APTPPL has had an opportunity to consider this new development in its RBP revised proposal. Consequently, the retail gas bill impacts outlined in this draft decision are estimates only and are subject to change.

This draft decision allows APTPPL to set gas network charges for the RBP which are expected to result in the recovery of $213.5 million ($ nominal, smoothed) in revenue in the 2022–27 period from consumers.

The expected revenue APTPPL may recover from RBP consumers forms the transmission network component of retail gas bills, making up 3.4 per cent of a typical bill for both residential and small business consumers.[5] Other key components of the

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2 The NGO is set out under the National Gas Law (NGL), s. 23 which is: "...to promote efficient investment in, and efficient operation and use of, natural gas services for the long term interests of consumers of natural gas with respect to price, quality, safety, reliability and security of supply of natural gas."

3 APTPPL, *Roma to Brisbane Pipeline 2022–27 Proposed revised access arrangement, 1 July 2022–30 June 2027*, July 2021.

4 Incitec Pivot, *Gibson Island manufacturing operations to cease at end of 2022*, 8 November 2021 (media release): available at https://www.incitecpivot.com.au/about-us/about-incitec-pivot-limited/media/gibson-island-manufacturing-operations-to-cease-at-end-of-2022.

5 APTPPL, *Roma to Brisbane Pipeline 2022–27 access arrangement, Reset RIN Workbook 5 Indicative bill impacts*, July 2021.

bill include wholesale gas, distribution and retail costs. While we do not regulate retail prices, we estimate that if this draft decision is implemented, estimated nominal retail gas bills would decrease by $4 (0.6 per cent) for residential consumers and $25 (0.6 per cent) for small business consumers by the end of the 2022–27 period.[6] This compares to estimated increases of $7 (1.0 per cent) for residential consumers and $38 (1.0 per cent) for small business consumers were we to accept the RBP proposal in full.

Our draft decision broadly approves APTPPL's forecasts for key aggregates, including items within the control of the business such as capital expenditure (capex) and regulatory depreciation, and represents an overall reduction in expected revenue of around $26.0 million (10.9 per cent) compared to the RBP proposal.

However, our draft decision seeks further information on:

- the step change in proposed operating expenditure (opex) attributable to transformation and technology, and how it reflects prudent and efficient expenditure
- the degree to which gas-powered generation and demand for westbound gas flows are expected to fall over the 2022–27 period, as well as the impact on eastbound gas flows from the future closure of Incitec Pivot's Gibson Island plant[7]
- the proposed prudent discount for westbound gas flows.[8]

Figure 1 shows how our draft decision, which includes a lower alternate opex forecast and higher alternate forecast demand compared to the RBP proposal, contributes to the estimated reduction in the retail gas bills. The degree to which APTPPL can inform and alleviate our draft decision concerns on the above matters in its RBP revised proposal will ultimately determine the likely effect on consumer bills over the 2022–27 period, which we will update in our final decision.

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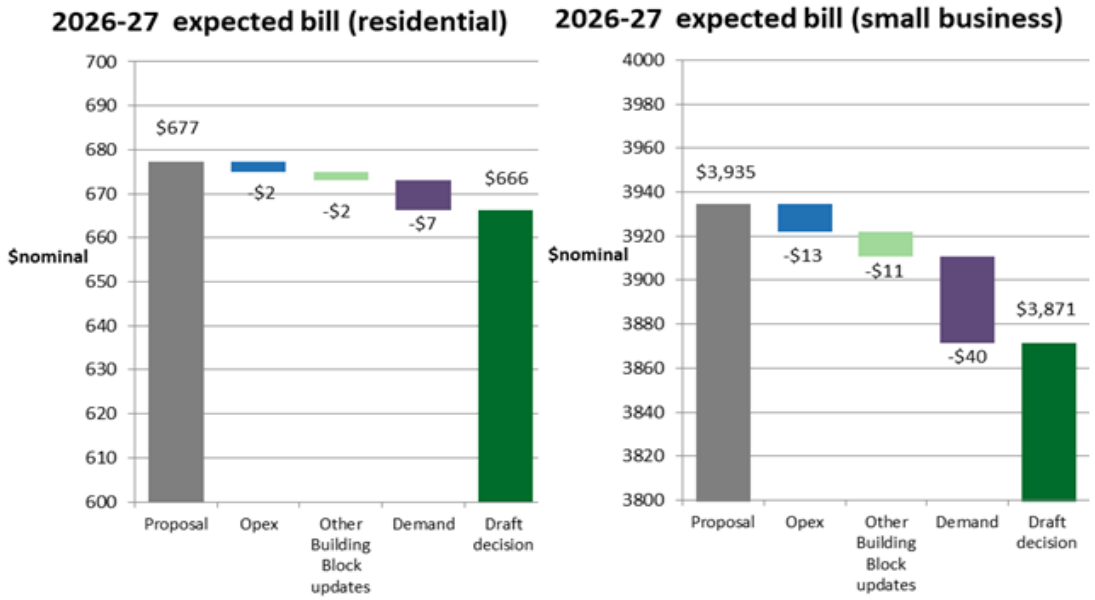
6 Compares 30 June 2027 (for the 2022–27 period) to 30 June 2022 (for the 2017–22 period).

7 Incitec Pivot, *Gibson Island manufacturing operations to cease at end of 2022*, 8 November 2021 (media release): available at https://www.incitecpivot.com.au/about-us/about-incitec-pivot-limited/media/gibson-island-manufacturing-operations-to-cease-at-end-of-2022.

8 Under the NGR prudent discount mechanism, a network service provider may offer a specific consumer, or consumers, a tariff lower than the reference tariff but recover its foregone revenue through tariffs offered to other consumers. This allows the benefiting consumer(s) to contribute to the network service provider's fixed costs, thereby reducing the reference tariff that is applicable to other consumers relative to if the prudent discount was not applied.

Figure 1 Drivers of residential and small business consumers bills ($ nominal)[9]



Source: AER analysis.

APTPPL proposes an expected total revenue of $239.6 million ($ nominal, smoothed) for the RBP for the 2022–27 period, which is $6.0 million (2.6 per cent) higher than approved expected total revenue for the 2017–22 period and $65.5 million (21.5 per cent) lower than actual/estimated expected revenue for the same period.[10]

APTPPL developed the RBP proposal against a backdrop of ageing infrastructure, with its inspections identifying cracks and corrosion along the older DN250 section of the pipeline.[11] APTPPL informs us that although it has undertaken maintenance over the 2017–22 period to minimise these defects and ensure a reliable gas supply for its consumers, it is now faced with the decision of either investing further capex or decommissioning the DN250 pipeline to avoid likely rising opex costs. This decision is further complicated by long-term demand uncertainty with jurisdictional carbon emission reduction policies and increasing supply of renewable energy sources.

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9 The bill impacts are based on eastbound tariffs, as the westbound service does not exclusively serve end-use customers.

10 In real terms ($2021–22), proposed revenue for 2022–27 is $12.0 million (5.0 per cent) lower than approved revenue, and $92.9 million (29.9 per cent) lower than actual/estimated revenue, for 2017–22.

11 APTPPL, *Roma to Brisbane Pipeline Access arrangement Overview,* July 2021, pp. 7 and 27–28. The DN250 section of the RBP pipeline is a 273 millimetre diameter, 410 kilometre section running from Wallumbilla to Bellbird Park, Queensland.

Overall, we are satisfied that our draft decision on the RBP 2022–27 proposal is likely to be in the long term interests of consumers and, if implemented in our final decision, consumers will be better off, now and in the future.

Below we elaborate further on the key themes for this draft decision, which are:

- opportunity for improved consumer and pre-lodgement engagement
- ensuring consumers pay no more than necessary for safe and reliable gas services
- demand forecast uncertainty.

Opportunity for improved consumer and pre-lodgement engagement

Consumer engagement helps businesses determine how best to provide services that align with consumers' long term interests. Consumer engagement in this context is about APTPPL working openly and collaboratively with consumers and providing opportunities for their views and preferences to be heard and to influence APTPPL's decisions.

Based on our assessment of the RBP proposal, stakeholder submissions received, attendance at RBP Stakeholder Engagement Group[12] meetings, and regular interaction with APTPPL staff, we consider there is room for greater advancement in APTPPL's overall approach to, and quality of, consumer engagement compared to the high standard set by some of its industry peers in recent AER determinations. Overall, we consider APTPPL would have benefitted from greater investment in its pre-lodgement processes, including an earlier and sharper focus on planning the proposal and methods to facilitate more meaningful and deeper consumer engagement.

In developing the proposal, APTPPL engaged with consumers through its RBP Stakeholder Engagement Group, holding eight workshops between April 2020 and June 2021, including two one-on-one sessions with individual shippers.[13] APTPPL further engaged its stakeholders in September 2021, providing an update on the lodged proposal and reference tariffs for the 2022–27 period.

We acknowledge the steps APTPPL has made to improve consumer engagement in developing its 2022–27 proposal, compared to its 2017–22 proposal where there was no evidence of consumer engagement.[14] However, we note a number of its industry peers have made significant progress in recent years by establishing co-designed engagement approaches with consumers and collaborating on revenue proposals.

We recognise the consumer engagement approach varies between network businesses, noting that distribution businesses are closer to the final consumer and,

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12 The RBP Stakeholder Reference Group comprises shippers, larger customers, land holders and government departments and agencies.

13 APTPPL, *Roma to Brisbane Pipeline Access arrangement Overview,* July 2021, p. 11.

14 AER, *Draft decision, Roma to Brisbane Pipeline Access Arrangement 2017–22, Overview*, June 2017, p. 52.

consequently, have a larger impact on consumer bills compared to transmission businesses. Typically, transmission reviews relate to different consumer cohorts and requires different approaches to consumer engagement. Overall, though, consumer engagement for transmission remains an important part of the review process. APTPPL's pre-lodgement engagement on the RBP proposal was not as comprehensive and effective as we would have preferred. For instance, APTPPL could have engaged consumers earlier on its proposed westbound prudent discount to gain a better understanding of the impacted users, their preferences and support for the proposal.

Section 1.4 details further consideration of APTPPL's consumer engagement program through the lens of our framework for assessing consumer engagement, as set out in our *Draft Better Resets Handbook*.[15] The approach to consumer engagement should be in line with the changing nature of the energy system and the needs and preferences of consumers. Our framework sets out the range of considerations that we think can clearly demonstrate whether consumers have been genuinely engaged in the development of an access arrangement proposal.[16]

While pre-lodgement engagement is mainly a conversation between APTPPL and its RBP consumers, the AER also plays a role in providing guidance at the staff level on the information that APTPPL could include as part of its proposal.[17] This includes providing feedback on the development of APTPPL's expenditure models to ensure they are consistent with our assessment and forecasting approach, as well as guidance on the nature or type of information to support particular aspects of the proposal (such as the proposed westbound prudent discount). This provides APTPPL the opportunity to address issues prior to lodgement of a proposal. However, on this occasion, AER staff invested more time than usual in developing a clearer understanding of the RBP proposal because key supporting information was omitted, requiring the issuance of several information requests post-lodgement of the proposal.

Ensuring consumers pay no more than necessary for safe and reliable gas services

Ensuring consumers pay no more than necessary over this and subsequent access arrangement periods for safe and reliable gas services is a cornerstone of the regulatory determination process. This involves us assessing whether the RBP proposal represents a reasonable and realistic forecast of how much money APTPPL needs for the safe and reliable operation of its gas transmission network. It also requires us to ensure our decision incentivises and promotes better consumer outcomes over this and subsequent access arrangement periods. To inform our decision, we also engaged directly with APTPPL representatives to discuss and seek further information on aspects of the RBP proposal.

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15 AER, *Draft Better Resets Handbook – Towards consumer centric network proposals*, September 2021, pp. 12–16.

16 See Table 7, AER, *Draft decision, Jemena distribution determination 2021–26, Overview,* September 2020, p. 43.

17 AER, *Draft Better Resets Handbook – Towards consumer centric network proposals*, September 2021, p. 9.

We have assessed APTPPL's RBP proposal at the component level to satisfy ourselves of the robustness of proposed expenditures within the control of the business (such as opex and capex), as well as more holistically to confirm its alignment with APTPPL's business priorities over the near and longer term. Overall, we consider the RBP proposal in its current form does not sufficiently demonstrate that it would deliver positive long term outcomes for consumers.

APTPPL informs us that energy prices are the key concern for consumers and businesses.[18] In limited circumstances[19], the NGR allow network service providers to propose prudent discounts[20] which will benefit some consumers. APTPPL proposed a pricing strategy, which includes two prudent discounts[21] that will alleviate the financial difficulties faced by some consumers.

Our 2022–27 draft decision accepts APTPPL's proposal to continue the prudent discount that currently applies for RBP eastbound gas flows for the 2017–22 period. This decision is contingent on overall eastbound gas volumes which are uncertain. We will reassess this issue in the context of our final decision.

APTPPL's proposal also includes a new prudent discount for its RBP westbound service, as it competes for some loads with the neighbouring Darling Downs Pipeline and some of its users have physical access to both pipelines.[22] APTPPL suggests the proposed westbound prudent discount will allow it to achieve its westbound demand forecast. Our draft decision is to not accept the proposed westbound prudent discount, as we are not satisfied about the level of competition between users and suppliers on the westbound service, as proposed by APTPPL, and therefore is not permitted under the NGR. We are also concerned that the proposal may not lead to lower tariffs, but rather may have the opposite effect; increasing tariffs to shippers not entitled to the discounted tariffs, with users in downstream markets being disadvantaged.

APTPPL proposed a regulatory depreciation approach that seeks to minimise consumer price volatility and barriers to the new uptake of gas haulage to locations along the RBP. For instance, APTPPL proposes to reduce ongoing maintenance expenditures associated with its DN250 pipeline by decommissioning the line and transferring the four affected consumers' gas loads across to its larger capacity DN400 pipeline over a two-year period.[23] We accept APTPPL's strategy of consolidating asset

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18 APTPPL, *Roma to Brisbane Pipeline Access arrangement Overview,* 1 July 2021, p. 4.

19 NGR, r 96(2)(a).

20 Under the NGR prudent discount mechanism, a network service provider may offer a specific consumers, or consumers, a tariff lower than the reference tariff but recover its foregone revenue through tariffs offered to other consumers. This allows the benefiting consumer(s) to contribute to the network service provider's fixed costs, thereby reducing the reference tariff that is applicable to other consumers relative to if the prudent discount was not applied.

21 This includes prudent discounts for each of its reference services (eastbound and westbound).

22 APTPPL, *Roma to Brisbane Pipeline, Access arrangement submission - Load and demand forecast*, June 2021, pp. 15–16.

23 APTPPL, *Roma to Brisbane Pipeline Access arrangement Overview,* 1 July 2021, pp. 28–29. The DN400 pipeline is a 406 millimetre diameter pipeline that loops the 273 millimetre diameter DN250 pipeline.

classes and smoothing the remaining regulatory life of the DN250 pipeline over a period longer than two years to minimise upward pressure on consumer bills.

APTPPL also considers that, given the uncertainty about the longer-term outlook for the energy sector and gas transmission pipelines, it cannot be assumed that the existing life of the RBP could be extended – through maintenance and investment – over indefinitely long periods.[24] Consequently, APTPPL propose reducing the standard lives for pipelines and compressors equal to their remaining lives of 49.8 and 25.8 years, respectively. In assessing APTPPL's proposed approach, we have considered the appropriate technical or engineering lives expected for the associated types of capex works for the 2022–27 period. APTPPL's proposed standard lives for these asset classes are longer than the expected technical lives, and therefore result in lower depreciation compared to if the technical lives were adopted. Overall, we consider APTPPL's approach is reasonable for these asset classes.[25] We also consider APTPPL's concerns about long term uncertainty are consistent with its proposed lower capex approach.

Our total opex draft decision of $94.2 million[26] for the 2022–27 period is $13.3 million (12.3 per cent) lower than APTPPL's RBP forecast of $107.5 million.[27] APTPPL's total opex forecast for the 2022–27 period is $15.8 million higher than actual/estimated total opex of $91.6 million for the 2017–22 period. We also note that APTPPL's actual/estimated opex for the 2017–22 period is $13.1 million (16.6 per cent) higher than the amount we approved for that period. The main difference between our draft decision and APTPPL's proposal is that we do not accept a proposed step change of $13 million for transformation and technology associated with replacing existing IT systems with cloud-based services along with cyber security requirements.

In terms of capex, our draft decision accepts APTPPL's RBP total net capex forecast of $29.2 million for the 2022–27 period.[28] APTPPL's total net capex forecast for the 2022–27 period is $53.2 million (64.6 per cent) lower than actual/estimated total net capex of $82.4 million for the 2017–22 period. We also note that APTPPL's actual/estimated capex for the 2017–22 period is $10.9 million (15.3 per cent) higher than the amount we approved for that period.

Demand forecast uncertainty

Issues relating to the future regulation of gas pipelines under uncertainty is a live issue, particularly as renewable energy becomes cheaper and is increasingly becoming the

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[24] APTPPL, *Roma to Brisbane Pipeline Access arrangement Overview,* July 2021, pp. 35–36.

[25] See Attachment 4 – Regulatory Depreciation for further information: AER, *Draft decision, Roma to Brisbane Pipeline 2022–27, Attachment 4 – Regulatory depreciation*, November 2021.

[26] In $2021–22 terms.

[27] APTPPL, *Roma to Brisbane Pipeline (RBP) 2022–27 – Updated Opex model*, 30 September 2021. The total opex forecast includes proposed expenditures which are within APTPPL's control, and those which are not such as taxes, debt raising costs, and insurance premiums.

[28] This includes adjustments to reflect updated real cost escalation figures consistent with APTPPL's intent to update real cost escalations.

choice of consumers. The timing and speed of these changes can give rise to long-term uncertainty in gas demand. Uncertainty may be exacerbated further by the future closure of plants belonging to large gas consumers, such as Incitec Pivot.[29] We recognise this may pose challenges in forecasting RBP gas demand and impacts reference tariffs.

APTPPL's proposal includes separate demand forecasts for the RBP's eastbound and westbound services. The demand forecasts are based on four user groups – retail, major industrial, gas-powered generation and westbound users – with the approach to forecasting differing between each of these user groups.[30] APTPPL forecasts an average of 73TJ/day for westbound users and 5.1TJ/day for gas-powered generation.[31] In assessing APTPPL's proposed demand forecasts, we need to consider whether these forecasts are arrived at on a reasonable basis and represent the best forecast possible in the circumstances.[32] Based on our assessment of the information before us, at this point in time, our draft decision is that we are not satisfied that the demand forecasts for gas-powered generation users and the westbound service were arrived at on a reasonable basis and represent the best forecast possible in the circumstances.

We consider there are material information gaps. In terms of the westbound demand forecast, there is no quantitative basis for the downward adjustments to derive the base case forecasts and no sensitivity testing of the models. In terms of gas-powered generation, the demand forecast is materially understated when compared to the recent actual usage for one (Swanbank E) of the three power stations.

Our draft decision includes alternative forecasts of 114.3TJ/day for westbound demand (57 per cent higher than APTPPL's forecast) and 17.8TJ/day on average for total gas-powered generation demand, which includes an alternative forecast of 17.6TJ/day for Swanbank E over the 2022–27 period.[33]

We acknowledge Incitec Pivot's announcement to cease manufacturing at its Gibson Island plant creates further uncertainty for RBP's demand forecasts, in particular its eastbound gas flow.[34] We expect APTPPL will incorporate changes to RBP's eastbound demand forecast to reflect this new development in its revised proposal.

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29 Incitec Pivot, *Gibson Island manufacturing operations to cease at end of 2022*, 8 November 2021 (media release): available at https://www.incitecpivot.com.au/about-us/about-incitec-pivot-limited/media/gibson-island-manufacturing-operations-to-cease-at-end-of-2022.

30 APTPPL, *Roma to Brisbane Pipeline, Access arrangement submission - Load and demand forecast*, June 2021, pp. 3–4.

31 See Attachment 12 – Demand for further information: AER, *Draft decision, Roma to Brisbane Pipeline 2022–27, Attachment 12 – Demand*, November 2021.

32 NGR, r. 74(2).

33 See Attachment 12 – Demand for further information: AER, *Draft decision, Roma to Brisbane Pipeline 2022–27, Attachment 12 – Demand*, November 2021.

34 Incitec Pivot, *Gibson Island manufacturing operations to cease at end of 2022*, 8 November 2021 (media release): available at https://www.incitecpivot.com.au/about-us/about-incitec-pivot-limited/media/gibson-island-manufacturing-operations-to-cease-at-end-of-2022.

Next steps

In making this draft decision, we have had regard to a range of sources including the RBP proposal, submissions received, the Incitec Pivot future closure announcement, as well as additional analysis undertaken and published by us. APTPPL now has the opportunity to consider and respond to our draft decision in a RBP revised proposal by no later than **14 January 2022**.

Consumer involvement and feedback is important in shaping a revenue proposal and ensuring it reflects consumer preferences. To date, we have observed limited interest from consumers in this access arrangement review. We encourage interested stakeholders to make written submissions on both this draft decision and APTPPL's RBP revised proposal (once submitted), including views on how the RBP consumer engagement process could be enhanced, by no later than **18 February 2022**.

We will make our final decision by **29 April 2022**.

1 Our draft decision

Our draft decision allows APTPPL to set gas network tariffs which are expected to result in the recovery of $213.5 million ($ nominal, smoothed) in revenue from its consumers from 1 July 2022 to 30 June 2027.

APTPPL's Roma to Brisbane Pipeline (RBP) is regulated using a price cap.[35] Incentives are provided to it to reduce costs, improve service quality and undertake efficient investments.

Gas pipelines that are subject to full regulation, like the RBP, are regulated by us under an approved access arrangement.[36] An access arrangement specifies certain pipeline services (reference services) and the price and non-price terms and conditions on which those reference services will be offered over a five-year period.

To approve an access arrangement, we make regulatory decisions on the network tariffs that pipeline operators, such as APTPPL, can charge users of its reference services.

For this draft decision, our assessment is based on the RBP access arrangement proposal that APTPPL submitted to us on 1 July 2021.[37] The RBP proposal sets out APTPPL's view of its expected costs, demand and required revenues for the 2022–27 period.

1.1 How our draft decision will affect gas bills

Gas transmission network tariffs that will be set by reference to our decision are one contributor to consumers' total retail gas bills. Key contributors are:

- the cost of purchasing gas (wholesale energy cost)
- the cost of pipelines used to transport gas (the transmission and distribution networks) and other infrastructure such as metering costs
- the retailer's costs and profit margin.

Each of these costs contribute to the retail prices charged to consumers by their chosen retailer.

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35 This is an average price cap. This approach is consistent with APTPPL's RBP current period access arrangement. See Attachment 10 for more information: AER, *Draft decision, Roma to Brisbane Pipeline 2022–27, Attachment 10 – Reference tariff variation mechanism*, November 2021.

36 The NGL provides for different types of regulation to apply to gas pipelines, based on competition and significance criteria. A 'full regulation' pipeline must periodically submit an access arrangement to the AER, setting out pricing for a reference service sought by a significant part of the market. 'Light regulation' pipelines are not subject to upfront price regulation. The light regulation model is a negotiate-arbitrate approach, placing greater emphasis on commercial negotiation and information disclosure. The AER plays a role only if dispute resolution mechanisms are triggered.

37 APTPPL, *Roma to Brisbane Pipeline 2022–27 Proposed revised access arrangement, 1 July 2022–30 June 2027*, July 2021.

Our RBP draft decision affects the component of the bill relating to gas transmission tariffs, representing approximately 3.4 per cent on average of a Queensland retail gas consumer's annual bill.[38] This small percentage largely explains the relatively modest impact our draft decision is likely to have on average annual gas bills.

We estimate the expected bill impact by varying the transmission tariffs in accordance with our draft decision, while holding all other components constant. This approach isolates the effect of our draft decision on transmission tariffs only. However, this does not imply that other components of the bill will remain unchanged across the access arrangement period.

Table 1 shows the estimated average annual impact of our draft decision, if implemented, for the 2022–27 period on retail gas bills for consumers compared with the RBP proposal ($ nominal).

While we do not regulate retail prices, we estimate that if this draft decision is implemented, compared to current levels, average annual bills for consumers would:[39]

- decrease by $5 (0.8 per cent) for residential consumers and $31 (0.8 per cent) for small business consumers in the first year[40]
- increase by $0.3 (0.04 per cent) for residential consumers and $1.5 (0.04 per cent) for small business consumers on average in each of the next four years of the 2022–27 period.[41]

By the end of the 2022–27 period, bills for residential and small business consumers would have decreased by $4 (0.6 per cent) and $25 (0.6 per cent), respectively.[42] This compares to increases of $7 (1.0 per cent) and $38 (1.0 per cent) for residential consumers and small business consumers, respectively, if we were to accept the RBP proposal in full.

We acknowledge the 8 November 2021 announcement by one of the RBP's large consumers of gas, Incitec Pivot, to cease manufacturing at its Gibson Island plant six months after the start of the RBP 2022–27 access arrangement is likely to affect the estimated bill impacts set out above.[43] We will update these estimates in our final decision.

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38 APTPPL, *Roma to Brisbane Pipeline 2022–27 access arrangement, Reset RIN Workbook 5 Indicative bill impacts*, July 2021.

39 As at 30 June 2022.

40 As at 30 June 2023.

41 As at 30 June of each of the last four years of the 2022–27 period.

42 Compares 30 June 2027 (for the 2022–27 period) to 30 June 2022 (for the 2017–22 period).

43 Incitec Pivot, *Gibson Island manufacturing operations to cease at end of 2022*, 8 November 2021 (media release): available at https://www.incitecpivot.com.au/about-us/about-incitec-pivot-limited/media/gibson-island-manufacturing-operations-to-cease-at-end-of-2022.

Table 1 Estimated impact of AER's draft decision and APTPPL's RBP proposal on average annual gas bills for the 2022–27 period ($ nominal)

	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27
AER's draft decision						
Residential annual bill[a]	671[a]	665	665	666	666	666
Annual change[c]		–5 (–0.8%)	0 (0.0%)	0 (0.0%)	0 (0.0%)	0 (0.0%)
Small business annual bill[b]	3,896[b]	3,865	3,866	3,868	3,869	3,871
Annual change[c]		–31 (–0.8%)	1 (0.0%)	2 (0.0%)	2 (0.0%)	2 (0.0%)
APTPPL's RBP proposal						
Residential annual bill[a]	671[a]	675	676	676	677	677
Annual change[c]		4 (0.7%)	1 (0.1%)	1 (0.1%)	1 (0.1%)	1 (0.1%)
Small business annual bill[b]	3,896[b]	3,922	3,925	3,928	3,931	3,935
Annual change[c]		25 (0.7%)	3 (0.1%)	3 (0.1%)	3 (0.1%)	3 (0.1%)

Source: AER analysis; APTPPL, *Roma to Brisbane Pipeline 2022–27 Access arrangement, Reset RIN Workbook 5 Indicative bill impacts*, July 2021.

(a) Annual bill for 2021–22 reflects the average annual consumption of 7,873 MJ for APTPPL's residential consumers.

(b) Annual bill for 2021–22 reflects the average annual consumption of 100,000 GJ for APTPPL's small business consumers.

(c) Annual change amounts and percentages are indicative. They are derived by varying the network tariff contribution to the 2021–22 bill amounts in proportion to the change in the tariff path. Actual bill impacts will vary depending on gas consumption and tariff class.

1.2 What is driving revenue

The changing impact of inflation over time makes it difficult to compare revenue from one period to the next on a like-for-like basis. To do this, we use 'real' values based on a common year, which have been adjusted for the impact of inflation ($2021–22).[44]

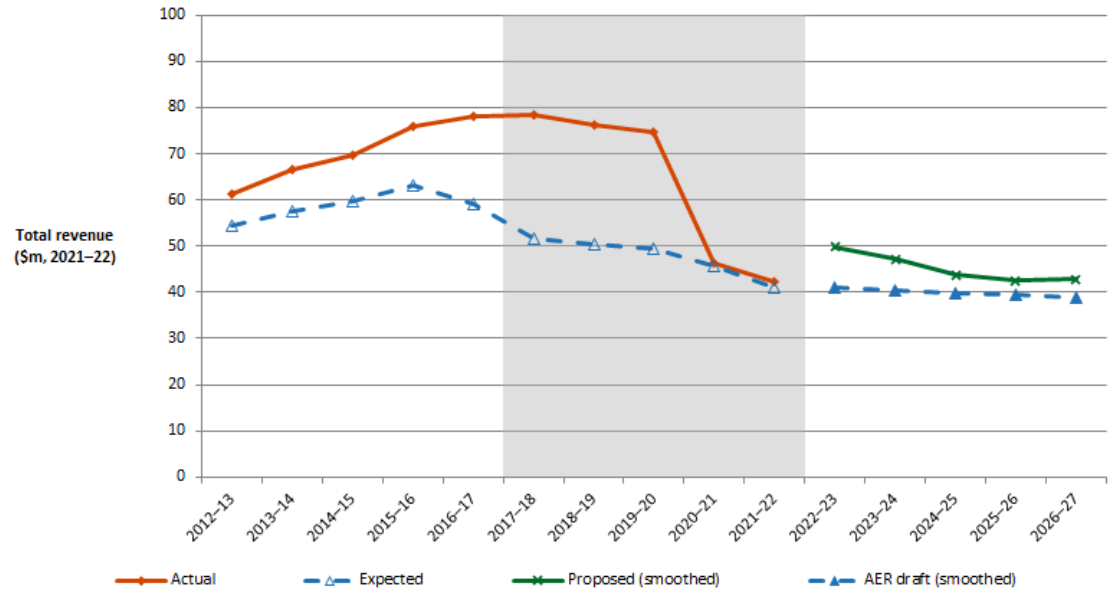
This draft decision approves a total revenue for the 2022–27 period that is $38.2 million (16.1 per cent) lower than we approved in our 2017–22 decision.[45]

Figure 2 shows our draft decision for APTPPL's smoothed revenue for the 2022–27 period, and its allowed revenues over the years between 2012–22.

[44] That is, 30 June 2022 dollar terms based on APTPPL's estimated actual revenue for 2021–22.

[45] The comparison of total revenues between the 2022–27 and 2017–22 periods is based on smoothed revenues. In nominal dollar terms, our draft decision total revenues for the 2022–27 period is $20.0 million (8.6 per cent) lower than the total revenues approved for the 2017–22 period.

Figure 2 Revenue over time ($ million, 2022–27)



Source: AER analysis.

Figure 3 shows the key drivers of the change in APTPPL's approved revenue from the 2017–22 period compared to what we expect in the 2022–27 period. It shows that our draft decision provides for decreases in the building blocks for:

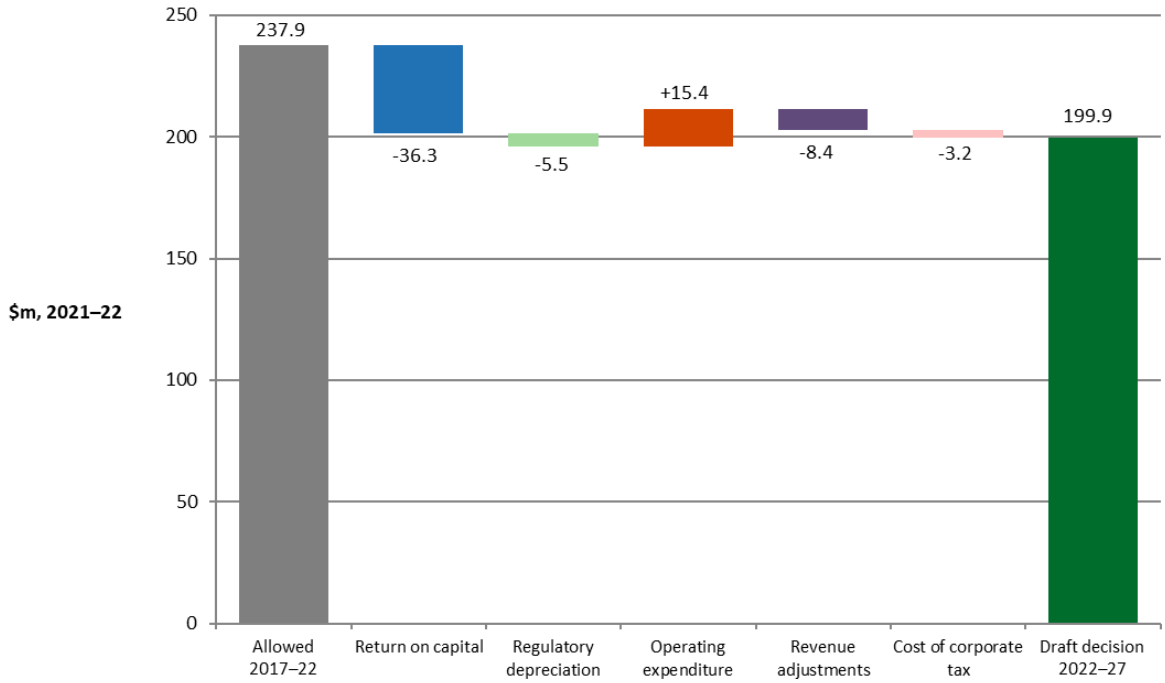
- return on capital, which is $36.3 million (27.2 per cent) lower than 2017–22, driven by decreases in the nominal weighted average cost of capital (WACC) from 5.58 to 4.33 per cent in the first year of the 2017–22 and 2022–27 periods, respectively[46]
- regulatory depreciation, which is $5.5 million (26.5 per cent) lower than 2017–22, driven by the residual values of some short-lived assets being fully depreciated in the 2017–22 period
- revenue adjustments, which are $8.4 million lower than 2017–22, reflecting the efficiency carryover mechanism (ECM) amounts accrued over the 2017–22 period.
- cost of corporate income tax, which is $3.2 million lower than 2017–22, due to zero tax being forecast for the 2022–27 period given the accelerated depreciation of the DN250 section of the RBP, a lower return on equity based on the application of the 2018 Rate of Return Instrument (Instrument), and application of our 2018 tax review.[47]

[46] We compare first year values because the nominal WACC is annually updated each year to reflect changes in the cost of debt.

[47] AER, *Final report: Review of regulatory tax approach*, December 2018.

Figure 3 also shows that our draft decision provides for an increase in the building block for opex, which is $15.4 million (19.5 per cent) higher than 2017–22, driven by higher actual opex in 2019–20, which is reflected in APTPPL's base opex for the 2022–27 period.

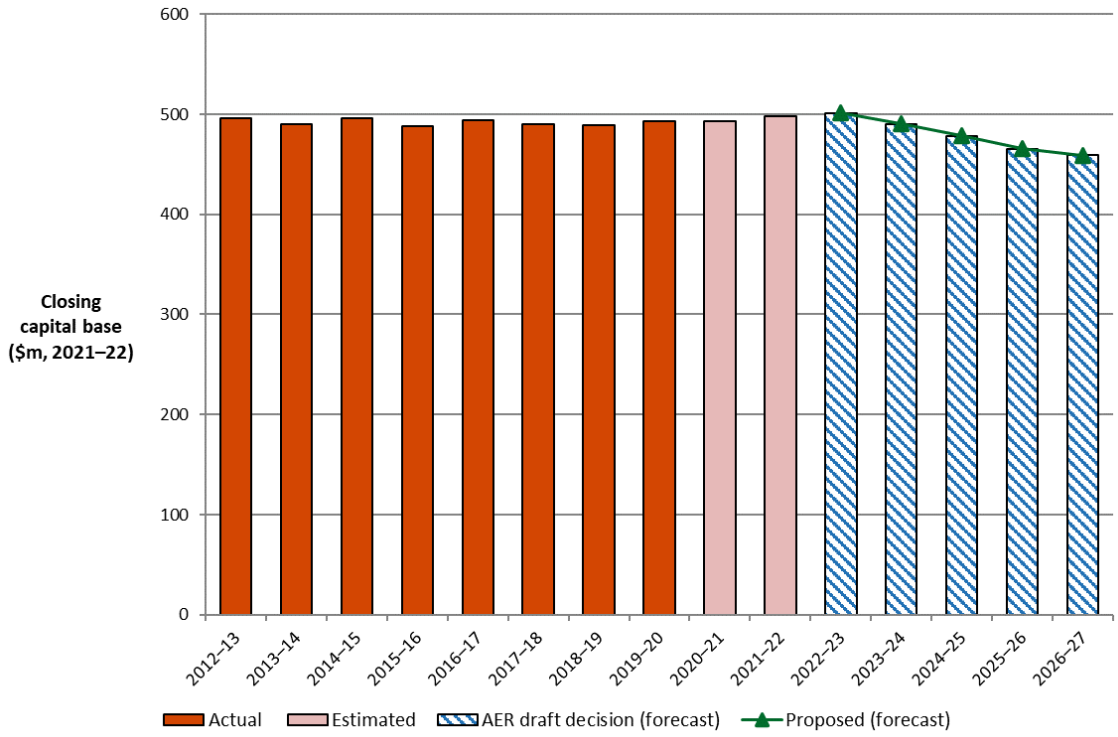
Figure 3 AER's draft decision for the 2022–27 period and APTPPL's RBP 2017–22 allowed building block costs ($ million, 2021–22)



Source: AER analysis.

Figure 4 compares our draft decision on the RBP forecast capital base, to APTPPL's actual and proposed RBP forecast capital base. It shows that the RBP capital base is forecast to decrease by 7.9 per cent by the end of the 2022–27 period.

Figure 4 Value of APTPPL's RBP capital base over time ($ million, 2021–22)



Source: AER analysis.

1.3 Key differences between our draft decision and APTPPL's proposal

APTPPL proposes total forecast revenue of $239.6 million ($ nominal) for the 2022–27 period for the RBP.[48] Our draft decision of $213.5 million allows $26.0 million (10.9 per cent) less revenue than APTPPL seeks to recover through its proposal.

Figure 5 compares the building block revenue from our draft decision to the RBP proposal for the 2022–27 period, and to approved revenue for the 2017–22 period.

The biggest contributor to the difference between our draft decision revenue and the RBP proposal is opex, which is $13.3 million (11.6 per cent) lower than proposed by APTPPL.[49] This is primarily due to us not including the proposed step change of $13 million for transformation and technology in our draft decision.

Although APTPPL has applied the 2018 Instrument and proposes a 4.36 per cent rate of return, currently the risk-free rate is lower than at the time of its proposal, leading to

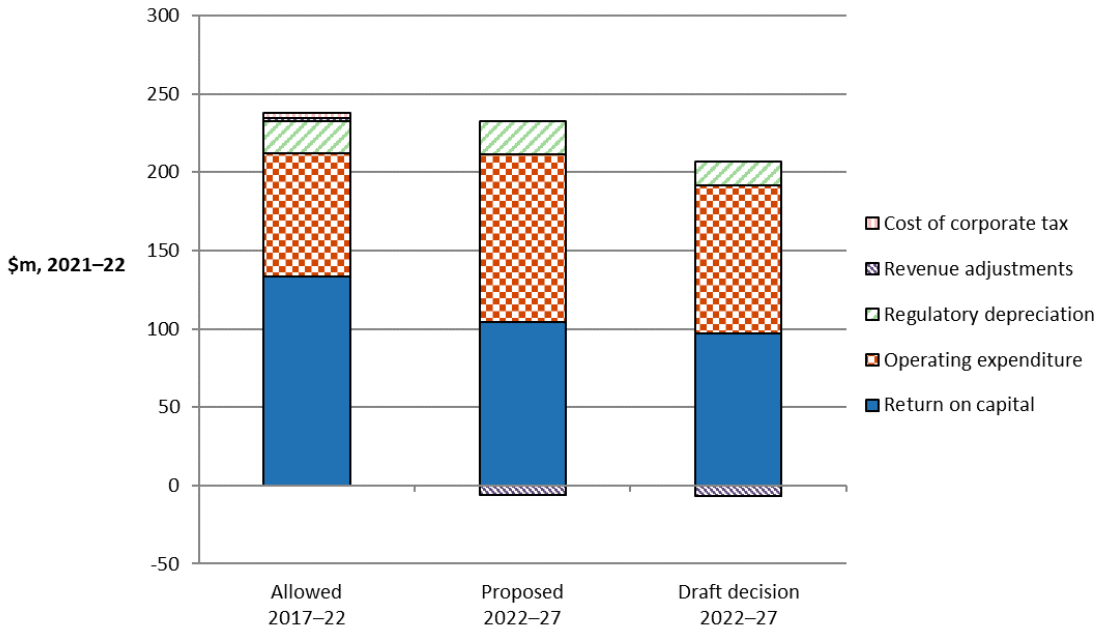
[48] APTPPL, *Roma to Brisbane Pipeline 2022–27 – Updated Post-tax revenue model,* 30 September 2021.

[49] The values are in nominal terms. In real terms, this difference is $13.3 million or 12.3 per cent.

a rate of return of 4.33 per cent. Consequently, the amount for the return on capital building block is $6.9 million (6.2 per cent) lower than proposed.

The draft decision regulatory depreciation building block is $6.1 million (27.3 per cent) lower compared to the RBP proposal. This is because of our use of a higher expected inflation rate which increases the indexation of the RBP's projected capital base.[50]

Figure 5 AER's draft decision on components of total revenue ($ million, 2021–22)



Source: AER analysis.

1.4 APTPPL's consumer engagement

The National Gas Objective (NGO) focuses our work on the long term interest of consumers[51] and we think including consumers in the development of access arrangement proposals is the best way to deliver this. Genuine, high quality engagement with consumers helps network service providers to better understand consumers' preferences and experiences and drive the development of proposals that align with consumers' long term interests. This facilitates a more efficient regulatory process.[52]

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50 Under the building block framework, regulatory depreciation consists of the net total of the straight-line depreciation less the indexation of the capital base. Therefore, all things being equal, the higher the amount of indexation of the capital base is subtracted from straight-line depreciation means a lower regulatory depreciation building block.

51 NGL, section 23.

52 AER, *Draft Better Resets Handbook – Towards consumer centric network proposals*, September 2021, p. 3

In the regulatory process, we determine if the expected revenue APTPPL will recover over the 2022–27 period for the RBP is in the long term interests of consumers. To do this, we use a range of considerations to demonstrate whether consumers have been genuinely engaged in the development of the proposal. The framework we use for assessing a network service provider's consumer engagement approach is replicated at Appendix C.[53] This framework includes considering the nature, breadth and depth of engagement, and clearly evidencing the impact that the engagement had on the proposal and assessing the proposed expenditure outcomes.

Based on our assessment of the RBP 2022–27 proposal, stakeholder submissions received, attendance at APTPPL's Stakeholder Engagement Group meetings, and regular interaction with APTPPL staff, we consider there is room for greater advancement in APTPPL's overall approach to, and quality of, consumer engagement compared to the high standard set by some of its industry peers in recent determinations. Overall, we consider APTPPL would have benefitted from greater investment in its pre-lodgement processes with consumers and the AER, including an earlier and sharper focus on planning of the proposal and methods to facilitate more meaningful and deeper consumer engagement.

We acknowledge that APTPPL, as part of the RBP 2022–27 proposal, included a self-assessment of its consumer engagement approach against the AER's framework.[54] We consider such transparent evaluations provide an opportunity for consumers to provide their thoughts, through written submissions, on a network business' engagement approach.

Nature of engagement

APTPPL commenced its engagement on the RBP 2022–27 proposal in April 2020, approximately 15 months prior to when the proposal was due to the AER.[55] The engagement included eight workshops with its RBP Stakeholder Engagement Group, with half of these workshops setting the scene for the reset, including the proposed engagement approach, the RBP operating environment and pipeline condition and the reference service proposal. The remaining workshops focused on the major elements of the proposal – including asset lives, tariff structures, the demand forecast, access arrangement terms and conditions, capex and the future of the DN250 pipeline.[56]

We consider the structure and timeframe of APTPPL's engagement plan provided limited opportunity for a more sincere partnership with consumers to reflect their preferences in the RBP proposal. For instance, the RBP Stakeholder Engagement Plan provides one avenue for engaging consumers (through RBP Stakeholder

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[53] The AER's consumer engagement framework arose from our Victorian 2021–26 electricity distribution decisions. See table 7; AER, *Draft decision, Jemena distribution determination 2021–26, Overview*, September 2020, p. 43.

[54] APTPPL, *Roma to Brisbane Pipeline 2022–27 Access arrangement, Overview,* July 2021, pp. 10–12.

[55] Ibid, p. 11.

[56] APTPPL Roma to Brisbane access arrangement website available at https://www.apa.com.au/about-apa/our-projects/roma-brisbane-pipeline-access-arrangement/.

Engagement Group roundtables), and limited information on the timeframe for these engagements.[57] Further, there is no evidence of consumers being involved in the co-design of the RBP proposal, including the development of the RBP Stakeholder Engagement Plan, which provides consumers an opportunity to 'set the agenda' and discuss and influence on matters that are most relevant to them.

Breadth and depth of engagement

Breadth and depth of engagement applies to the scope of engagement with consumers, the level of detail at which APTPPL engaged on issues, and the variety of avenues used to engage consumers.

We acknowledge the improved level of transparency to APTPPL's approach to consumer engagement compared to its RBP 2017–22 proposal.[58] In developing its RBP 2022–27 proposal, APTPPL's consumer engagement covered a range of topics from the future of the DN250 pipeline and asset lives to capex and terms and conditions of the access arrangement, and also involved APTPPL subject matter experts.[59]

In developing its RBP proposal, APTPPL noted its engagement:

> "…was genuine and collaborative. Roma Brisbane has sought to collaborate with stakeholders where possible and has involved stakeholders in the formulation of solutions to the problems."[60]

However, based on our observations of RBP Stakeholder Engagement Group meetings, there was limited opportunity for consumers to directly influence the development of the proposal at an early stage. The majority of engagements focused on APTPPL providing its rationale for why it was proposing certain positions, for example, on the DN250 pipeline, capex and demand, rather than partnering with consumers earlier in the engagement process to develop possible options and solutions together. Therefore, we consider APTPPL's level of engagement has been more at the 'inform' level, with limited 'consult' opportunities for consumers, with the regard to the International Association for Public Participation (IAP2) Spectrum.[61]

Each subject area was discussed once with some areas combined into a single engagement session,[62] irrespective of the complexity of the issues being discussed

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57 APTPPL, *Roma to Brisbane Pipeline 2022–27 Access arrangement – Engagement plan*, December 2020, pp. 11–13 available at https://www.apa.com.au/globalassets/about-apa/our-projects/roma-brisbane-pipeline-access-arrangement/rbp-stakeholder-engagement-plan.pdf.

58 AER, *Draft decision, Roma to Brisbane Pipeline Access Arrangement 2017–22, Overview*, June 2017, p. 52.

59 APTPPL, *Roma to Brisbane Pipeline 2022–27 Access arrangement, Overview,* July 2021, p. 11.

60 Ibid.

61 IAP2 Spectrum of Public Participation available at https://iap2.org.au/wp-content/uploads/2020/01/2018_IAP2_Spectrum.pdf.

62 APTPPL, *Roma to Brisbane Pipeline 2022–27 Access arrangement – Engagement plan*, December 2020, p. 13.

and providing little opportunity for more in-depth engagement with stakeholders. A clear example is APTPPL's approach to its proposed westbound prudent discount, which would have benefitted from earlier and deeper consumer engagement, including resolution of the approach prior to lodging the proposal.[63] This would have helped APTPPL develop a more coherent story about the extent of competition on its westbound service, such as at-risk volumes and the number of consumers that could potentially defect from the RBP to the Darling Downs Pipeline.

Clearly evidenced impact

In terms of clearly evidenced impact, there needs to be a clear link between consumer research and engagement, a network business' representation of the outcomes desired by consumers, and how the proposal gives effect to those outcomes.[64]

With the exception of the proposed minor changes to the access arrangement terms and conditions where there was no support from the RBP Stakeholder Engagement Group to make substantive changes to the existing document,[65] it is unclear to what extent the RBP 2022–27 proposal reflects consumer feedback. For instance, while APTPPL submits that consumers were directly engaged on three key issues – the reference tariffs for the eastbound and westbound reference services, the demand forecast, and the proposed approach to accelerated depreciation – there is little evidence of what the stakeholder feedback was and how it helped in developing the resulting proposal. We also highlight the lack of consumer support for APTPPL's proposed westbound prudent discount, with written submissions raising concerns with APTPPL's approach.

While we acknowledge the steps APTPPL has taken to improve its consumer engagement compared to its previous regulatory proposal, there are some areas that APTPPL could continue to advance when developing future proposals:

- Engaging consumers on the development of its stakeholder engagement plan, including the scope and level of engagement, and ensuring engagement includes different levels of participation ranging from 'inform' to 'collaborate'.
- Engaging consumers on a comprehensive draft regulatory proposal, and outlining in the submitted proposal how APTPPL responded to consumer feedback and submissions it received on the draft regulatory proposal.
- Developing material that is clear and accessible by consumers. For instance, providing sufficient context in the proposal's overview document to allow consumers to better understand the key issues so they can more effectively engage with, and provide informed feedback on, the proposal.

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63 APTPPL, *Presentation to public forum*, August 2021, slide 6.

64 AER, *Draft Better Resets Handbook – Towards consumer centric network proposals*, September 2021, p. 15.

65 APTPPL, *Roma to Brisbane Pipeline 2022–27 Access arrangement, Overview,* July 2021, p. 12; APTPPL, *Roma to Brisbane Pipeline Stakeholder Engagement Group – Tariffs and demand*, June 2021, slide 15.

- Engaging more constructively with AER staff as part of the pre-lodgement phase, including submitting draft models for review to ensure they contain the required information and are substantially consistent with the AER's expectations.

Proof point

Once we have considered the nature, scope and impact of the consumer engagement, our final step is to consider whether the outcome, as presented in the RBP proposal, is in the long term interests of consumers.

We do this undertaking our standard process. That is, we compare expenditures proposed by APTPPL with those our established models and approaches suggest represent alternative estimates. If the RBP proposal aligns with or is below our estimates, we are able to have greater confidence that the results of the consumer engagement are in the long term interests of consumers.

As set out in section 4.4, our draft decision accepts APTPPL's proposed capex for the 2022–27 period. We have asked APTPPL to provide additional information on the proposed opex step change for transformation and technology, and have included an alternative estimate for forecast opex, as set out in section 4.5.

2 Reference services and tariffs

This section summarises our 2022–27 draft decision on the services covered by the RBP access arrangement, the reference tariff setting and variation mechanism, and forecast demand.

2.1 Services covered by the access arrangement

The RBP access arrangement must specify the pipeline services APTPPL proposes to be reference services having regard to the reference service factors.[66] For each reference service, including services ancillary to the reference services, the access arrangement specifies the reference tariff and the terms and conditions on which these services will be provided.[67]

APTPPL is to provide access to its reference services on the terms set out in the RBP access arrangement but may negotiate alternative terms and conditions at alternative prices with users. APTPPL may also offer other non-reference services (negotiated services) which are not subject to regulation under the access arrangement. We may be called upon to determine the tariff and other conditions of access to services if an access dispute arises.[68]

APTPPL's reference service proposal for the RBP is consistent with our final decision on the reference service proposal it submitted in June 2020, as required under the NGR.[69] At that time, we assessed the RBP proposal against the NGR requirements, including the reference service factors. We consulted publicly but did not receive any submissions. There will be two reference services offered for the RBP for the 2022–27 period:[70]

- eastbound firm transportation service
- westbound firm transportation service.

Our draft decision approves APTPPL's reference service proposal for the RBP for the 2022–27 period.

2.2 Reference tariff setting and variation mechanism

Our draft decision includes decisions on the structure and levels of the RBP reference tariffs (reference tariff setting) and the mechanism by which those tariffs can vary over the access arrangement period (reference tariff variation mechanism).

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66 NGR, rr. 48(1)(c) and 47A(15).

67 NGR, r. 48(1)(d).

68 NGL, Chapter 6.

69 AER, *Final decision, APT Petroleum Pipelines Pty Ltd (APTPPL) – Roma to Brisbane Pipeline gas transmission determination 2022 to 2027 – Reference services*, November 2020.

70 APTPPL, *Roma to Brisbane Pipeline 2022–27 Access arrangement, Overview,* July 2021, p. 6.

Reference tariff setting requires APTPPL to explain how it allocates revenues and costs between RBP reference services and other services, and how it determines different tariffs. This involves setting and applying the formula by which APTPPL can recover its costs for the RBP.

The reference tariff variation mechanism:

- permits building block revenues to be recovered smoothly over the access arrangement period, subject to any differences between forecast/actual demand
- accounts for actual inflation
- accommodates other reference tariff adjustments that may be required, such as for an approved cost pass through event
- sets administrative procedures for the approval of any proposed changes to reference tariffs.

Our draft decision is to accept most of APTPPL's proposed reference tariffs and the reference tariff variation mechanism for the RBP for the 2022–27 period.

Our draft decision is to accept APTPPL's proposal to continue the prudent discount that currently applies for RBP eastbound gas flows for the 2017–22 period. This decision is contingent on overall eastbound gas volumes which are uncertain. We will reassess this issue in the context of our final decision.

We do not accept APTPPL's proposed prudent discount on the westbound service as, based on the information provided, we are not satisfied that the prudent discount is necessary to respond to competition. However, we remain open to adopting a different stance in our final decision should additional information substantiating the commercial threat be provided.

We have amended the inflation adjustment from the March quarter to the December quarter consumer price index (CPI) to make it consistent with other network service providers.

Our draft decision updates the cost pass through events that will apply to the RBP in the 2022–27 period. We have accepted the cost pass through events proposed by APTPPL, with some definitional adjustments, and they are consistent with those we approved previously for the 2017–22 period.

2.3 Forecast demand

Under an average price cap, demand is an important input into the derivation of APTPPL's reference tariffs for the RBP. In simple terms, tariffs are determined by dividing cost (forecast revenue) by total demand (TJ/day). This means that a decrease in forecast demand leads to an increase in tariffs, and vice versa. Forecast demand also affects forecasts for opex and capex (new connections), which inform our decision on the total revenue requirement.

Our draft decision is to not accept APTPPL's proposed demand forecast for the RBP for the 2022–27 period. We have provided an alternative forecast, as set out in

Table 2. Specifically, we accept the proposed demand forecast for retail and major industrial users, but do not accept the proposed demand forecast for gas-powered generation and westbound users.

Table 2 AER's draft decision on APTPPL's RBP forecast demand for the 2022–27 period (TJ/day)

User group	2022–23	2023–24	2024–25	2025–26	2026–27	Average
Retail	75.0	75.0	75.0	75.0	75.0	75.0
Major Industrial	56.6	54.0	52.5	52.5	52.5	53.6
GPG	17.9	17.8	17.7	17.7	17.8	17.8
Total Eastbound	**149.5**	**146.8**	**145.2**	**145.2**	**145.3**	**146.4**
Westbound	114.3	114.3	114.3	114.3	114.3	114.3
Total	**263.9**	**261.1**	**259.5**	**259.5**	**259.6**	**260.7**

Source: APTPPL, AER analysis.
Note: APTPPL revised its forecast demand upwards for retail users by 0.6TJ/day to 75TJ/day: see APTPPL, Response to information request AER IR009, 9 September 2021.

Our draft decision does not include the impact of Incitec Pivot's announcement of 8 November 2021 regarding its intention to shut down its fertiliser plant.[71] This development was not included in APTPPL's initial proposal. In this regard, our draft decision is a placeholder and we invite APTPPL to have regard to this change and any other new information in its revised proposal.

[71] Incitec Pivot, *Gibson Island manufacturing operations to cease at end of 2022*, 8 November 2021 (media release): available at https://www.incitecpivot.com.au/about-us/about-incitec-pivot-limited/media/gibson-island-manufacturing-operations-to-cease-at-end-of-2022.

3 Total revenue requirement

The total revenue requirement is a forecast of the efficient cost of providing gas transmission services over the 2022–27 period. We determine annual revenue, and the total revenue requirement, in nominal terms. To do this, we take into account expected future inflation to determine nominal price levels in future periods. Our draft decision uses five-year inflation expectations to convert revenues to nominal values.

Tariffs are derived from the total revenue requirement after consideration of demand for each tariff category. Our 2022–27 draft decision is that APTPPL will continue to operate under an average price cap. This means the tariffs we determine (including the means of varying the tariffs from year-to-year) are the binding constraint across the 2022–27 period, rather than the total revenue requirement set in our decision.[72]

Tariffs are adjusted each year using 'X factors' (the percentage changes in real weighted average tariffs from year-to-year) as explained further in section 3.3.

3.1 The building block approach

We employ a building block approach to determine APTPPL's total revenue requirement for the RBP. That is, we base the total revenue requirement on our estimate of the efficient costs that APTPPL is likely to incur in providing RBP reference services. The building block costs, as shown in Figure 6, include:[73]

- return on the projected capital base (or return on capital) — to compensate investors for the opportunity cost of funds invested in the business[74]
- depreciation of the projected capital base (or return of capital) — to return the initial investment to investors over time[75]
- forecast opex — the operating, maintenance and other non-capital expenses incurred in the provision of network services
- revenue adjustments — including revenue increments/decrements resulting from the application of incentive schemes
- estimated cost of corporate income tax.

We use an incentive approach where, once regulated revenues are set for a five-year period, networks that keep actual costs below the regulatory forecast of costs retain

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72 Where 2022–27 actual demand varies from the 2022–27 demand forecast, APTPPL's actual revenue will vary from the revenue allowance determined in our RBP decision. In general, if actual demand is above forecast demand, APTPPL's actual revenue will be above forecast revenue, and vice versa.

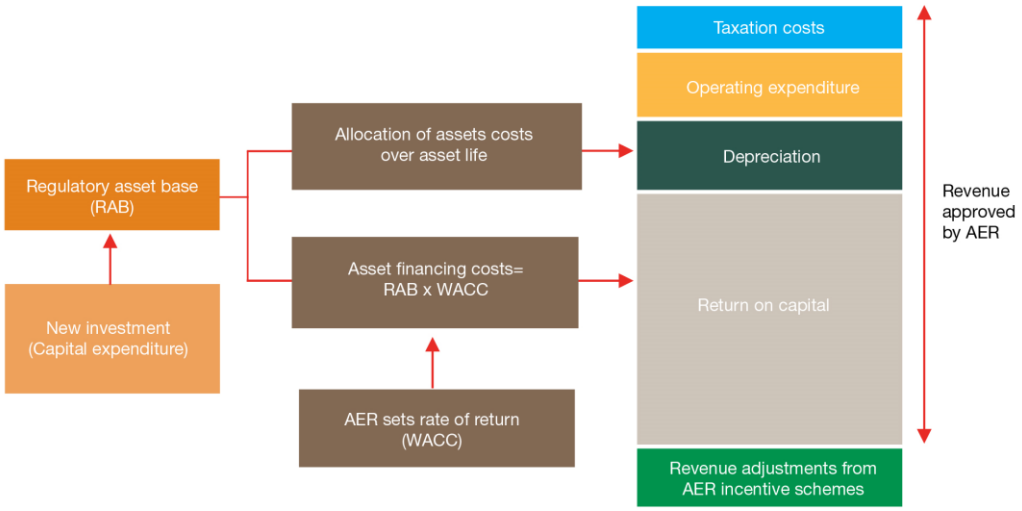
73 NGR, r. 76.

74 Note that forecast capex approved in our decision affects the projected size of the capital base and, therefore, the revenue generated from the return on capital and depreciation building blocks.

75 Ibid.

part of the benefit. This incentive framework is a foundation of our regulatory approach and promotes the delivery of the NGO. Service providers have an incentive to become more efficient over time, as they retain part of the financial benefit from improved efficiency. Consumers also benefit when efficient costs are revealed, and a lower cost benchmark is set in subsequent regulatory periods.

Figure 6 The building block approach to determining total revenue



Our 2022–27 draft decision for APTPPL's RBP proposal, by building block, is summarised in the next section, including high-level reasons and analysis.

3.2 Draft decision on total revenue

Our draft decision sets out a number of amendments to the building block inputs making up APTPPL's total revenue requirement proposal of $239.6 million ($ nominal, smoothed) for the RBP. We expand on these in section 4.

Based on our assessment of the building block costs,[76] our draft decision determines a lower total revenue requirement of $213.5 million ($ nominal, smoothed).[77]

It follows that our draft decision requires amendments to the 17.0 per cent increase in eastbound real tariffs and 29.0 per cent increase in westbound real tariffs that APTPPL is proposing for the RBP for 2022–23.

As a result of our lower total revenue requirement and higher demand forecast compared to what APTPPL is proposing for the RBP, our draft decision is for a real decrease in 2022–23 weighted average tariffs of 25.5 per cent and 26.6 per cent for eastbound and westbound reference services, respectively, followed by a 0.8 per cent

[76] Using the building block approach set out in the NGR, r. 76.

[77] This is calculated by smoothing the unsmoothed building block revenue for the 2022–27 period, as set in this decision.

decrease in real tariffs in each of the remaining four years of the 2022–27 period. Section 3.3 discusses our approach to revenue smoothing and tariffs.

Table 3 sets out our draft decision on APTPPL's total revenue requirement (by building block) for the RBP for each year of the 2022–27 period, the total revenue after equalisation (smoothing), and the X factors for use in the tariff variation mechanism.

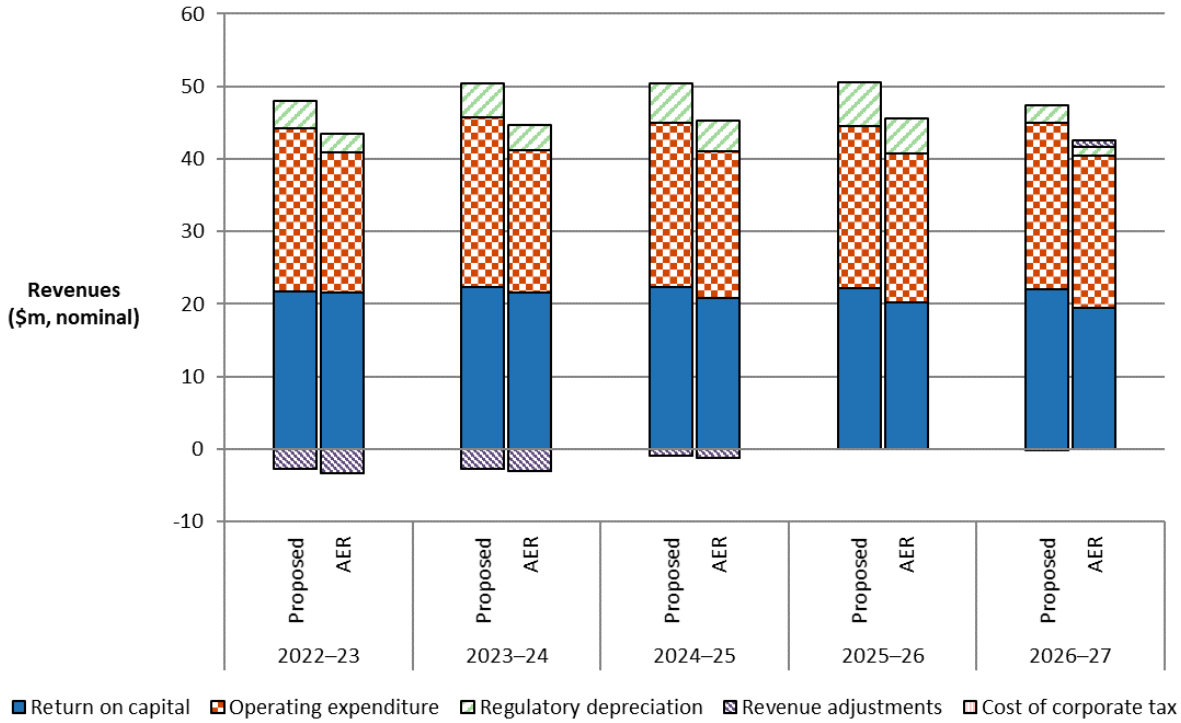
Table 3 AER's draft decision on APTPPL's RBP smoothed total revenue and X factors for the 2022–27 period ($ million, nominal)

Building block	2022–23	2023–24	2024–25	2025–26	2026–27	Total
Return on capital	21.6	21.5	20.9	20.2	19.4	103.6
Regulatory depreciation	2.5	3.5	4.2	4.8	1.2	16.2
Operating expenditure	19.3	19.7	20.1	20.6	21.0	100.8
Revenue adjustments	–3.3	–3.1	–1.2	0.0	0.9	–6.8
Net tax allowance	0.0	0.0	0.0	0.0	0.0	0.0
Building block revenue – unsmoothed	40.0	41.6	44.0	45.6	42.5	213.8
Building block revenue – smoothed	**42.1**	**42.3**	**42.5**	**43.0**	**43.6**	**213.5**
X factors[a]	25.53%[c]	0.75%	0.75%	0.75%	0.75%	n/a
Inflation forecast	2.25%	2.25%	2.25%	2.25%	2.25%	n/a
Nominal price change[b]	–23.85%[d]	1.48%	1.48%	1.48%	1.48%	n/a

Source: AER analysis.
n/a: not applicable.
(a) Under the CPI–X form of control, a positive X factor is a decrease in price (and, therefore, in revenue). The X factor for 2022–23 is indicative only. Our decision establishes 2022–23 tariffs directly, rather than referencing a change from 2021–22 tariffs.
(b) The formula for a nominal price change under the CPI–X form of control is: [(1+CPI)*(1–X factor)]–1.
(c) The value in the table is for the eastbound reference service. For the westbound reference service, the value is 26.59 per cent.
(d) The value in the table is for the eastbound reference service. For the westbound reference service , the value is –24.94 per cent.

Figure 7 shows the effect of our draft decision adjustments to APTPPL's proposed building blocks for the RBP for the 2022–27 period. It shows reductions to the proposed building blocks for the return on capital, regulatory depreciation and opex.

Figure 7 AER's draft decision and APTPPL's RBP proposed building block revenue (unsmoothed) ($ million, nominal)



Source: AER analysis.
Note: Revenue adjustments includes the efficiency carryover mechanism (ECM).

3.3 Revenue smoothing and tariffs

After our assessment of APTPPL's total building block revenue (unsmoothed) for the RBP, we determine the forecast revenue profile (smoothed) across the 2022–27 period.[78]

APTPPL operates under an average price cap[79] as its tariff variation mechanism for the RBP. This means we must determine the weighted average tariff change each year such that the net present value (NPV) of unsmoothed and smoothed revenue is equal across the 2022–27 period.[80] This average tariff change is known as the 'X factor'.

As part of the annual reference tariff variation process for the RBP, we combine the X factors we have determined in our decision with actual inflation to create reference tariffs for the coming year. This means that the average prices paid by consumers, and

[78] This process of smoothing revenues is described in the NGR as 'revenue equalisation'. See NGR, r. 92.

[79] An average price cap is where the total revenue is divided by forecast energy capacity to establish the average price. For 2022–23, the established average price becomes the reference tariff which forms the starting point for adjusting the price path under the CPI–X tariff variation mechanism.

[80] See Attachment 10 for information on the mechanics of the tariff variation mechanism: AER, *Draft decision, Roma to Brisbane Pipeline 2022–27, Attachment 10 – Reference tariff variation mechanism*, November 2021.

therefore the revenues received by APTPPL, change with the X factor plus actual inflation.[81]

Table 4 presents our draft decision X factors compared to APTPPL's RBP proposal.

Table 4 Weighted average tariff change (X factors) across the 2022–27 period — AER's draft decision and APTPPL's RBP proposal

	2022–23	2023–24	2024–25	2025–26	2026–27
AER's draft decision					
X factor - eastbound[a]	25.53%	0.75%	0.75%	0.75%	0.75%
Nominal price change - eastbound	–23.85%	1.48%	1.48%	1.48%	1.48%
X factor - westbound	26.59%	0.75%	0.75%	0.75%	0.75%
Nominal price change - westbound	–24.94%	1.48%	1.48%	1.48%	1.48%
APTPPL's RBP proposal					
X factor - eastbound[a]	–17.02%	0.00%	0.00%	0.00%	0.00%
Nominal price change - eastbound	19.36%	2.00%	2.00%	2.00%	2.00%
X factor - westbound	–29.04%	0.00%	0.00%	0.00%	0.00%
Nominal price change - westbound	31.62%	2.00%	2.00%	2.00%	2.00%

Source: AER analysis; APTPPL, *Roma to Brisbane Pipeline 2022–27 – Updated Post-tax revenue model,* 30 September 2021.

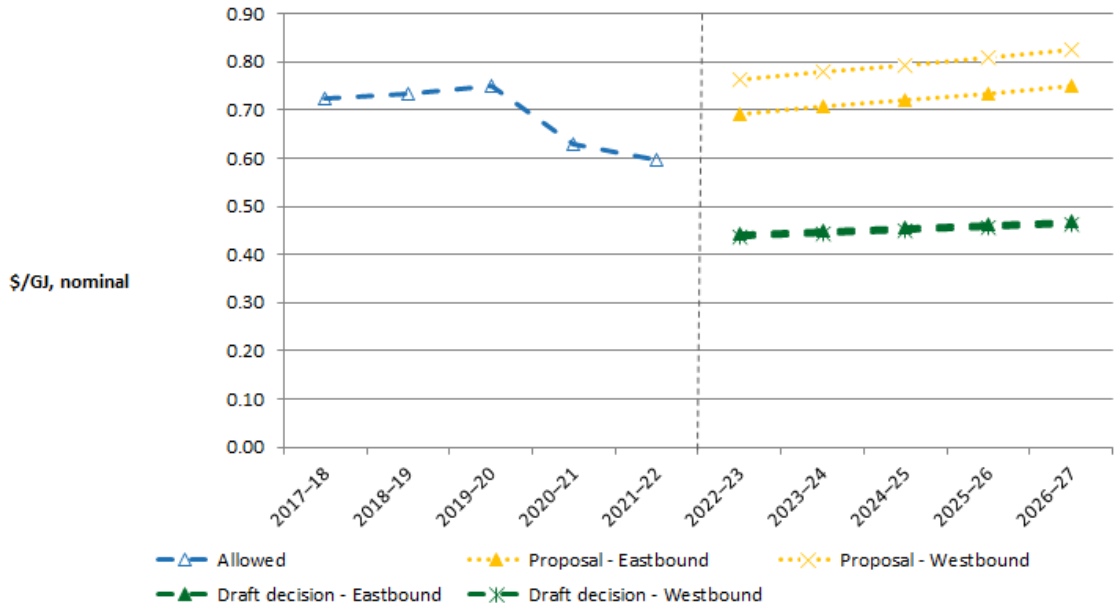
(a) Under the CPI–X form of control, a positive X factor is a decrease in price (and, therefore, in revenue). For example, in the table above, an X factor of 0 per cent in 2023–24 means a constant real price for this year, after consideration of inflation, this becomes a nominal price increase of 2.0 per cent. The X factor for 2022–23 is indicative only. The draft decision establishes 2022–23 tariffs directly, rather than referencing a change from 2021–22 tariffs.

Figure 8 shows indicative tariff paths for APTPPL's RBP reference services across the 2022–27 period. It compares APTPPL's proposed tariff path with that approved previously for the 2017–22 period, and with this draft decision.[82] This provides a broad, overall indication of the average movement in tariffs for the RBP across the 2022–27 period.

[81] Under the CPI–X form of control, a positive X factor represents a decrease in price (and, therefore, in revenue). Conversely, a negative X factor represents an increase in price (and, therefore, in revenue).

[82] The tariff path for 2017–27 uses actual inflation outcomes for 2017–21 and expected inflation for 2021–27.

Figure 8 Indicative reference tariff paths for APTPPL's RBP reference services from 2017 to 2027 ($/GJ, nominal)



Source: AER analysis; APTPPL, *Roma to Brisbane Pipeline 2022–27 – Updated Post-tax revenue model,* 30 September 2021.

APTPPL's proposed RBP eastbound tariff path for the 2022–27 period is for an initial increase of 19.4 per cent ($ nominal) in 2022–23, followed by increases of 2.0 per cent in each of the remaining four years of the 2022–27 period. For the RBP westbound tariff path, APTPPL proposed an initial increase of 31.6 per cent ($ nominal) in 2022–23, followed by increases of 2.0 per cent in each of the remaining four years of the 2022–27 period.[83]

Our draft decision provides for lower forecast smoothed revenue for the 2022–27 period than APTPPL's RBP proposal, in line with our amendments to total unsmoothed revenue. Our draft decision also provides for higher forecast demand for the 2022–27 period, as described in section 2.3. As such, decreases of 23.9 per cent and 24.9 per cent to eastbound and westbound tariffs, respectively, is required in the first year (2022–23) of the 2022–27 period to reflect the change in smoothed revenue from the 2017–22 period, followed by increases of 1.5 per cent to both eastbound and westbound tariffs in each of the remaining four years of the 2022–27 period.

In choosing the smoothing profile, we have balanced a number of competing objectives:

- equalising (in NPV terms) unsmoothed and smoothed revenue
- providing price signals that reflect the underlying efficient costs

[83] APTPPL's proposed nominal tariff paths reflect its proposed expected inflation of 2.0 per cent.

- minimising variability in tariffs from 2021–22 through to the 2022–27 period, and within that period
- minimising the likelihood of variability in tariffs at the start of the 2027–32 period

Each of these points is discussed in turn.

First, we are satisfied that each of our tariff paths (eastbound and westbound) for APTPPL's RBP reference services across the 2022–27 period achieves revenue equalisation, as required under the Rules.[84] As we have reduced the unsmoothed revenue proposed by APTPPL, we have set the tariff path for each reference service so that it adjusts the smoothed revenue downward to equalise with the unsmoothed building block costs.

Second, and related to the first point, our smoothing allows closer alignment of tariffs and costs. This aids the achievement of the NGO and the revenue and pricing principles (RPP), including through providing a price signal that facilitates efficient use of natural gas services.[85] Each of our eastbound and westbound tariff paths show a large decrease in the first year of the 2022–27 period while APTPPL's RBP proposal was for a large first year increase in each.[86] This reflects the lower unsmoothed building block costs and higher demand forecast compared to the RBP proposal.

Third, in setting each tariff path, we aim to minimise tariff volatility from 2021–22 through to the 2022–27 period, and within that period. Our chosen tariff paths reflect this objective, including the consideration we must give to other competing objectives. For instance, setting a flat tariff path from 2021–22 would better minimise within-period volatility, but would not achieve revenue equalisation.

Fourth, in setting each tariff path, we also aim to minimise the likelihood of tariff volatility between the 2022–27 and 2027–32 periods. We do not know with certainty what APTPPL's efficient costs for the RBP will be in 2027–28, or across the 2027–32 period more generally. The unsmoothed building block costs for 2026–27 (the last year of the 2022–27 period) are the best available proxy. Hence, this objective requires minimising the divergence between smoothed and unsmoothed revenues for 2026–27. If there are no significant changes in forecast costs from 2026–27 to 2027–28, this final year divergence provides an estimate of the size of the tariff change at the start of the 2027–32 period. For this draft decision, this final year divergence is 2.9 per cent for each tariff path, which is within our preferred target range of +/-3 per cent. We note that if there are significant changes in costs at the start of the 2027–32 period, this might increase or decrease the required tariff change at that time.

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[84] NGR, r. 92(2). The revenue equalisation occurs in NPV terms, discounting the yearly cash flows at the rate of return to reflect the time value of money.

[85] NGL, ss. 23 and 24.

[86] APTPPL, *Roma to Brisbane Pipeline 2022–27 – Updated reference tariff model*, 30 September 2021.

We are satisfied that our RBP eastbound and westbound tariff paths reflect a balanced consideration of competing objectives. We will review this smoothing profile for the final decision, if necessary.

4 Key elements of our draft decision on revenue

The components of our draft decision include the building blocks we use to determine the revenue that APTPPL may recover from RBP users. The following sections summarise our revenue decision by building block. The Attachments to this draft decision provide a more detailed explanation of our analysis and findings.

4.1 Capital base

The capital base roll forward accounts for the value of APTPPL's RBP regulated assets over the access arrangement period. The opening value of the capital base is used to determine the return on capital and return of capital (depreciation) building blocks. To calculate the capital base for a regulatory year within an access arrangement period, the opening value of the capital base is rolled forward by indexing it for inflation, adding any conforming capex, and subtracting depreciation and other possible factors (such as disposals).[87] Following this process, we also arrive at a closing value of the capital base at the end of each regulatory year of an access arrangement period.

We are required to make a decision on APTPPL's RBP opening capital base as at 1 July 2022 for the 2022–27 period, and APTPPL's RBP projected capital base for the 2022–27 period.

For this draft decision, we accept APTPPL's proposed RBP opening capital base of $498.2 million ($ nominal) as at 1 July 2022.[88] APTPPL submitted an updated proposed roll forward model (RFM)[89] which reflected our suggested amendments to the nominal WACC, forecast straight-line capital base depreciation and actual capex inputs.[90] Table 5 summarises our draft decision on the roll forward of the RBP capital base during the 2017–22 period.

We determine a projected RBP closing capital base of $512.9 million ($ nominal) as at 30 June 2027, which is $6.1 million (1.2 per cent) higher than APTPPL's proposed closing capital base of $506.8 million ($ nominal).[91] Our draft decision reflects the updated opening capital base as at 1 July 2022, and our decisions on the expected inflation rate (section 4.2), forecast depreciation (section 4.3) and forecast capex (section 4.4). Table 6 sets out our draft decision on the projected RBP capital base over the 2022–27 period.

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87 The term 'rolled forward' means the process of carrying over the value of the capital base from one regulatory year to the next.

88 For our draft decision we have amended the 2016–17 actual CPI to be rounded to 2 decimal places consistent with our RFM for the 2017–22 period. This amendment reduces the opening capital base by less than $0.01 million.

89 Compared to the initial proposal submitted on 1 July 2021.

90 In its updated proposed RFM, APTPPL also amended actual capex in 2018–19 and 2019–20, and updated estimated capex for 2020–21 with actual (unaudited) capex. APTPPL, *Roma to Brisbane Pipeline 2022–27 – Updated transmission roll forward model,* 30 September 2021.

91 APTPPL, *Roma to Brisbane Pipeline 2022–27, Attachment 3 – Post-tax revenue model*, July 2021.

We accept APTPPL's proposal to establish the RBP opening capital base as at 1 July 2027 using the approved depreciation schedules based on forecast capex over the 2022–27 period.[92] These depreciation schedules will be adjusted for actual inflation outcomes over this period. Attachment 2 sets out detailed reasons for our draft decision on the RBP capital base.

Table 5 AER's draft decision on APTPPL's RBP capital base roll forward for the 2017–22 period ($ million, nominal)

	2017–18	2018–19	2019–20	2020–21[a]	2021–22[b]
Opening capital base	452.1	456.8	462.0	475.9	481.0
Net capex[c]	12.7	17.1	22.2	12.6	16.7
Indexation of capital base[d]	8.6	6.1	10.1	5.3	11.7
Less: straight-line depreciation[e]	16.7	17.9	18.5	12.7	10.7
Interim closing capital base	456.8	462.0	475.9	481.0	498.7
Difference between estimated and actual capex in 2016–17 capex					–0.4
Return on difference for 2016–17 capex					–0.1
Closing capital base as at 30 June 2022					**498.2**

Source: AER analysis.

(a) Based on actual (unaudited) capex. We will review this against the reporting of actual (audited) capex and may update the capital base roll forward for any changes in the final decision.

(b) Based on estimated capex provided by APTPPL. We expect to update the capital base roll forward with a revised capex estimate in the final decision, and true-up the capital base for actual capex at the next access arrangement review.

(c) As-incurred, net of disposals, and adjusted for actual CPI and half year WACC.

(d) We will update the capital base roll forward for actual CPI for 2021–22 in the final decision.

(e) Adjusted for actual CPI. Based on forecast as-commissioned capex.

[92] APTPPL, *Roma to Brisbane Pipeline 2022–27 Proposed revised access arrangement, 1 July 2022–30 June 2027*, July 2021, cl. 3.6.

Table 6 AER's draft decision on APTPPL's RBP projected capital base roll forward for the 2022–27 period ($ million, nominal)

	2022–23	2023–24	2024–25	2025–26	2026–27
Opening capital base	498.2	512.4	512.5	511.2	508.5
Net capex[a]	16.8	3.5	2.9	2.2	5.6
Indexation of opening capital base	11.2	11.5	11.5	11.5	11.4
Less: straight-line depreciation[b]	13.7	15.0	15.7	16.3	12.7
Closing capital base	**512.4**	**512.5**	**511.2**	**508.5**	**512.9**

Source: AER analysis.

(a) As-incurred, and net of forecast disposals. In accordance with the timing assumptions of the post-tax revenue model, the capex includes a half-year WACC allowance to compensate for the six-month period before capex is added to the capital base for revenue modelling.

(b) Based on as-commissioned capex.

4.2 Rate of return and value of imputation credits

The return each business is to receive on its capital base (the 'return on capital') is a key driver of proposed revenues. We calculate the regulated return on capital by applying a rate of return to the value of the capital base.

We estimate the rate of return by combining the returns of two sources of funds for investment – equity and debt. The allowed rate of return provides the business with a return on capital to service the interest rate on its loans and give a return on equity to investors.

The estimate of the rate of return is important for promoting efficient prices in the long-term interests of consumers. If the rate of return is set too low, the network business may not be able to attract sufficient funds to be able to make the required investments in the network and reliability may decline. Conversely, if the rate of return is set too high, the network business may seek to spend too much, and consumers will pay inefficiently high tariffs.

The NGL[93] requires us to apply the 2018 Instrument to estimate the rate of return for APTPPL's RBP and estimate a placeholder allowed rate of return of 4.33 per cent (nominal vanilla) for this decision, which will be updated for our final decision on the averaging periods. APTPPL's RBP proposal adopted the 2018 Instrument.[94] Our estimated placeholder rate of return is lower than APTPPL's proposed 4.36 per cent (nominal vanilla), principally due to a decrease in interest rates.

[93] NGL, Chapter 2, Part 1, division 1A; AER, *Rate of Return Instrument*, December 2018, available here https://www.aer.gov.au/networks-pipelines/guidelines-schemes-models-reviews/rate-of-return-instrument-2018/final-decision.

[94] APTPPL, *Roma to Brisbane Pipeline 2022–27 Access arrangement Overview,* July 2021, p. 20; APTPPL, *Roma to Brisbane Pipeline 2022–27, Attachment 11 – Rate of return calculations*, July 2021.

Our calculated rate of return, as set out in Table 7, will apply to the first year of the 2022–27 period. A different rate of return will apply for the remaining regulatory years of the period. This is because we will update the return on debt component of the rate of return each year, in accordance with the 2018 Instrument, to use a 10-year trailing average portfolio return on debt that is rolled-forward each year. Hence, 10 per cent of the return on debt is calculated from the most recent averaging period, with 90 per cent from prior periods. We will update the estimate of the rate of return and expected inflation in our final decision.

Table 7 AER's draft decision on APTPPL's RBP rate of return (% nominal)

	AER previous decision (2017–22)	APTPPL's proposal (2022–27)	AER draft decision (2022–27)	Allowed return over the access arrangement period
Nominal risk-free rate	2.44%	1.34%	1.14%[a]	
Market risk premium	6.5%	6.1%	6.1%	
Equity beta	0.7	0.6	0.6	
Return on equity (nominal post–tax)	7.0%	5.0%	4.80%	Constant (%)
Return on debt (nominal pre–tax)	4.64%[b]	3.94%	4.02%[a]	Updated annually
Gearing	60%	60%	60%	Constant (60%)
Nominal vanilla WACC	5.58%	4.36%	4.33%	Updated annually for return on debt
Expected inflation	2.42%	2.00%	2.25%	Constant (%)

Source: AER analysis; APTPPL, *Roma to Brisbane Pipeline 2022–27, Attachment 11 – Rate of return calculations*, July 2021.
[a] Calculated using a placeholder averaging period of 20 business days ending 31 August 2021. This will be updated for the final decision.
[b] Applies to the first year of the 2017 –2022 access arrangement period.

Our draft decision accepts APTPPL's proposed risk free rate[95] and debt averaging periods because they satisfied the 2018 Instrument.[96]

Attachment 3 contains further detail on our draft decision on the allowed rate of return, debt and equity costs, and expected inflation.

[95] This is also known as the return on equity averaging period.
[96] AER, *Rate of return instrument*, December 2018, clauses 7–8, 23–25, 36.

4.2.1 Imputation credits

Our draft decision applies a value of imputation credits (gamma) of 0.585, as set out in the binding 2018 Instrument.[97] APTPPL's proposal adopted the 2018 Instrument for gamma.[98]

4.2.2 Expected Inflation

Our estimate of expected inflation is 2.25 per cent, which will be updated for the final decision. It is an estimate of the average annual rate of inflation expected over a five-year period based on the outcome of our 2020 Inflation Review.[99]

4.3 Regulatory depreciation

We use regulatory depreciation to model the nominal asset values over the 2022–27 period and set the depreciation building block as part of calculating the total revenue for APTPPL. The depreciation amount is the net total of real straight-line depreciation (negative) and annual inflation indexation (positive) on the projected capital base.

We are required to make a decision on APTPPL's proposed:[100]

- depreciation on the projected capital base for the RBP
- depreciation schedule, which sets out the basis on which the depreciation for the RBP is calculated.

Attachment 4 sets out our draft decision on APTPPL's annual regulatory depreciation amount for the RBP for the 2022–27 period. It also details our consideration of specific matters that affect the estimate of regulatory depreciation, including the:

- standard asset lives for depreciating new assets associated with forecast capex, including the proposed shortening of standard lives for some asset classes[101]
- remaining asset lives for depreciating existing assets in the opening capital base including, for some pipeline assets, the proposed shortening of a remaining asset life and merging two asset classes.

We determine a regulatory depreciation amount of $16.2 million ($ nominal) for APTPPL's RBP for the 2022–27 period, which is $6.1 million (27.3 per cent) lower than the $22.3 million proposed by APTPPL.[102] This difference is driven by our higher expected inflation rate for the 2022–27 period.

The regulatory depreciation amount is the net total of the straight-line depreciation less the inflation indexation of the capital base. The straight-line depreciation is impacted by

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97 AER, *Rate of Return Instrument*, December 2018, cl. 27.

98 APTPPL, *Roma to Brisbane Pipeline 2022–27, Attachment 3 – Post-tax revenue model,* July 2021.

99 AER, *Final position, Regulatory treatment of inflation*, December 2020.

100 NGR, rr. 59, 72, 76, 88 and 89.

101 The term 'standard asset life' may also be referred to as 'economic life'.

102 APTPPL, *Roma to Brisbane Pipeline 2022–27 – Updated Post-tax revenue model,* 30 September 2021.

our decision on APTPPL's RBP opening capital base as at 1 July 2022 (section 4.1), forecast capex (section 4.4) and asset lives. Our draft decision straight-line depreciation for APTPPL's RBP is $0.5 million higher than proposed by APTPPL.

The indexation on the capital base is impacted by our decision on APTPPL's RBP opening capital base (section 4.1), forecast capex (section 4.4) and the expected inflation rate (section 4.2.2). Our draft decision indexation on APTPPL's projected RBP capital base is $6.6 million higher than proposed by APTPPL, and is largely due to our higher expected inflation rate for the 2022–27 period of 2.25 per cent per annum compared to APTPPL's proposed 2.00 per cent per annum. The increase in indexation has more than offset the increase in straight-line depreciation (since indexation is deducted from the straight-line depreciation).

In coming to our decision on APTPPL's straight-line depreciation for the RBP:

- We accept APTPPL's proposed straight-line method to calculate the regulatory depreciation amount.
- We accept APTPPL's proposed weighted average method to calculate the remaining asset lives as at 1 July 2022 for depreciating its existing assets. This method is a continuation of the approved approach used in the 2017–22 period and applies the approach as set out in our RFM. In accepting this method, we have updated the proposed remaining asset lives as at 1 July 2022 due to the input changes we made to APTPPL's proposed RFM.
- We accept APTPPL's proposed accelerated depreciation approach to reduce the remaining asset life for the 'Original pipeline' asset class to two years and merge this asset class with the 'Pipelines' asset class.
- We accept APTPPL's proposed accelerated depreciation approach to reduce the standard asset lives for its 'Pipelines' and 'Compressors' asset classes by setting them equal to the respective remaining asset lives. However, we do not accept this proposed approach for the 'Regulators and meters' asset class as it has no capex forecast and so we do not assign it a standard asset life. We accept APTPPL's proposal to adopt the same standard asset lives for its other asset classes, consistent with those approved for the 2017–22 period.

APTPPL proposed $5.6 million accelerated depreciation for the RBP for the 2022–27 period by reducing the remaining asset life of the 'Original pipeline' asset class (DN250 section of the RBP) to two years and merging this asset class with the 'Pipelines' asset class.

Having assessed the information put to us by APTPPL, we consider this approach is appropriate and consistent with the NGR and we accept this approach for our draft decision.

We consider the age and condition of the DN250 pipeline likely warrants its retirement. Further, we consider the capex program to transition consumers to the DN400 section of the RBP is prudent and the transition timeline of two years is appropriate. Once the existing consumers are transferred across to the DN400 pipeline, the DN250 is to be decommissioned, and it will have no further economic use. We also consider that it

would not be suitable for the DN250 to be repurposed in the future to transport alternative fuel, such as hydrogen gas. We therefore consider a reduced remaining asset life of two years is appropriate, and consistent with the NGR requirements, because this reflects the change in expected economic life of the asset.[103]

However, while it would appear to be reasonable for the residual value of this asset to be fully depreciated by the end of 2023–24 to reflect its reduced economic life, we have also considered the resulting tariff impact. We agree with APTPPL's proposal that merging the two pipeline asset classes avoids the very large increases to revenue and tariffs that would otherwise result from the reduced remaining asset life of two years for the DN250 pipeline.[104] We consider that merging the asset classes is therefore consistent with the NGR because it provides a price path that will promote efficient growth in reference services.[105]

APTPPL also proposed $0.5 million accelerated depreciation for the 2022–27 period by reducing the standard asset lives for 'Pipelines', 'Compressors' and 'Regulation and meters' asset classes to equal their respective remaining asset lives.

For our draft decision, we accept this approach for the 'Pipelines and 'Compressors' asset classes, but not for the 'Regulators and meters' asset class.

APTPPL proposed this approach due to long-term uncertainty for the gas sector and the RBP, and because the related works in its capex forecast for the 2022–27 period are to ensure the pipeline's technical life is achieved, rather than extending its technical life. We acknowledge APTPPL's stated concerns regarding long-term uncertainty, noting these concerns are consistent with its forecast capex which is 65 per cent lower than the amount approved for the 2017–22 period and does not contain any capex for expansion purposes.

In assessing APTPPL's proposed approach we have considered the appropriate technical or engineering lives expected for the associated types of capex works for the 2022–27 period. For both the 'Pipelines' and 'Compressors' asset classes, the expected technical lives are shorter than the current standard asset lives reflecting capex for the 2022–27 period which is largely for maintenance and non-core components. We therefore agree with APTPPL that the current standard asset lives are no longer appropriate for these asset classes. APTPPL's proposed approach results in standard asset lives for these asset classes which are longer than the respective expected technical lives and, therefore, result in lower depreciation compared to if the technical lives were adopted. Further, the proposed standard asset lives are closer to the expected technical lives than the current lives. Overall, we consider APTPPL's approach is reasonable for these asset classes.

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[103] NGR, r. 89(1)(c).

[104] If we accept the reduced remaining asset life of two years for the DN250 but leave the asset classes separate, the remaining value of DN250 of $83 million would fully depreciate in two years.

[105] NGR, r. 89(1)(a).

While we are able to assess the suitability of APTPPL's proposed standard asset lives for the 'Pipelines' and 'Compressors' asset classes by reference to the forecast capex for the 2022–27 period, we are unable to do this for the 'Regulators and meters' asset class. This is because the 'Regulators and meters' asset class is not expected to be used, and therefore has zero forecast capex allocated for the 2022–27 period. Therefore, we do not assign it a standard asset life.

We are satisfied that our draft decision is consistent with the NGR's depreciation criteria and is in the long term interests of consumers, in accordance with the NGO and RPP. Table 8 sets out our draft decision on APTPPL's forecast regulatory depreciation for the RBP for the 2022–27 period.

Table 8 AER's draft decision on APTPPL's RBP forecast regulatory depreciation for the 2022–27 period ($ million, nominal)

	2022–23	2023–24	2024–25	2025–26	2026–27	Total
Straight-line depreciation	13.7	15.0	15.7	16.3	12.7	73.4
Less: indexation on opening capital base	11.2	11.5	11.5	11.5	11.4	57.2
Regulatory depreciation	**2.5**	**3.5**	**4.2**	**4.8**	**1.2**	**16.2**

Source: AER analysis.

4.4 Capital expenditure

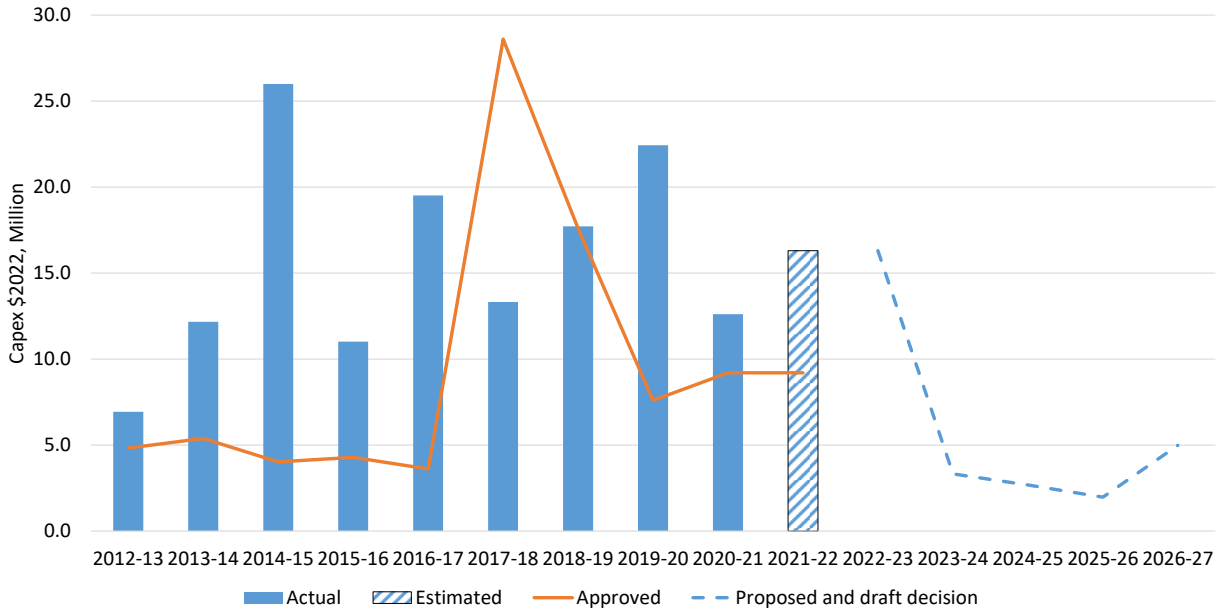
Capital expenditure (capex) refers to the capital costs and expenditure incurred in the provision of pipeline services.[106] This investment mostly relates to assets with long lives. APTPPL recovers the costs of these assets through the return on capital and depreciation building blocks. In this way, APTPPL recovers the financing cost and depreciation associated with these assets over the expected life of these assets.

Our draft decision includes an assessment of APTPPL's actual capex in the 2017–22 period (which forms part of the RBP's opening capital base)[107] and its forecast capex for the 2022–27 period (which forms part of the RBP's projected capital base).[108]

Figure 9 compares APTPPL's past and proposed forecast capex for the RBP, and the forecasts approved by us in our previous (2017–22) decision and this (2022–27) draft decision.

106 NGR, r. 69.
107 NGR, r. 77.
108 NGR, r. 78(b)

Figure 9 AER's draft decision and APTPPL's RBP past and proposed capex ($ million, 2021–22)



Source: AER analysis.

4.4.1 Conforming capex for the 2017–22 period

APTPPL expects to spend total net capex of $82.4 million for the RBP for the 2017–22 period. This is more than the forecast of $71.5 million.

In this draft decision, we approve APTPPL's RBP forecast as conforming under the NGR subject to inflation updates. We will review APTPPL's RBP actual capex for 2021–22 in the 2027–32 RBP access arrangement review.

4.4.2 Conforming capex for the 2022–27 period

APTPPL proposes forecast net capex of $29.3 million ($2021–22) for the RBP for the 2022–27 period, which is $53.2 million (64.6 per cent) lower than actual net capex for the 2017–22 period.[109]

Our draft decision approves APTPPL's forecast net capex of $29.2 million for the RBP. This reflects updated inflation and real cost escalation figures consistent with APTPPL's intent to update real cost escalations.

Table 9 presents our draft decision for forecast capex by category.

[109] APTPPL's capex for 2021–22 is based on an estimate only.

Table 9 AER's draft decision and APTPPL's RBP proposal for forecast capex for the 2022–27 period ($ million, 2021–22)

Category	2022–23	2023–24	2024–25	2025–26	2026–27	Total
Expansion	–	–	–	–	–	–
Replacement	14.3	2.2	1.5	1.4	3.1	22.6
Non-network	2.0	1.1	1.1	0.5	1.9	6.7
Gross Total Capex	16.3	3.3	2.7	2.0	5.0	29.3
Contribution	–	–	–	–	–	–
Asset disposals	–	–	–	–	–	–
Real cost escalation and inflation adjustment	-0.0	-0.0	-0.0	-0.0	-0.0	-0.1
Net Total capital expenditure	16.3	3.3	2.7	2.0	5.0	29.2

Source: AER analysis; APTPPL, *Roma to Brisbane Pipeline 2022–27 – Updated forecast capex model*, 30 September 2021. Numbers may not add up to totals due to rounding.

4.5 Operating expenditure

Operating expenditure (opex) is the operating, maintenance and other non-capital expenses, incurred in the provision of pipeline services. Forecast opex is one of the building blocks we use to determine a service provider's total revenue requirement.

We do not accept APTPPL's updated opex forecast of $107.5 million ($2021–22) for the RBP for the 2022–27 period, as submitted to us on 30 September 2021.[110] APTPPL's initial RBP proposal included forecast total opex of $97.6 million ($2021–22).[111] We are not satisfied APTPPL's updated forecast opex meets the opex criteria[112] and the requirements for forecasts and estimates.[113]

Our draft decision is to include our alternative estimate of total opex forecast of $94.2 million ($2021–22) for the RBP. This is $13.3 million (12.3 per cent) lower than APTPPL's updated forecast and largely reflects that we do not consider we currently have sufficient information to assess the proposed transformation and technology step change. We are satisfied that our alternative estimate of forecast opex reasonably reflects the opex criteria.

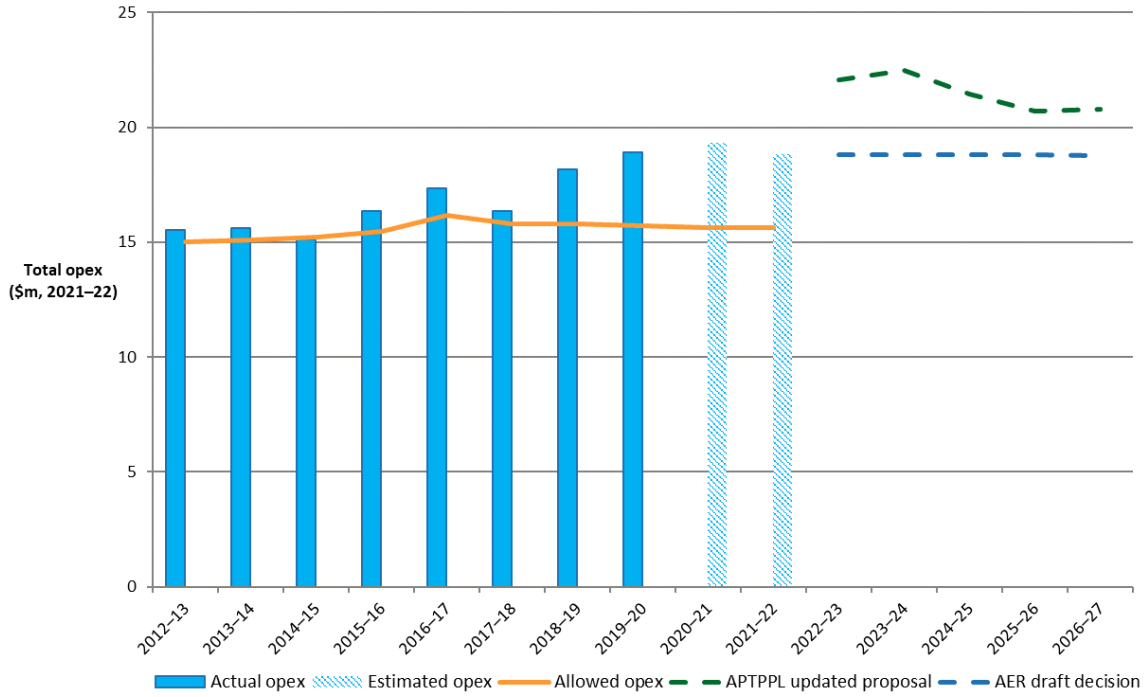
[110] APTPPL, *Roma to Brisbane Pipeline 2022–27 – Updated opex model*, 30 September 2021.
[111] APTPPL, *Roma to Brisbane Pipeline 2022–27, Attachment 5 – Opex model*, July 2021.
[112] NGR, r. 91.
[113] NGR, r. 74.

Our draft decision opex forecast for the RBP is:[114]

- $15.6 million (19.9 per cent) higher than the opex forecast we approved in our final decision for the 2017–22 period
- $2.6 million (2.8 per cent) higher than APTPPL's actual/estimated opex in the 2017–22 period.

Figure 10 compares the RBP opex forecast we approve in this draft decision to APTPPL's updated proposal, the forecasts we approved for 2012–22 and APTPPL's actual opex in that period.

Figure 10 AER's draft decision compared to APTPPL's RBP past and updated proposed opex ($ million, 2021–22)



Source: AER analysis.
Note: Includes debt raising costs.

Table 10 sets out APTPPL's initial proposal, its updated proposal, our alternative estimate that is the basis for the draft decision, and the difference between our draft decision and the updated proposal for the RBP.

[114] Adjusted to real $2021–22 terms based on June quarter CPI.

Table 10 AER's draft decision and APTPPL's RBP proposal for forecast total opex for the 2022–27 period ($ million, 2021–22)

Opex category	APTPPL proposal	APTPPL updated proposal	AER draft decision	Difference ($)
Base (reported opex in 2019–20)	92.6	92.6	94.5	1.9
Base year adjustments	–3.2	–1.3	–1.3	0.0
Final year increment	0.9	0.9	–0.3	–1.2
Trend: Output growth	–	–	–	–
Trend: Real price growth	1.1	1.1	1.4	0.2
Trend: Productivity growth	–	–	–1.4	–1.4
Step change	5.0	13.0	–	–13.0
Category specific forecasts	–	–	–	–
Total opex (excluding debt raising costs)	**96.4**	**106.3**	**92.9**	**–13.4**
Debt raising costs	1.2	1.2	1.4	0.2
Total opex (including debt raising costs)	**97.6**	**107.5**	**94.2**	**–13.3**
Percentage difference to proposal				**-12.3%**

Source: APTPPL, *Roma to Brisbane Pipeline 2022–27, Attachment 5 – Opex model*, July 2021; APTPPL, *Roma to Brisbane Pipeline 2022–27 – Updated opex model*, 30 September 2021; AER analysis.

Note: Numbers may not add up to total due to rounding. Differences of '0.0' and '–0.0' represent small variances and '–' represents no variance.

4.6 Revenue adjustments

We have applied one revenue adjustment to APTPPL's revenue for the 2022–27 period as presented below.

4.6.1 Efficiency carryover mechanism for the 2017–21 period

An efficiency carryover mechanism (ECM) is intended to provide a continuous incentive for service providers to pursue efficiency improvements in opex, and provide for a fair sharing of these between service providers and network users.

Our draft decision is to approve carryover amounts totalling –$6.6 million ($2021–22) from the application of the ECM in the 2017–22 period for the RBP. This is $0.3 million ($2021–22) less than APTPPL's proposal of –$6.3 million ($2021–22).[115]

Our calculated carryover amounts differ from APTPPL's carryover amounts because we:

[115] APTPPL, *Roma to Brisbane Pipeline 2022–27, Final RIN Workbook 3 opex incentive mechanism*, July 2021.

- adjusted forecast opex to reflect the change in capitalisation policy for leases
- updated inflation figures to convert amounts into 2021–22 dollars
- updated estimated opex for 2020–21
- included opex inputs for 2015–16 and 2016–17 in the ECM model to calculate the incremental efficiency gain (or loss) for 2017–18 consistent with clause 8.1(c) of the current access arrangement
- corrected minor input and formula errors in the ECM model.

Table 11 shows our draft decision on the carryover amounts APTPPL accrued during the 2017–22 period for the RBP.

Table 11 AER's draft decision on carryover amounts compared to APTPPL's RBP proposal for the 2022–27 period ($ million, 2021–22)

	2021–22	2022–23	2023–24	2024–25	2025–26	Total
AER's draft decision	–3.3	–3.0	–1.1	–	0.8	–6.6
APTPPL's proposal	–2.6	–2.6	–0.8	–0.0	–0.2	–6.3
Difference	**–0.6**	**–0.3**	**–0.3**	**0.0**	**1.0**	**–0.3**

Source: APTPPL, *Roma to Brisbane Pipeline 2022–27, Final RIN Workbook 3 opex incentive mechanism*, July 2021; AER analysis

Note: Numbers may not add up due to rounding.

4.7 Corporate income tax

Our decision on APTPPL's total revenue includes the estimated cost of corporate income tax for the RBP for the 2022–27 period.[116] Under the post-tax framework, a corporate income tax amount is calculated as part of the building blocks assessment using our PTRM. This allows APTPPL to recover the estimated cost of corporate income tax for the RBP during the 2022–27 period.

We accept APTPPL's proposed approach to calculate its forecast cost of corporate income tax. APTPPL has used our PTRM for gas pipeline service providers which implemented the findings from our 2018 tax review.[117]

Our draft decision is to determine an estimated cost of corporate income tax of zero for the RBP over the 2022–27 period, consistent with APTPPL's proposal. This is due to APTPPL incurring a forecast tax loss for the RBP over the 2022–27 period.[118] We have determined that $50.2 million in tax losses as at 30 June 2027 will be carried forward to

[116] NGR, r. 76(c).

[117] AER, *Final report: Review of regulatory tax approach*, December 2018.

[118] A forecast tax loss occurs when the forecast assessable income (taxable revenue) is lower than the forecast tax expense. In this event no tax is payable. Any residual amount of tax loss will be carried forward over to future access arrangement periods to offset future tax liabilities until the tax loss is fully exhausted.

the 2027–32 period where it can be used to offset future tax liabilities. The forecast tax losses arise because APTPPL's forecast tax expenses for the RBP are expected to exceed its revenue for tax assessment purposes over the 2022–27 period. This is largely driven by our draft decision to accept APTPPL's proposed approach to reduce the remaining tax asset life of the existing 'Original pipeline' asset class to two years and to merge the two pipelines asset classes.[119] This has the effect of significantly increasing forecast tax depreciation.[120] Implementation of our findings from the 2018 tax review, which introduced immediate expensing of capex and the diminishing value method of tax depreciation, have also resulted in an increase to forecast tax depreciation.[121]

For our draft decision, we accept the proposed forecast immediately expensed capex for the RBP. We are satisfied that APTPPL's proposed approach for determining the forecast immediate expensing of its capex over the 2022–27 period is reasonable.

Further, we accept the proposed opening tax asset base (TAB) as at 1 July 2022 for the RBP, since we accept APTPPL's approach for establishing the opening TAB including its actual and estimated capex over the 2017–22 period.

We accept APTPPL's proposed standard tax asset lives for all of its existing asset classes for the RBP, as they are broadly consistent with the tax asset lives prescribed by the Australian Taxation Office's (ATO) taxation ruling 2021/3, and/or are the same as the approved standard tax asset lives for the 2017–22 period.[122]

We also accept APTPPL's proposed weighted average method to calculate the remaining tax asset lives as at 1 July 2022 for the RBP. This method is a continuation of the approved approach used in the 2017–22 period and applies the approach as set out in our RFM.

Our adjustments to the return on capital (sections 4.1, 4.2 and 4.4), and the regulatory depreciation (section 4.3) building blocks affect revenues, which in turn impacts the tax calculation.

Further details are included in Attachment 7.

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[119] APTPPL also proposed a similar adjustment for the capital base which we have also accepted as discussed in section 4.3.

[120] If we did not accept APTPPL's proposal to reduce both the remaining capital base and tax asset life for the 'Original pipeline' asset class to two years and to consolidate the two pipeline assets, the forecast tax loss would reduce to $13.0 million as at 30 June 2027.

[121] The third key finding from the 2018 tax review relates to capping tax lives for gas assets to 20 years. However, APTPPL has historically assigned tax asset lives of 20 years or less to its asset classes, hence this change does not affect APTPPL's Roma to Brisbane Gas Pipeline.

[122] ATO, *Taxation Ruling TR2021/3 – Income tax: effective life of depreciating assets (applicable from 1 July 2021),* p. 177.

5 Incentive schemes to apply for 2022–27

Our incentive schemes encourage network businesses to make efficient decisions. They give network businesses an incentive to pursue efficiency improvements in forecast expenditures, and to share them with consumers. If network businesses reduce their costs to below our forecast of efficient costs, the savings are shared with their consumers in future access arrangement periods, such as through the ECM for opex efficiencies.

This draft decision determines that one incentive scheme will apply to APTPPL for the 2022–27 period, as presented below.

5.1 Efficiency carryover mechanism

As noted in section 4.6.1, an efficiency carryover mechanism (ECM) is intended to provide a continuous incentive for service providers to pursue efficiency improvements in opex, and provide for a fair sharing of these between service providers and network users.

Our draft decision is to approve the application of an ECM to APTPPL in the 2022–27 period for the RBP. We have made minor amendments to APTPPL's proposed ECM in this draft decision to be consistent with version 2 of the efficiency benefit sharing scheme (EBSS) for electricity service providers.[123]

Attachment 8 sets out our ECM draft decision in detail, including our revisions to APTPPL's proposed ECM for the RBP.

[123] AER, *Efficiency benefit sharing scheme for electricity network service providers*, November 2013.

6 Non-tariff components

Collectively, the non-tariff components of an access arrangement are:

- the terms and conditions for the supply of reference services
- queuing requirements – a process or mechanism for establishing an order of priority between prospective users of spare and/or developable capacity
- extension and expansion requirements – the method for determining whether an extension or expansion is a part of the covered pipeline and the effect this will have on tariffs
- capacity trading requirements – the arrangements for users to assign contracted capacity and change delivery and receipt points
- change of receipt or delivery point by the user – the process or mechanism for changing a user's receipt or delivery point
- a review submission date and a revision commencement date – in this case, APTPPL's proposed dates for the RBP being 1 July 2026 and 1 July 2027, respectively.

Our draft decision approves APTPPL's proposed amendments to the non-tariff components of the RBP 2022–27 access arrangement proposal, including for the terms and conditions.

APTPPL's proposed terms and conditions for the 2022–27 period are largely unchanged from the 2017–22 period in terms of operability. The proposed changes are generally limited to updates to clauses to accommodate two separate direction-based reference services and to align the access arrangement document with changes made to the NGR over time. Attachment 11 sets out our draft decision in further detail.

We note that the terms and conditions remain subject to a continuous improvement process, whereby it is formally reviewed and amended (as appropriate) at each access arrangement review. This does not prevent APTPPL from holding discussions with individual parties to better understand their business operating environments and to work through their specific issues and circumstances.

A Shortened forms

Shortened form	Extended form
2018 Instrument	2018 Rate of Return Instrument
AER	Australian Energy Regulator
ATO	Australian Tax Office
Capex	Capital expenditure
CPI	Consumer price index
EBSS	Efficiency benefit sharing scheme
ECM	Efficiency carryover mechanism
NGL	National Gas Law
NGO	National Gas Objective
NGR	National Gas Rules
NPV	Net Present Value
Opex	Operating expenditure
PTRM	Post-tax revenue model
RFM	Roll forward model
RPP	Revenue and pricing principles
TAB	Tax asset base
TJ	Tera joules
WACC	Weighted average cost of capital

B List of submissions

This draft decision has been made with regard to submissions received from the following stakeholders on APTPPL's 2022–27 RBP access arrangement proposal.

Stakeholder	Date
Jemena Limited	18 August 2021
Shell Australia	18 August 2021

C AER's consumer engagement framework

The following table presents the AER's framework for considering consumer engagement in network revenue determinations.[124]

Element	Examples of how this could be assessed
Nature of engagement	• Consumers partner in forming the proposal rather than asked for feedback on service provider's proposal • Relevant skills and experience of the consumers, representatives, and advocates • Consumers provided with impartial support to engage with energy sector issues • Sincerity of engagement with consumers • Independence of consumers and their funding • Multiple channels used to engage with a range of consumers across a service provider's consumer base
Breadth and depth	• Clear identification of topics for engagement and how these will feed into the regulatory proposal • Consumers consulted on broad range of topics • Consumers able to influence topics for engagement • Consumers encouraged to test the assumptions and strategies underpinning the proposal • Consumers were able to access and resource independent research and engagement
Clearly evidenced impact	• Proposal clearly tied to expressed views of consumers • High level of business engagement, e.g. consumers given access to the service provider's CEO and/or Board • Service providers responding to consumer views rather than just recording them • Impact of engagement can be clearly identified • Submissions on proposal show consumers feel the impact is consistent with their expectations

Proof point	• Reasonable opex and capex allowances proposed
	  ○ In line with, or lower than, historical expenditure
	  ○ In line with, or lower than, our top down analysis of appropriate expenditure
	  ○ If not in line with top down, can be explained through bottom up category analysis

[124] AER, *Final decision, Jemena determination 2021–26, Overview, Appendix C*, April 2021, p. 48.