



**DRAFT DECISION  
APA VTS Australia  
Gas access arrangement  
2018 to 2022**

**Attachment 12 – Non tariff  
components**

July 2017

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## Note

This attachment forms part of the AER's draft decision on the access arrangement for APA VTS Australia for 2018-22. It should be read with all other parts of the 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 - Value of imputation credits

Attachment 5 - Regulatory depreciation

Attachment 6 - Capital expenditure

Attachment 7 - Operating expenditure

Attachment 8 - Corporate income tax

Attachment 9 - Efficiency carryover mechanism

Attachment 10 - Reference tariff setting

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## Shortened forms

Shortened form	Extended form
AER	Australian Energy Regulator
ATO	Australian Tax Office
capex	capital expenditure
CAPM	capital asset pricing model
CPI	consumer price index
DRP	debt risk premium
ECM	(Opex) Efficiency Carryover Mechanism
ERP	equity risk premium
Expenditure Guideline	Expenditure Forecast Assessment Guideline
gamma	Value of Imputation Credits
MRP	market risk premium
NGL	National Gas Law
NGO	national gas objective
NGR	National Gas Rules
NPV	net present value
opex	operating expenditure
PTRM	post-tax revenue model
RBA	Reserve Bank of Australia
RFM	roll forward model
RIN	regulatory information notice
RPP	revenue and pricing principles
SLCAPM	Sharpe-Lintner capital asset pricing model
STTM	Short Term Trading Market
TAB	Tax asset base
UAFG	Unaccounted for gas
WACC	weighted average cost of capital
WPI	Wage Price Index

## 12 Non-tariff components

This attachment contains our draft decisions and reasons on the non-tariff components of APA's access arrangement proposal for the Victorian Transmission System (VTS) for 2018–22

The non-tariff components are as follows:

- the terms and conditions for supply of the reference service
- 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—how users may assign contracted capacity and change delivery and receipt points
- provision for receipt and delivery point changes, and
- a review submission date and a revision commencement date.

### 12.1 Draft decision

Our draft decision is to accept all of APA's proposed non-tariff components.

### 12.2 APA's proposal

APA has proposed very minor changes to the non-tariff components of its access arrangement. APA noted substantive revisions were approved for the last access arrangement, and submitted that limiting the scope of revisions is desirable for stability particularly in light of possible changes to the operation of the Declared Wholesale Gas Market (DWGM) during the access arrangement period.<sup>1</sup>

We received no submissions on the non-tariff components of APA's access arrangement proposal for the VTS.

### 12.3 Assessment approach

The NGR set out the requirements for the non-tariff components. These include terms and conditions for the provision of reference services (rule 48) and provisions for the review submission and commencement date (rules 49 and 50). The requirements for the remaining non-tariff components are set out in Division 2 of Part 10. Our assessment approach for each non-tariff component is discussed further under the relevant subheading below.

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<sup>1</sup> APA, *VTS Revision Proposal submission – 2018–23 - Public*, p. 16.

## 12.4 Reasons for draft decision

### 12.4.1 Terms and conditions

The NGR require an access arrangement to specify the terms and conditions on which each reference service will be provided.<sup>2</sup> These must be consistent with the NGO.<sup>3</sup> We consider this requires us to assess and balance the competing interests of the Service Provider, Network Users and consumers, in particular:

- the allocation of risk, where we consider the NGO is generally best served where a risk is borne by the party best able to manage it; and
- the need to ensure clarity and certainty, while avoiding an unduly prescriptive approach on commercial matters.

Under the Victorian wholesale gas market arrangements, APA supplies the reference service to the Australian Energy Market Operator (AEMO), which operates the VTS in accordance with the Declared Wholesale Gas Market Rules.<sup>4</sup> Shippers on the VTS deal directly with AEMO, while their relationship with APA (as regards payment and other such matters) is reflected in the Transmission Payment Deed in Appendix F to the access arrangement proposal.

The Transmission Payment Deed was refined considerably in the approval process for the 2013-17 VTS Access Arrangement, following user submissions about such matters as billing and payment, prudential requirements, termination, assignment and confidentiality.<sup>5</sup> The proposed Transmission Payment Deed is substantially unchanged, and we remain satisfied it meets the requirements of the NGO as discussed above. The only change is to allow either party to disclose confidential information to comply with the listing rules of a recognised stock exchange, which we consider is acceptable.<sup>6</sup>

### 12.4.2 Queuing

Queuing requirements establish the priority of a prospective user, against other prospective users, to access spare or developable pipeline capacity. These must establish a process or mechanism (or both) for establishing an order of priority between prospective users of spare or developable capacity (or both) in which all prospective users (whether associates of, or unrelated to, the service provider) are treated on a fair and equal basis. The queuing requirements must also be sufficiently

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<sup>2</sup> NGR, r. 48(1)(d)(ii).

<sup>3</sup> NGR, r. 100.

<sup>4</sup> These are set out in NGR Part 19.

<sup>5</sup> AER, *Access arrangement draft decision – APA GasNet Australia (Operations) Pty Ltd 2013–17 Part 2*, September 2012, p 344 ff.

<sup>6</sup> APA, *Victorian transmission system access arrangement 2018–22*, January 2017, p. 77 (marked-up version).

detailed to enable prospective users to understand the basis of determining the order of priority and the prospective user's position in the queue.<sup>7</sup>

The access arrangement proposal does not specifically address queuing because the capacity of the VTS is managed by AEMO on a daily basis under Part 19 of the NGR (Declared Wholesale Market Rules). We are satisfied that this provides a fair and transparent mechanism for determining the priority of prospective users of any spare or developable capacity. This is consistent with the position we adopted for the 2013–17 VTS Access Arrangement.

### 12.4.3 Extensions and expansions

These provisions specify the method for deciding whether an extension or expansion occurring during an access arrangement period will be treated as part of the covered pipeline and, if so, the impact this will have on reference tariffs.<sup>8</sup> An 'extension' allows the pipeline to service new locations, while an 'expansion' increases the amount of gas an existing length of pipeline can carry.

The NGR requirements for extensions and expansions are in rule 104, which provides:

- the access arrangement may state whether it will apply to incremental services to be provided as a result of a particular extension to, or expansion of the capacity of, the pipeline, or outline how this may be dealt with at a later time: r. 104(1)
- if an access arrangement is to apply to incremental services, the requirements must deal with the effect of the extension or expansion on tariffs: r. 104(2)
- the requirements cannot require the service provider to provide funds for extension or expansion works unless the service provider agrees: r. 104(3).

APA has proposed only minor changes to the extensions and expansions requirements in the 2013–17 VTS Access Arrangement. Clauses 7.1 and 7.2 remain substantially the same. Clause 7.1 provides for case by case consideration of pipeline extensions, allowing us to consider the circumstances of any particular extension. It also sets out a decision-making process which we regard as clear and reasonable. Clause 7.2 provides that expansions will be covered by the access arrangement, unless the AER expressly agrees otherwise. We remain satisfied that these provisions meet the requirements of the NGR Capacity trading

The capacity trading requirements deal with the transfer of a user's contracted capacity to another user.<sup>9</sup> Where the service provider is registered as a participant in a particular gas market, the access arrangement must provide for transfer in accordance with the rules or procedures governing the relevant gas market.<sup>10</sup>

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<sup>34</sup> NGR, 103(2).

<sup>8</sup> NGR, r. 48(1)(g) for full access arrangements, r. 45(1)(f) for limited access arrangements for light regulation services, r. 129(1)(f) for international pipelines, and r. 24(2)(c)(v) for CTP access arrangements.

<sup>9</sup> NGR, r. 105(2).

<sup>10</sup> NGR, r. 105(1)(a).



However capacity trading between shippers is not possible on the VTS, due to the uniqueness of the Victorian wholesale gas market arrangement. As the AER explained in the Draft Decision on the 2013–17 VTS Access Arrangement:<sup>11</sup>

Capacity trading is not possible on the Victorian gas network (including on APA GasNet's transmission network). This is different to most Australian gas markets. Those markets are based on bilateral arrangements between producers, major users and retailers linked together through pipeline hubs connecting gas fields to gas consumers. By comparison, in Victoria a wholesale gas market has been established to enable competitive trading based on injections into and withdrawals from a transmission system that links multiple producers, major users and retailers. Under this model, Victorian gas networks (including APA GasNet's transmission network) are subject to the Declared Wholesale Market Rules in part 19 of the NGR. These rules do not provide for capacity trading. Rather, AEMO is responsible for managing capacity, on a daily basis, throughout the Victorian wholesale gas market.<sup>12</sup>

APA proposed no changes to the existing capacity trading clause, which effectively states:

- any transfer of capacity must be undertaken in accordance with the Victorian Declared Wholesale Gas Market rules (DWGM rules) (because APA is a registered participant - see NGR r. 105(1)(a)), and
- under the DWGM rules there are no capacity trading requirements.

We maintain our view that this approach is acceptable in the unique circumstances of the VTS.

#### 12.4.4 Changing receipt and delivery points

A receipt or delivery point is a point on a pipeline at which a service provider takes delivery of natural gas, or delivers natural gas. An access arrangement must allow a user, with the service provider's consent, to change the user's receipt or delivery point. The NGR places controls on the service provider's capacity to withhold its consent to a requested change.

As with capacity trading, the injection and removal of gas is governed by the Victorian DWGM rules and managed by AEMO on a daily basis. APA noted this in its access arrangement, and also that under the DWGM rules the Service Provider's consent is not required for a user to change its receipt or delivery point.

APT-VTS's proposed clause is unchanged from the 2013–17 VTS Access Arrangement, and we maintain our view that it is acceptable in the circumstances of the VTS.

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<sup>11</sup> AER, *Access arrangement draft decision – APA GasNet Australia (Operations) Pty Ltd 2013–17 Part 2*, September 2012, pp. 351-352.

<sup>12</sup> In accordance with NGR Part 19.

## 12.4.5 Revision and commencement dates

Rule 49(1) of the NGR requires that a full access arrangement must contain a review submission date and a revision commencement date and must not contain an expiry date. Rule 50(1) further provides that, as a general rule:

- a review submission date will fall four years after the access arrangement took effect or the last revision commencement date; and
- a revision commencement date will fall five years after the access arrangement took effect of the last revision commencement date.

The AER is required to accept a service provider's proposed review submission and commencement dates if made in accordance with this general rule.

APA proposes a review submission date of 1 January 2022 and a revisions commencement date of 1 January 2023. This complies with the general rule and our draft decision is to accept it.

However we note that AGN has proposed a review submission date of 1 December 2021, and AusNet has indicated it is also prepared to adopt this earlier date. We welcome this approach as it will avoid the administrative difficulties of receiving review submissions in the middle of the holiday season. We would encourage APA to also bring forward its review submission date by one month to 1 December 2021.