



DRAFT DECISION
Amadeus Gas Pipeline
Access Arrangement

2021 to 2026

Attachment 9
Reference tariff setting

November 2020

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Inquiries about this publication should be addressed to:

Australian Energy Regulator
GPO Box 520
Melbourne Vic 3001

Tel: 1300 585 165

Email: AERInquiry@aer.gov.au

AER reference: 65198

Note

This attachment forms part of the AER's draft decision on the access arrangement that will apply to APT Pipelines (NT) Pty Ltd (APTNT)'s Amadeus Gas Pipeline for the 2021–2026 access arrangement period. 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 – Regulatory depreciation

Attachment 5 – Capital expenditure

Attachment 6 – Operating expenditure

Attachment 7 – Corporate income tax

Attachment 8 – Efficiency carryover mechanism

Attachment 9 – Reference tariff setting

Attachment 10 – Reference tariff variation mechanism

Attachment 11 – Non-tariff components

Attachment 12 – Demand

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9 Reference tariff setting

This attachment outlines our assessment of the reference tariffs proposed by APTNT for the Amadeus Gas Pipeline (AGP) against the requirements of the National Gas Rules (NGR). Our assessment focuses on the structure of reference tariffs and takes into account the revenue and pricing principles.¹

9.1 Draft decision

We accept APTNT's proposed structure of reference tariffs for the 2021–26 access arrangement period. We are satisfied the proposed structure of the reference tariffs complies with the requirements of the NGR.²

Nevertheless, the quantum of the proposed reference tariffs must be amended to reflect our assessment of the building block proposal set out in this draft decision.

9.2 APTNT's proposal

APTNT proposed two tariff classes for the 2021–26 access arrangement period:³

- a firm service reference service
- an interruptible service reference service, as required by the AER's December 2019 reference service proposal decision for the Amadeus Gas Pipeline.⁴

The proposal is to retain the existing structure of the firm service tariff. The tariff is a number of \$/GJ of contracted capacity for transportation between any receipt point and any delivery point on the Amadeus Gas Pipeline.⁵

APTNT proposed a similar – simple – structure for the reference tariff for the interruptible service. The interruptible tariff is a number of \$/GJ for the volume of gas transported between any receipt point and any delivery point on the pipeline.⁶

The proposal is for nominally identical firm and interruptible service reference service tariffs of \$0.3168. APTNT, however, submitted that they are substantially different: at the firm service load factor for the Amadeus Gas Pipeline (about 72 per cent), the interruptible tariff represents a discount of about 28 per cent on the firm service cost per GJ of gas delivered.⁷

¹ NGL, ss. 24(2)–(7).

² NGR, rr. 93, 94.

³ APTNT, *Amadeus Gas Pipeline 2021–26 Access Arrangement Information*, July 2020, p. 23.

⁴ AER, *Final Decision, APT Pipelines (NT) Gas Distribution Determination 2021 to 2026, Reference Service*, November 2019.

⁵ APTNT, *Amadeus Gas Pipeline 2021–26 Access Arrangement Information*, July 2020, p. 23.

⁶ APTNT, *Amadeus Gas Pipeline 2021–26 Access Arrangement Information*, July 2020, p. 23.

⁷ APTNT, *Amadeus Gas Pipeline 2021–26 Access Arrangement Information*, July 2020, p. 29.

APTNT also proposed to delete the following section in relation to expansions from the Access Arrangement: “unless Service Provider proposes and the AER agrees that this Access Arrangement will not apply to the incremental Services provided as a result of that Expansion”.⁸

Assessment approach

In an access arrangement a service provider is required to specify for each reference service, the reference tariff and proposed approach to setting the reference tariff.⁹ This is done by:

- explaining how revenues and costs are allocated, including the relationship between costs and tariffs¹⁰
- defining the tariff classes¹¹
- comparing the revenue to be raised by each reference tariff with the cost of providing each individual reference service¹²
- explaining and describing any pricing principles it employed.¹³

Following our assessment of the proposed reference tariffs, if we decide not to accept them, we must determine the initial (in this case, 2020–21) reference tariffs to apply for each reference service.

In our assessment of the proposed reference tariffs, we reviewed the Amadeus Gas Pipeline 2021–26 access arrangement information and proposal.¹⁴ We also had regard to submissions received in the course of our consultation on APTNT’s proposed access arrangement.¹⁵

Identifying the reference service

The NGR require service providers to specify a reference tariff for each reference service.¹⁶ When undertaking our review, we first consider what is (or are) the reference service(s) for the purpose of the NGR. Our decision on what constitutes the reference service was published in November 2019 and is referenced in Attachment 1 – Services covered by the access arrangement.¹⁷

⁸ APTNT, *Amadeus Gas Pipeline 2021–26 Access Arrangement Revision Proposal*, July 2020, p. 34.

⁹ NGR, rr. 48(1)(d)(i), 72(1)(j).

¹⁰ NGR, rr. 72(1)(j)(i), 93(1)–(2).

¹¹ NGR, r. 94(1)–(2).

¹² NGR, r. 94(3).

¹³ NGR, r. 72(1)(j)(ii).

¹⁴ APTNT, *Amadeus Gas Pipeline 2021–26 Access Arrangement Revision Proposal*, July 2020

¹⁵ NGR, r. 59.

¹⁶ NGR, r. 48(1)(d)(i).

¹⁷ AER, *Final Decision, APT Pipelines (NT) Gas Distribution Determination 2021 to 2026, Reference Service*, published November 2019.

Assessing the tariff setting method for the reference service

The reference tariffs for an access arrangement must be designed to meet the requirements of the NGR.

We consider how the service provider, APTNT, intends to charge for reference services by:

1. Assessing how APTNT intends to allocate costs and revenues between reference services and other services. It must demonstrate that total revenue is allocated between reference and other services in the ratio in which costs are allocated between reference services and other services. Costs that are directly attributable to a service (including the reference service) must also be allocated to that service.¹⁸
2. Assessing how APTNT grouped its customers into tariff classes. APTNT is required to group together customers for reference services on an economically efficient basis and to avoid unnecessary transaction costs.¹⁹ We consider whether the nature of the reference service (e.g. volume and demand tariff classes) is consistent with the need to group customers together on an efficient basis.
3. Assessing how:
 - (a) the expected average revenue of a tariff class compares with the standalone cost and avoidable cost of providing the reference service to that tariff class
 - (b) whether the tariff takes into account transaction costs associated with developing and applying the tariff
 - (c) whether the tariffs take into account the long run marginal costs of providing reference services
 - (d) whether customers belonging to the relevant tariff class are able, or likely, to respond to price signals.²⁰

We assess any proposed new fixed principles seeking to promote consistency with the National Gas Objective, and with regard to the revenue and pricing principles.²¹ We consider whether they are consistent with the requirements of the NGR.

For existing fixed principles that were approved before the commencement of the NGR, these are binding on the AER and APTNT for the period for which the principle is fixed and these may only be varied or revoked with APTNT's consent.²²

¹⁸ NGR, r. 93(2).

¹⁹ NGR, r. 94(2).

²⁰ NGR, rr. 94(3)–(4).

²¹ NGL, s. 28(2); NGR, r. 100(1).

²² NGR, r. 99.

9.2.1 Interrelationships

Our draft decision on:

- the total revenue requirement for APTNT is set out in the Overview of this draft decision
- the services offered to customers over the 2021–26 period are set out in Attachment 1—Services covered by the access arrangement
- the annual tariff variation mechanisms are set out in Attachment 10—Reference tariff variation mechanism.

9.3 Reasons for draft decision

We accept APTNT’s proposed reference tariff structure because we are satisfied that it complies with the NGR requirements.²³

The tariff structure is consistent with that applied in the current access arrangement. However, the quantum of the proposed initial reference tariff must be amended to reflect the draft decision on APTNT’s building block proposal.

We are satisfied APTNT’s allocation of its revenues and costs between its services are compliant with the requirements of the NGR.²⁴ We note there is one significant user of the pipeline which is currently contracted for the full firm capacity of the pipeline. It is the main driver of the costs of the pipeline. The materiality of costs of the new interruptible reference service is minor and therefore we accept APTNT’s proposal to allocate most of its costs and revenue to the firm reference service. We note this is consistent with approach applied for the current access arrangement.²⁵

We are also satisfied that APTNT’s tariffs will generate a portion of referable total revenue from the reference service, and from each user, as required by the NGR.²⁶

We accept APTNT’s proposal to delete the reference that allows for expansions to not apply to incremental Services. We consider that the text in the current access arrangement “unless Service Provider proposes and the AER agrees that this Access Arrangement will not apply to the incremental Services provided as a result of that Expansion” is not necessary.

We note submissions from Energy Matrix and NT Power and Water Corporation. NT Power and Water Corporation submitted that its use of the Amadeus Gas Pipeline is increasing and that it is in discussions with APTNT in relation to expansion of the

²³ NGR, rr. 93, 95.

²⁴ NGR, r. 93(2).

²⁵ AER, Final decision: *N.T. Gas: Access arrangement proposal for the Amadeus Gas Pipeline 1 July 2016 – 30 June 2021*, May 2016, pp. 7–8.

²⁶ NGR, r. 95.

Amadeus Gas Pipeline.²⁷ Should these discussions proceed to a proposal, any impact on tariff setting will be considered in the context of our final decision.

Energy Matrix submitted that because NT Power Water Corporation has a contract for 100 per cent of the firm service capacity that this results in NT Power Water Corporation being in control of the pipeline.²⁸ In response to Energy Matrix's proposition we note:

- APT Pipelines NT Pty Ltd is a 'service provider' within the meaning of section 8 of the NGL, in that it owns, controls or operates a scheme pipeline.
- section 2 of the NGL defines a 'scheme pipeline' to include a 'covered pipeline'. The Amadeus Gas Pipeline is a 'covered pipeline' within the meaning of the NGL and is subject to full regulation.
- section 8(1) of the NGL sets out the meaning of a service provider. Relevantly, a person will only be a service provider if they own, control or operate 'a pipeline' or 'any part of a pipeline'.
- the relevant definitions in the NGL set out that the service provider is a person who controls the pipeline, not pipeline services.

In light of the above we do not accept Energy Matrix's proposition that NT Power and Water Corporation is in control of the Amadeus Gas Pipeline.

9.4 Revisions

We require the following revisions to make the access arrangement proposal acceptable:

Table 9.1 APTNT reference tariff revisions

Revision	Amendment
Revision 9.1	Amend the quantum of reference tariffs to reflect our draft decision on APTNT's building block proposal.

²⁷ PWC, *Submission to AER - Amadeus Gas Pipeline Access Arrangement 2021–2026*, August 2020, p. 1.

²⁸ Energy Matrix Group, *AGP Revised Access Arrangement Response*, August 2020, pp. 3–4.

Shortened forms

Shortened form	Extended form
AER	Australian Energy Regulator
AGP	Amadeus Gas Pipeline
APTNT	APT Petroleum Pipelines Northern Territory
capex	Capital expenditure
CCP	Consumer Challenge Panel
NGL	National Gas Law
NGR	National Gas Rules
opex	Operating expenditure