

Draft decision

Roma to Brisbane Pipeline Access Arrangement 2022 to 2027

Attachment 9 Reference tariff setting

November 2021

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Note

This attachment forms part of the AER's draft decision on the access arrangement that will apply to APT Petroleum Pipelines Pty Limited's (APTPPL) Roma to Brisbane Pipeline (RBP) for the 2022–2027 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 APT Petroleum Pipelines Pty Limited (APTPPL) for the Roma to Brisbane Pipeline (RBP) 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

We assessed APTPPL's proposed reference tariffs against the provisions of the NGR² and the National Gas Law (NGL)³.

This attachment describes our assessment of the RBP reference tariffs proposed by APTPPL and sets out the revisions required by this decision. The AER's assessment focuses on the design and structure of tariffs and the allocation of costs to services.

9.1 Draft decision

We accept APTPPL's proposed structure of reference tariffs for the 2022–27 access arrangement period (2022–27 period) for the RBP. We are satisfied the proposed structure of the reference tariffs complies with the requirements of the NGR.

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.

However, we do not accept APTPPL's proposed westbound prudent discount. We are not satisfied that it meets rule 96 of the NGR. We note that APTPPL may submit further information in support of its proposed westbound prudent discount in the context of its RBP revised proposal.

9.2 APTPPL's proposal

On 1 July 2021, APTPPL submitted its access arrangement proposal for its RBP gas transmission pipeline for the period from 1 July 2022 to 30 June 2027. APTPPL has retained its approach in setting proposed reference tariffs, modifying it only by splitting its current firm service reference service into two services:⁴

- firm transportation eastbound
- firm transportation westbound.

¹ NGL, ss. 24(2)–(7).

² NGR, rr. 93, 95 and 96.

³ NGL, ss. 23 and 24.

⁴ APTPPL, *Roma to Brisbane Pipeline 2022–27 – Reset RIN response*, Schedule 2, July 2021, pp. 74–75 and 83.

Each tariff has been defined as the number of \$/GJ of contracted capacity for transportation between any receipt point and any delivery point in their respective section on the RBP.⁵

Revenue is allocated to the eastbound and westbound service evenly, that is, the same tariff for both directions.⁶ APTPPL proposed the same principle to the allocation of costs. It stated that as direct costs provide little guidance as to appropriate tariffs, a cost allocation methodology has to be designed which is consistent with the pricing principles.⁷

APTPPL proposed that although the tariff for both eastbound and westbound should be the same at commencement of the calculation, the benefits from the presence of prudent discounts differ between the westbound and eastbound service.⁸

APTPPL proposed two prudent discounts for the RBP, one on the eastbound service and the other on the westbound service. The prudent discount revenue for each service is proposed to be deducted and smoothed across the same service.

The prudent discount proposed for the eastbound service is consistent with the current access arrangement with no amendments being proposed by APTPPL.

The prudent discount proposed by APTPPL on the westbound service is new. That is, there is no corresponding prudent discount in the current access arrangement on the westbound service. APTPPL submitted that for the westbound service, the RBP competes for some loads with other pipelines in the region. It stated that these other pipelines have posted less costly tariffs than the westbound reference tariff which places the RBP at a competitive disadvantage.

According to APTPPL, some users of the RBP can access the Darling Downs Pipeline (DDP) to transport gas westbound to Wallumbilla, instead of the RBP, because they have physical access to both pipelines. It submitted that the DDP is currently reporting, on the Gas Bulletin Board, more available capacity than the entire westbound RBP forecast demand.

APTPPL stated in its proposal that approximately 20 per cent of RBP westbound volumes fall within this competitive environment. This is the basis for its proposed prudent discount, to be made available to 20 per cent of the forecast westbound volumes. However, APTPPL subsequently submitted that it estimated its at-risk volumes to be 20TJ/day (or 24 per cent in year one of the access arrangement)⁹ of RBP westbound volumes.

⁵ APTPPL, *Roma to Brisbane Pipeline 2022–27 Proposed revised access arrangement, 1 July 2022–30 June 2027* (Marked up), July 2021, p. 6.

⁶ APTPPL, *Roma to Brisbane Pipeline 2022–27 – Reset RIN response*, Schedule 2, July 2021, p. 76.

⁷ APTPPL, *Roma to Brisbane Pipeline 2022–27 Access arrangement, Overview*, July 2021, p. 15.

⁸ *Ibid.*, p. 15.

⁹ APTPPL, Response to information request AER IR004, 1 September 2021.

APTPPL submitted that the prudent discount westbound tariff should be set equal to the equivalent published tariff on the DDP. The foregone revenue would be recovered from the westbound reference tariff only.¹⁰ That is, the proposed prudent discount would not impact the eastbound reference tariff.

APTPPL initially proposed a prudent discount tariff of \$0.3199 for 2022–23 which it submitted is equal to the DDP equivalent tariff to avoid giving the RBP an unfair advantage (or disadvantage). This tariff is calculated by adding the DDP133 (\$0.1004) and DDP134 (\$0.2195) pipeline components.¹¹ This is a reduction of approximately 45 per cent from the proposed 2021–22 RBP tariff of \$0.5802.

However, APTPPL subsequently submitted that it will base its prudent discount on DDP134 only because there is a significant amount of spare capacity on this pipeline component. This meant that APTPPL reduced the prudent discount tariff to \$0.2195.¹²

APTPPL proposed that shippers for the remaining volume without access to discounted reference tariffs would otherwise pay a higher tariff if the 20TJ/day of at-risk volumes defected from the RBP to the DDP.

Reference and non-reference services

APTPPL proposed that in the context of most gas transmission pipelines, attribution of direct costs between reference and non-reference services is non-existent.¹³ APTPPL submitted that the same assets are used to provide reference and non-reference services. It also submitted that there is no cost difference between reference and non-reference services. APTPPL proposed the allocation of costs occur in a manner that is consistent with the revenue and pricing principles.

Expansion of capacity above the Existing Capacity

APTPPL 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”.¹⁴

Rebateable services

APTPPL proposed that the rebateable services and rebateable services mechanism remain consistent with the current access arrangement for the RBP. APTPPL proposed to evenly apply the rebateable services adjustment to both the westbound

¹⁰ APTPPL, *Roma to Brisbane Pipeline 2022–27 Access arrangement, Overview*, July 2021, p. 16.

¹¹ APTPPL, Response to information request AER IR004, 1 September 2021.

¹² Ibid.

¹³ APTPPL, *Roma to Brisbane Pipeline 2022–27 Access arrangement, Overview*, July 2021, p. 13.

¹⁴ APTPPL, *Roma to Brisbane Pipeline 2022–27 Proposed revised access arrangement, 1 July 2022–30 June 2027* (Marked up), July 2021, p. 47.

and eastbound reference tariffs.¹⁵ APTPPL proposed that the following services be retained as rebateable services:¹⁶

- park
- capacity transfers
- in pipe trade.

9.3 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.¹⁷

This is done by:

- explaining how revenues and costs are allocated, including the relationship between costs and tariffs¹⁸
- explaining how the tariffs have been designed to generate the portion of referable total revenue from each reference service and from each user, or class of users¹⁹
- explaining and describing any pricing principles it employed.²⁰

We assessed APTPPL's proposed reference tariffs for the RBP against the provisions of the NGR and the NGL, in particular, rules 93, 95 and 96 of the NGR. We have also taken into account the revenue and pricing principles²¹ and the requirement for consistency with the National Gas Objective.²²

Rules 93 and 95 of the NGR require that reference tariffs for reference services be designed to reflect the current and expected future demand, and the allocation of costs between reference and non-reference services. Where we do not accept the proposed reference tariffs, we must determine the initial reference tariffs to apply for each reference service.

In our assessment of the proposed reference tariffs, we reviewed the RBP 2022–27 access arrangement information and proposal. We also had regard to submissions received in the course of our consultation on APTPPL's proposed RBP access arrangement.²³

9.3.1 Identifying the reference service

¹⁵ APTPPL, *Roma to Brisbane Pipeline 2022–27 Access arrangement, Overview*, July 2021, p. 17.

¹⁶ APTPPL, *Roma to Brisbane Pipeline 2022–27 – Reset RIN response*, Schedule 2, July 2021, p. 75.

¹⁷ NGR, rr. 48(1)(d)(i) and 72(1)(j).

¹⁸ NGR, rr. 72(1)(j)(i), 93(1)–(2).

¹⁹ NGR, r. 95(1).

²⁰ NGR, r. 72(1)(j)(ii).

²¹ NGL, s. 28(2); s. 24.

²² NGR, r. 100(a); NGL, s. 23.

²³ NGR, r. 59.

The NGR require service providers to specify a reference tariff for each reference service.²⁴ 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 2020 and is referenced in Attachment 1 – Services covered by the access arrangement.²⁵

9.3.1 Interrelationships

The reference tariffs have interrelationships across other key parts of our draft decision. For example, it interrelates with the total revenue that can be earned by APTPPL, the services it provides to its RBP customers to recover those revenues, the tariffs it charges for the use of those services, and the demand forecast volumes used to calculate tariffs.

Our RBP draft decision on:

- the total revenue requirement for APTPPL is set out in the Overview of this draft decision
- the services offered to customers over the 2022–27 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
- the demand forecast volumes are set out in Attachment 12 – Demand.

9.4 Reasons for draft decision

APTPPL’s proposal on tariffs for the 2022–27 period was relatively consistent with the current RBP access arrangement. However, APTPPL proposed to split the current tariff in two by direction and introduce a new prudent discount.

We accept the proposed split and the amendments resulting from this split.

However, we do not accept the proposed westbound prudent discount.

9.4.1 Reference tariff structure and cost allocation

We accept APTPPL’s proposed reference tariff structure for the RBP because we are satisfied that it complies with the NGR requirements.²⁶

The tariff structure is consistent with that applied in the current access arrangement aside from for its proposed split between eastbound and westbound reference tariffs.

²⁴ NGR, r. 48(1)(d)(i).

²⁵ AER, *Final decision, APT Petroleum Pipelines Pty Ltd (APTPPL) – Roma to Brisbane Pipeline gas transmission determination 2022 to 2027 – Reference services*, November 2020.

²⁶ NGR, rr. 93 and 95.

However, the quantum of the proposed initial reference tariff must be amended to reflect the draft decision on APTPPL's building block proposal for the RBP.

We are satisfied APTPPL's allocation of its revenues and costs between its services is compliant with the requirements of the NGR.²⁷ We note that an allocation between services was not required in the current period because there was only one reference service.

We are also satisfied that APTPPL's tariffs will generate a portion of referable total revenue from the reference service, and from each user, as required by the NGR.²⁸

9.4.2 Eastbound prudent discount

Our RBP draft decision is to accept APTPPL's proposed prudent discount on the eastbound service on the basis of the information provided, it meets rule 96 of the NGR. On the basis of APTPPL's proposal, we are satisfied that:

- the discount is necessary to maintain efficient use of the pipeline (rule 96(2)(a))
- the provision of the discount is likely to lead to reference or equivalent tariffs that are lower than they would otherwise have been (rule 96(2)(b)).

APTPL has not proposed any changes to this prudent discount on the eastbound service from the current access arrangement. However, the context for this prudent discount has now changed due to uncertainty over total eastbound volumes. We will reconsider this issue in the context of making our final decision. The details are confidential in nature and are discussed further in Attachment 9 Confidential Appendix A.

9.4.3 Westbound prudent discount

Our RBP draft decision is to not accept APTPPL's proposed prudent discount on the westbound service as, on the basis of the information provided, it does not meet rule 96 of the NGR.

The key question for consideration is whether APTPPL's prudent discount meets the requirements of rule 96 of the NGR and, in particular, the test set out in rule 96(2). The test in this rule consists of two limbs:

- the 'necessity of the discount' limb (rule 96(2)(a)) – under this limb, the AER must be satisfied the discount is necessary to respond to competition from other providers of pipeline services or other sources of energy or that it is necessary to maintain the efficient use of the pipeline; and
- the 'reduction in tariffs' limb (rule 96(2)(b)) – under this limb of the test, the AER must be satisfied that the discount is likely to lead to tariffs being lower than they

²⁷ NGR, r. 93(2).

²⁸ NGR, r. 95.

would otherwise have been, compared to a situation of the customer leaving the pipeline entirely which pushes up other customers tariffs.

Both limbs of the test must be satisfied for the AER to approve a prudent discount. If either limb is not satisfied, the discount should not be approved.

We consider that there must be a clear link between the provision of the discount and the criteria for the basis of the discount set out in rule 96(2)(a)(i) and (ii). It will not, for example, be sufficient that the proposed discount may assist in responding to competition. The discount must be necessary to respond to competition or necessary to maintain the efficient use of the pipeline.

Responding to competition

We must be satisfied that the prudent discount proposed by APTPPL is necessary to respond to competition that exists on the westbound pipeline and is likely to lead to lower tariffs than otherwise for westbound shippers not receiving the discount.

In order to be satisfied that a discount is necessary to respond to competition on the westbound service, we would need to conclude that the market, or a portion of the market in question, would have the following characteristics:

- Users have direct physical access to another pipeline.
- If users do not have direct access, then the capital expenditure to connect to another pipeline would need to be less than the savings from moving across.
- The other suppliers would need to be able to meet the demand of users in a dynamic manner.
- The length and expiry dates of contracts would need to be flexible and short term to enable users to easily move between pipelines.

The information provided by APTPPL in relation to its prudent discount proposal is not sufficient for us to be satisfied the conditions in rule 96 of the NGR are met. This is especially in relation to its submission about the extent of competitive behaviour between the users and suppliers of the westbound pipeline services.

We requested further information from APTPPL to substantiate its westbound prudent discount proposal. In response, we received from APTPPL only partial information in relation to which shippers APTPPL considers are at risk of defection. As set out below, Jemena Limited (Jemena), operator of the DDP, made a submission which contradicts APTPPL's submitted information.

Jemena indicated in its submission that it does not have capacity to supply other users and will not be in competition with the westbound RBP. Even if it did, or will have capacity in the future, there is an issue with access via the Talinga compression facility which Jemena does not own. Jemena submitted that its understanding of the Talinga

compression facility is that it's currently utilised by Australia Pacific LNG (APLNG) which does not provide services to third parties.²⁹

Jemena submitted that three sections of the DDP, therefore three separate tariffs, will be necessary to deliver gas from DDP133 to Wallumbilla. According to Jemena, APTPPL would need to include DDP90 at a cost of \$0.1381/GJ/day. This would increase the RBP discounted tariff to \$0.4580/GJ/day, instead of APTPPL's proposed \$0.3199/GJ/day.

On the information we have available at this time, including the information provided by Jemena, we are not satisfied that the level of competition exists on the westbound pipeline as proposed by APTPPL. Therefore, 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.

In principle all users of the RBP westbound service stand to benefit from the prudent discount to the extent that such a discount is actually required to prevent at-risk volumes from defecting to the DDP. Should up to 24 per cent of RBP volumes defect in such a way, users remaining on the RBP would face higher reference tariffs than would result from APTPPL's proposed prudent discount. More immediately however, the at-risk users, those who may defect to the DDP, would benefit from discounted RBP westbound tariffs, financed by other RBP westbound users.

At this point in our access arrangement revisions assessment process, we have not observed support for APTPPL's proposed westbound prudent discount from RBP users. Neither from those at risk of defecting to the DDP, nor from others. Nor in fact have we observed support for the proposed westbound prudent discount from any stakeholders.

Is it necessary to maintain efficient use of the pipeline?

Given the information we have before us, we consider a prudent discount is not necessary to ensure that the RBP retains a reasonably high degree of utilisation in the 2022–27 period. We are not satisfied that competition exists on the pipeline that would reduce its utilisation. We are concerned that the prudent discount will increase tariffs to shippers not entitled to discounted tariffs which could result in those users being disadvantaged in downstream markets. This increase in reference tariffs may have the effect of actually reducing westbound volumes, contrary to APTPPL's intention.

We are satisfied that the prudent discount is not necessary because the risk of losing 20TJ/day of the pipeline volume if not approved, as proposed by APTPPL, appears to be unlikely based on the current evidence available to us. However, we invite further evidence to be submitted by APTPPL to support its view in its revised proposal.

²⁹ Jemena, Submission on RBP 2022-27 access arrangement – 18 August 2021, p.2.

Equivalent reference tariffs

Because we are not satisfied that a prudent discount is necessary to respond to competition from the DDP, we are also not satisfied that a prudent discount will likely result in lower reference or equivalent tariffs than what would have applied without the discount. We do not consider our draft decision will reduce APTPPL's proposed western haul volumes. The result our draft decision is that RBP costs are spread over larger total forecast volumes which will lower westbound tariffs compared to APTPPL's tariff proposal.

We have provided a tariff comparison in Table 9.1. The proposed prudent discount tariff has been based on an estimated 20TJ/day volume loss to competing pipelines. The latest draft decision inputs have been used to calculate the tariffs with and without a prudent discount on the westbound service. These calculations indicate that there would be a reduction in the westbound reference tariff (in nominal terms) of 9.8 per cent for all five years without a prudent discount for users not eligible to the discounted tariff.

Table 9.1 Westbound tariffs for the RBP³⁰

Tariffs (\$/GJ/day (nominal))	Current	Next (proposed)				
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Prudent discount (20TJ/day volume) [APTPPL proposed]	0.5802	0.2195	0.2195	0.2195	0.2195	0.2195
With prudent discount (remaining volume) [APTPPL proposed]	0.5802	0.4838	0.4910	0.4983	0.5057	0.5132
No prudent discount (100% volume) [AER decision]	0.5802	0.4365	0.4430	0.4496	0.4562	0.4630

9.4.4 Expansion of capacity above the Existing Capacity

We accept APTPPL's proposal to delete the access arrangement reference that allows for the access arrangement to not apply to incremental services resulting from an expansion of RBP capacity. 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

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

Expansion”³¹ is not necessary and will not impact tariffs. This is because the NGR mandates that the applicable access arrangement will apply to incremental services provided by any expansion to pipeline capacity during the access arrangement period.³²

9.4.5 Rebateable services

Our draft decision approves APTPPL’s proposal that the rebateable services and rebateable services mechanism remain unchanged from the current access arrangement period for the RBP. We also approve APTPPL’s proposed amendments in the access arrangement to set the rebate against both the eastbound long term firm reference tariff and the westbound long term firm reference tariff.

9.5 Revisions

We require the following revisions set out in Table 9.2 to make the access arrangement proposal acceptable:

Table 9.2 APTPPL’s reference tariff setting revisions

Revision	Amendment
Revision 9.1	Make all changes necessary in Schedules 1 Details to amend the quantum of reference tariffs to reflect our draft decision on APTPPL’s building block proposal as per the Overview Table 4 and the approved tariff model.

³¹ APTPPL, *Roma to Brisbane Pipeline 2022–27 Proposed revised access arrangement marked up, clause 7a, 1 July 2022–30 June 2027*, July 2021, p. 47.

³² NGR, cl. 104(3).

**A. Attachment 9: Reference tariff setting
Confidential Appendix A | Draft decision –
Roma to Brisbane Pipeline Access
Arrangement 2022–27**

B. Shortened forms

Shortened form	Extended form
AER	Australian Energy Regulator
APTPL	APT Petroleum Pipelines Pty Limited
APLNG	Australia Pacific LNG
DDP	Darling Downs Pipeline
GJ	Giga joule
Jemena	Jemena Limited
NGL	National Gas Law
NGR	National Gas Rules
RBP	Roma to Brisbane Pipeline
RIN	Regulatory information notice
TJ	Tera joule