



**DRAFT DECISION**  
**Amadeus Gas Pipeline**  
**Access Arrangement**  
**2016 to 2021**

**Attachment 10 – Reference**  
**tariff setting**

November 2015

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## Note

This attachment forms part of the AER's draft decision on the access arrangement for the Amadeus Gas Pipeline for 2016–21. 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

Attachment 11 - Reference tariff variation mechanism

Attachment 12 - Non-tariff components

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## Shortened forms

Shortened form	Extended form
AA	Access Arrangement
AAI	Access Arrangement Information
AER	Australian Energy Regulator
AGP	Amadeus Gas Pipeline
ATO	Australian Tax Office
capex	capital expenditure
CAPM	capital asset pricing model
CESS	Capital Expenditure Sharing Scheme
CPI	consumer price index
DRP	debt risk premium
EBSS	Efficiency Benefit Sharing Scheme
ERP	equity risk premium
Expenditure Guideline	Expenditure Forecast Assessment Guideline
gamma	Value of Imputation Credits
GSL	Guaranteed Service Level
MRP	market risk premium
NEGI	north eastern gas interconnector
NGL	national gas law
NGO	national gas objective
NGR	national gas rules
NPV	net present value
opex	operating expenditure
PFP	partial factor productivity
PPI	partial performance indicators
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

Shortened form	Extended form
TAB	Tax asset base
UAFG	Unaccounted for gas
WACC	weighted average cost of capital
WPI	Wage Price Index

## 10 Reference tariff setting

This attachment outlines our assessment of the reference tariffs proposed by APT Pipelines (NT) Pty Limited (APTNT) for its transmission network against the requirements of the National Gas Rules. Our assessment focuses on the structure of reference tariffs and takes into account the revenue and pricing principles.<sup>1</sup>

### 10.1 Draft decision

We accept APTNT's proposed structure of reference tariffs for the 2016–21 access arrangement period. We are satisfied the proposed structure of the reference tariffs complies with the requirements of the NGR.<sup>2</sup>

Nevertheless, the quantum of the proposed reference tariffs must be amended to reflect the revised revenue allowance set out in this draft decision.

### 10.2 APT Pipelines (NT) Pty Limited proposal

APT Pipelines (NT) Pty Limited proposed a single tariff class and a single tariff for the 2016–21 access arrangement period. It considers there is only one class of pipeline user, being users supplying mining or generation facilities.<sup>3</sup> The proposed reference tariff structure is consistent with the current access arrangement period which is a capacity tariff based on firm Maximum Daily Quantities (MDQs) at each delivery point.

### 10.3 AER's assessment approach

In a full access arrangement, a service provider is required to specify for each reference service the reference tariff and proposed approach to setting the reference tariffs.<sup>4</sup> This is done by:

- explaining how revenues and costs are allocated, including the relationship between costs and tariffs<sup>5</sup>
- 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 users<sup>6</sup>
- explaining and describing any pricing principles it employed.<sup>7</sup>

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<sup>1</sup> NGL, ss. 24(2)–(7).

<sup>2</sup> NGR, rr. 93, 94.

<sup>3</sup> APTNT, *Amadeus Gas Pipeline access arrangement revision proposal submission*, August 2015, p. 172.

<sup>4</sup> NGR, rr. 48(1)(d)(i); 72(1)(j).

<sup>5</sup> NGR, rr. 93(1)–(2), 72(1)(j)(i).

<sup>6</sup> NGR, r. 95(1).

<sup>7</sup> NGR, r. 72 (1)(j)(ii).

We are required to assess APTNT's proposed reference tariffs.<sup>8</sup> Where we do not accept them, we must determine the initial reference tariffs to apply for each reference service.

In our assessment of the proposed reference tariff, we reviewed APTNT's:

- access arrangement information<sup>9</sup>
- access arrangement proposal.<sup>10</sup>

We also had regard to submissions received in the course of our consultation on the proposed access arrangement.

## Identifying the reference service

Service providers are required under the NGR to specify a reference tariff for each reference service.<sup>11</sup> We first consider what is (or are) the reference service(s) for the purpose of the NGR when undertaking our review.<sup>12</sup> Our decision on what constitutes the reference service is set out in the services attachment—attachment 1.

## 10.4 Reasons for draft decision

We accept APTNT's proposed reference tariff structure because we are satisfied that it complies with the NGR requirements.<sup>13</sup>

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 forecast demand and revised revenue allowance.

We are satisfied APTNT's allocation of its revenues and costs between its services are compliant with the requirements of the NGR.<sup>14</sup> 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 other services is minor and therefore we accept APTNT's proposal to allocate all of its costs and revenue to the reference service. We note this is consistent with approach applied for the current access arrangement.<sup>15</sup>

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<sup>8</sup> NGR, r. 97(4).

<sup>9</sup> APTNT, *Amadeus Gas Pipeline access arrangement revision proposal submission*, August 2015, pp. 170–177.

<sup>10</sup> APTNT, *Access arrangement for the Amadeus Gas Pipeline: 1 July 2016 to 30 June 2021*, August 2015.

<sup>11</sup> NGR, r. 48(1)(d)(i).

<sup>12</sup> APTNT, *Access arrangement for the Amadeus Gas Pipeline: 1 July 2016 to 30 June 2021*, August 2015, section 2.

<sup>13</sup> NGR, rr. 93, 95.

<sup>14</sup> NGR, r. 93(2).

<sup>15</sup> AER, *Draft decision: N.T. Gas: Access arrangement proposal for the Amadeus Gas Pipeline 1 July 2011 — 30 June 2016*, April, 2011, pp. 149–157; AER, *Final decision: N.T. Gas: Access arrangement proposal for the Amadeus Gas Pipeline 1 July 2011 — 30 June 2016*, July, 2011, pp. 110–111.



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.<sup>16</sup> APTNT has only one class of user and one reference service which all of its revenue has been allocated to.<sup>17</sup> APTNT applies a single capacity tariff based on firm Maximum Daily Quantities at each delivery point. This allows APTNT to recover its revenue requirement from users of the pipeline in proportion to their capacity requirements.

We note submissions by AGL, Jemena and Santos raised concerns that if the anticipated connection of the new North East Gas Interconnector to the Amadeus Gas Pipeline occurs then the reference tariff will need to be revised.<sup>18</sup> As discussed in the draft decision overview (and further in attachment 12), rather than speculate what this uncertainty will mean for the Amadeus Gas Pipeline, our draft decision requires APTNT to include a trigger for acceleration of the review submission date. This trigger will allow APTNT, stakeholders and us to consider the implications of the anticipated interconnector for the access arrangement as a whole, when sufficient information becomes available.

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<sup>16</sup> NGR, r. 95.

<sup>17</sup> APTNT, *Amadeus Gas Pipeline access arrangement revision proposal submission*, August 2015, p. 172.

<sup>18</sup> AGL, *Submission on Amadeus Gas Pipeline access arrangement revision proposal 2016–21*, 2 September 2015; Jemena, *Amadeus gas pipeline access arrangement revision proposal 2016–2021—demand forecasts*, 31 August 2015; Santos, *Submission on Amadeus Gas Pipeline access arrangement revision proposal 2016–21*, 2 September 2015.