



**DRAFT DECISION**  
**Roma to Brisbane Gas Pipeline**  
**Access Arrangement**  
**2017-22**

**Attachment 1 – Services**  
**covered by the access**  
**arrangement**

July 2017

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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](mailto:AERInquiry@aer.gov.au)

## Note

This attachment forms part of the AER's draft decision on the access arrangement for the Roma to Brisbane Gas Pipeline for 2017–22. 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

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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

# 1 Services covered by the access arrangement

Gas transmission pipelines that are subject to full regulation are regulated by establishing reference services and tariffs and other terms and conditions on which that service will be offered on an ex ante basis. This forms the foundation for negotiations between pipeline operators and users (otherwise referred to as shippers).

APTPPL is to provide access to its reference services, 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.<sup>1</sup>

The distinction between reference and non-reference services is reflected in the requirements for an access arrangement, which must:<sup>2</sup>

- describe the pipeline services the service provider proposes to offer to provide by means of the pipeline, and
- specify the reference services and for each service, specify the reference tariff and the other terms and conditions on which the reference service will be provided.

The access arrangement must specify as a reference service at least one pipeline service that is likely to be sought by a significant part of the market. It also allows us to specify other pipeline services that meet the criteria in rule 101.<sup>3</sup>

The NGR also allow a non-reference service to be classified as a rebateable service, if there is substantial uncertainty about the demand for, or the revenue to be generated from, the service and the market for the service is substantially different from the market for the reference service.<sup>4</sup> If a service is classified as such, the costs associated with the service can, in whole or in part, be included in the calculation of the reference tariff, if an appropriate portion of the revenue derived from sales of this service is returned to reference service users through a rebate or refund.<sup>5</sup>

Further detail on the relationship between reference services, rebateable services and other non-references services can be found in Figure 1.1. Although not shown in this figure, it is worth noting that the price of rebateable services is subject to negotiation between APTPPL and shippers. We will therefore only have a role in determining the price of these services if the access dispute provisions are triggered.

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<sup>1</sup> NGL, Chapter 6.

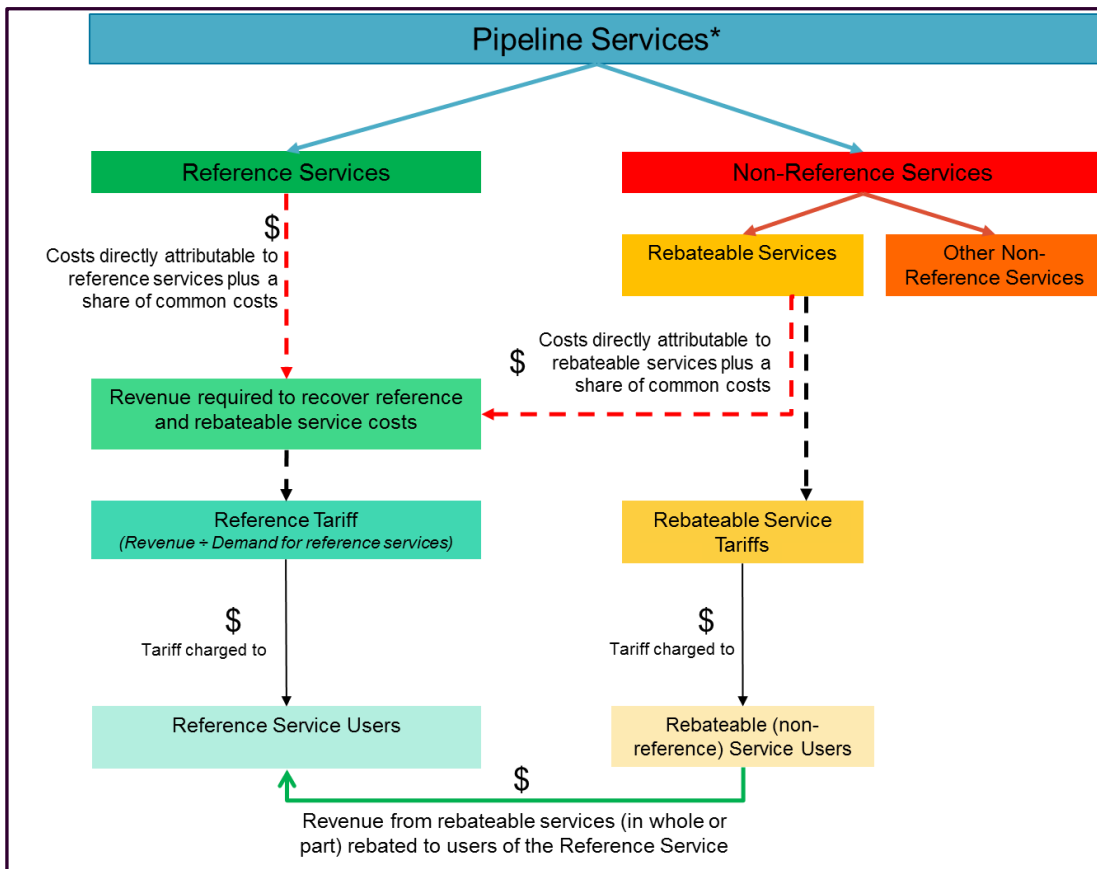
<sup>2</sup> NGR, r. 48.

<sup>3</sup> NGR, r. 101.

<sup>4</sup> NGR, r. 93(4).

<sup>5</sup> NGR, r. 93(2).

**Figure 1.1: Interaction between reference, rebateable and other non-reference services**



\* The term 'pipeline service' is defined in the NGL as (a) a service provided by means of a pipeline, including (i) a haulage service (such as firm haulage, interruptible haulage, spot haulage and backhaul); and (ii) a service providing for, or facilitating, the interconnection of pipelines; and (b) a service ancillary to the provision of a service referred to in paragraph (a), but does not include the production, sale or purchase of natural gas or processable gas. These services are described at Appendix A to this Attachment.

## 1.1 Draft decision

We approve APTPPL's proposal to define the Long Term Firm Service (LTFS) as a reference service. However we are not satisfied that the specification of the Short Term Firm Service (STFS) as a reference service is consistent with the Revenue and Pricing Principles (RPPs) or will promote the NGO.<sup>6</sup> The specification of this service as a reference service also appears unnecessary given the reforms that are underway to facilitate more trade and competition between pipeline operators and shippers for the provision of short-term transportation services. We have therefore exercised our discretion not to define this service as a reference service and require a range of amendments to be made to the proposed access arrangement to reflect this change.

<sup>6</sup> NGR, rr. 101(1)(b) and 101(2).

In addition to changing the reference service definition, we require the proposed access arrangement to be amended to define the following services as rebateable services and permit the allocation of the costs of these services to the reference services:

- park and loan services (provided on either a firm or interruptible basis)
- in-pipe trading services, and
- capacity trading services.

As required by the relevant provisions in the NGR, we are satisfied that there is a substantial degree of uncertainty around the demand for, or revenue to be generated from, these services and that the markets for these services are substantially different from the markets for the reference services.<sup>7</sup> We are also satisfied that classifying these services as rebateable services is consistent with the RPPs and will promote the NGO.

Further detail on the services described above is in Appendix A.

## 1.2 Proposal

APTPPL proposed to define the following services as reference services in the 2017-22 access arrangement for the Roma to Brisbane Pipeline (RBP):<sup>8</sup>

- the Long-Term Firm Service (LTFS), which is a service that provides for the firm transportation of gas in an easterly or westerly direction for a term of three or more years, with the same tariff payable irrespective of the distance gas is transported (i.e. a postage stamp service), and
- the Short-Term Firm Service (STFS), which is similar in many ways to the LTFS, but can have a term of one day up to three years and is proposed to be priced at a 1.66 multiple of the LTFS.

The reference service in the current RBP access arrangement (2012–17) is the ‘firm service’, which is described as ‘a service for the receipt, transportation and delivery of gas through any length of the covered pipeline on a firm basis in the direction from Wallumbilla or Peat to Brisbane’.<sup>9</sup> APTPPL has, as noted above, proposed to replace this with a LTFS and a STFS.

The proposed LTFS is akin to the existing reference service, although it will be offered on both an easterly and westerly direction and allow users to make intra-day renominations.<sup>10</sup> The main difference therefore between the current access arrangement and the proposed access arrangement is the inclusion of the STFS.

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<sup>7</sup> NGR, rr. 93(3) and 93(4).

<sup>8</sup> APTPPL, *Proposed Revised Access Arrangement: Effective 1 July 2017-30 June 2022*, cl. 2 and 4.

<sup>9</sup> APTPPL, *Access Arrangement: Effective 1 September 2012-30 June 2017*, cl. 2.2.

<sup>10</sup> APTPPL advised us in its response to Information Request IR#25 that:



Elaborating further on its decision to define the STFS as a reference service, APTPPL noted that:<sup>11</sup>

The value of the Short Term Firm Service is that it is not charged if it is not contracted. As shippers choosing the Short Term Firm Service are expected to use this service to "sculpt" their loads, they will not incur charges for capacity that is reserved but unutilised. Under this structure, it is anticipated that the Short Term Firm Service will be utilised to a very high load factor approximating 100 per cent.

APTPPL has also advised that given the spare capacity on the pipeline it expects users of the STFS to enter into a 'zero MDQ'<sup>12</sup> contract and to only buy STFS capacity on a day-ahead basis so that they can "sculpt their loads precisely".<sup>13</sup> APTPPL added that given the relatively low risk of interruption, shippers would not "see a risk of not being able to secure capacity on a particular day, and will not choose to book STFS over a longer time period".<sup>14</sup>

Under APTPPL's proposal, all of the other services provided by the RBP (including transportation services that vary in some way from the standard terms and conditions of the LTFS and STFS)<sup>15</sup> would be non-reference services and subject to negotiation between APTPPL and prospective users. Some of the other services that APTPPL currently provides on the RBP that would fall into the category of non-reference services include:

- as available services, interruptible and backhaul transportation services
- park and loan services, and
- a range of ancillary services, including capacity trading and in-pipe trading services.<sup>16</sup>

While rule 93(2) of the NGR provides for the costs attributable to these other services to be excluded from the calculation of the reference tariff, APTPPL has advised that it has allocated all of the costs of operating the pipeline to the reference services and no costs to non-reference services on the basis that:

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"the intra-day renomination service is simply a feature of the terms and conditions of service (that is, it is not a "service" in access arrangement terms), for which APTPPL has permanently waived charges...".

APTPPL, Response to AER Information Request – IR#25, 10 February 2017, p. 8.

<sup>11</sup> APTPPL, *Roma to Brisbane Pipeline Access Arrangement Submission*, September 2016, p. 196.

<sup>12</sup> A 'zero MDQ' contract is a contract that assumes the capacity reservation is zero unless the user requests a specific maximum daily quantity (MDQ) for a period. Because the proposed charges for the STFS on the Roma to Brisbane Pipeline are capacity based, the use of this type of contract means that a user would not be liable to pay anything when the capacity reservation is zero.

<sup>13</sup> APTPPL, Response to AER Information Request – IR#17, 25 October 2016.

<sup>14</sup> APTPPL, Response to AER Information Request – IR#17, 25 October 2016.

<sup>15</sup> For example, the STFS and LTFS are defined as having a maximum hourly quantity multiplier of 1.1 (i.e. maximum daily quantity ÷24×1.1). If a prospective user required a higher multiplier, then under APTPPL's proposal it would be treated as a non-reference service.

<sup>16</sup> Described in Annexure A to this Attachment.

- as available, interruptible<sup>17</sup> and backhaul transportation services<sup>18</sup> will effectively be replaced by the STFS and LTFS during the access arrangement period,<sup>19</sup> and
- it is “not feasible” to take into account the revenue to be derived from the remaining services when determining the revenue requirement for the reference services because there is “significant uncertainty as to future demand” for these services.<sup>20</sup>

### 1.3 Stakeholder submissions

Submissions on this aspect of APTPPL's proposal were received from the Australian Energy Council (AEC), APLNG and Shell.

While there was some support from these stakeholders for APTPPL's proposal to make the reference service a bi-directional service,<sup>21</sup> concerns were raised about:

- the limited number of reference services proposed by APTPPL, with AEC stating that we should “investigate including all charges within the access determination”,<sup>22</sup> while Shell suggested the reference service definition should include “as available”, “interruptible” and possibly “park and loan” services<sup>23</sup>
- APTPPL's decision not to exclude the cost of providing non-reference services in the calculation of the reference tariff (or to otherwise account for the revenue derived from the provision of these services), with APLNG stating it would result in “artificially high tariffs”, “inefficient pricing” and “underutilisation of the asset”<sup>24</sup>
- APTPPL's proposal to use a postage stamp tariff structure for transportation services, with Shell noting that consideration should be given to “segmenting the RBP for the purpose of pricing”,<sup>25</sup> and
- the premium that APTPPL proposes to charge for the STFS and the three year maximum term of this service, with the AEC,<sup>26</sup> APLNG<sup>27</sup> and Shell<sup>28</sup> all claiming

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<sup>17</sup> APTPPL has advised in its response to information request IR#23 that:

“The proposed short term firm service, when contracted on a day-ahead basis, is effectively an as available service, and would in most cases replace this service. It is also expected to replace the interruptible service, which is a stand alone service, as the short term firm service can be provided under a contract with a zero MDQ.”

<sup>18</sup> In its response to information request IR#25, APTPPL noted that while the pipeline can only operate in a bi-directional manner between Wallumbilla and Dalby, it can still offer a firm service from the Brisbane Short Term Trading Market (STTM) towards Dalby. This is because under the STTM rules a shipper can only purchase gas from the STTM if there is a sale of gas that provides for the firm delivery of gas via the Roma to Brisbane Pipeline. APTPPL, Response to AER Information Request – IR#25, 10 February 2017, p. 17.

<sup>19</sup> APTPPL, Response to AER Information Request – IR#23, 13 January 2017, p. 17.

<sup>20</sup> APTPPL, Response to AER Information Request – IR#23, 13 January 2017, p. 23.

<sup>21</sup> APLNG, *Submission on RBP Access Arrangement 2017-22*, 4 November 2016, p. 1 and Shell, Roma (Wallumbilla) to Brisbane Pipeline - Access Arrangement, 27 October 2016, p.3.

<sup>22</sup> AEC, *Roma (Wallumbilla) to Brisbane Pipeline - Access Arrangement 2017-2022*, 20 October 2016, p. 1.

<sup>23</sup> Shell, *Roma (Wallumbilla) to Brisbane Pipeline - Access Arrangement*, 27 October 2016, p.1.

<sup>24</sup> APLNG, *Submission on RBP Access Arrangement 2017-22*, 4 November 2016, p. 2.

<sup>25</sup> Shell, *Roma (Wallumbilla) to Brisbane Pipeline - Access Arrangement*, 27 October 2016, p.1.

<sup>26</sup> AEC, *Roma (Wallumbilla) to Brisbane Pipeline - Access Arrangement 2017-2022*, 20 October 2016, pp.2-3.

<sup>27</sup> APLNG, *Submission on RBP Access Arrangement 2017-22*, 4 November 2016, p. 2.

that the premium is too high and AEC suggesting that<sup>29</sup> if the STFS is to be adopted it should have a maximum term of one year.

The AEC<sup>30</sup> and Shell<sup>31</sup> also expressed concerns about the effect that APTPPL's proposal and tariffs could have on the development of liquidity in the Wallumbilla Gas Supply Hub and the movement to a single trading point, which were two reform measures endorsed by the COAG Energy Council at its August 2016 meeting.<sup>32</sup>

### 1.3.1 APTPPL's response to submissions

To inform our consideration of the concerns raised by stakeholders, we issued a detailed information request to APTPPL seeking its views on whether the services stakeholders identified should be classified as reference services. We also requested data on:

- the historic and forecast demand for the services provided by the RBP, and
- the revenue APTPPL derived from the provision of services in the last five years.

A section 42 notice was also issued to obtain copies of the gas transportation agreements that provide for the provision of services on the RBP over the term of the access arrangement period.

#### 1.3.1.1 Responses to stakeholder submissions on other services

Table 1.1 provides a summary of APTPPL's responses to whether any other services provided by the RBP should be reference services. In short, APTPPL is of the view that:

- the postage stamp tariff structure should be retained
- as available, interruptible and backhaul services will effectively be replaced by the STFS and LTFS during the access arrangement period and so do not need to be classified as reference services, and
- park, park and loan, in-pipe trading and capacity trading services should not be classified as reference services because the demand for these services is subject to significant uncertainty.

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<sup>28</sup> Shell, *Roma (Wallumbilla) to Brisbane Pipeline - Access Arrangement*, 27 October 2016, pp.3-4.

<sup>29</sup> AEC, *Roma (Wallumbilla) to Brisbane Pipeline - Access Arrangement, 2017-2022*, 20 October 2016, pp.2-3.

<sup>30</sup> AEC, *Roma (Wallumbilla) to Brisbane Pipeline - Access Arrangement, 2017-2022*, 20 October 2016, pp. 1-2.

<sup>31</sup> Shell, *Roma (Wallumbilla) to Brisbane Pipeline - Access Arrangement*, 27 October 2016, p.2.

<sup>32</sup> The AEC noted that if the RBP trading location was removed then it would cost shippers an extra \$1/GJ to trade gas because they would need to transport the gas from the RBP trading location to the new notional point location.

**Table 1.1: APTPPL’s views on classification of other reference services**

Service	APTPPL Response
Part-haul transportation services or distance based tariffs	APTPPL claims that while a distance or zonal tariff may “appeal to a simplistic ‘user pays’ argument”, it “ignores the fact that it is the existence of the entire pipeline that facilitates the trade in gas”. APTPPL also noted the postage stamp tariff structure was accepted in 2006 and 2012 and claimed that changing the tariff structure would “cut across the contractual and commercial underpinnings supporting the pipeline’s investment”.
As available-interruptible services	APTPPL claims that when contracted on a day-ahead basis, the STFS is effectively an as available service, and would in most cases replace both as available interruptible services
Backhaul services	APTPPL claims that this service will be effectively replaced by the bi-directional STFS and LTFS. While APTPPL acknowledges the pipeline is not bi-directional between Brisbane and Dalby, it claims to still be able to provide a firm service from the Brisbane STTM to Dalby because purchases from the STTM can only occur if there is an equivalent volume of gas being transported on the RBP to the STTM.
Park, Park and loan services	<p>APTPPL opposes the classification of park and loan services as reference services because it claims that there is “significant uncertainty as to the future demand” for these services and therefore a risk that it will fail to recover its efficient costs (contrary to the RPPs) if they are classified in this manner.</p> <p>APTPPL also claims it is “not feasible” to take into account the revenue from park and loan services when determining the revenue requirement for the proposed reference services because the services are generally not firm and are driven by daily market demand.</p>
Renomination service	APTPPL stated the intra-day renomination service forms part of the STFS and LTFS. APTPPL also advised that it has permanently removed intra-day renomination charges effective 13 September 2016 and therefore expects to derive no revenue from this service.
In-pipe trading service	<p>APTPPL opposes the classification of in-pipe trading services as a reference service. It considers the service is not a pipeline service for the purposes of the NGR.<sup>33</sup> APTPPL also claims it is a contestable and innovative service that it has developed to support the commodity market and that designating it as a reference service would undermine its incentive to develop such products.</p> <p>APTPPL also claimed that it is “impossible to forecast” the demand for this service because it is an ad hoc service and that it would not be feasible to develop a forecast of revenues without risking that it would not recover its efficient cost of providing the services if the revenues did not eventuate.</p> <p>APTPPL also advised that it has reduced the fee for in-pipe trades in 2017 to \$0.01 per GJ with the charge capped at \$3,500 per month. APTPPL also noted that it expects to derive immaterial revenue from the provision of this service in the access arrangement period.</p>
Capacity trading service	<p>APTPPL opposes the classification of capacity trading services as reference services because it claims that this service is not sought by a significant part of the market and the revenue earned is “very minor” and volatile. APTPPL also claimed that it is “impossible to forecast” the demand for this service because it is an ad hoc service and that it would not be feasible to develop a forecast of revenues without risking that it would not recover its efficient cost of providing the services if the revenues did not eventuate.</p> <p>APTPPL also claimed that this is an innovative service that it has developed to make capacity trading easier and that designating it as a reference service would undermine its incentive to develop such products.</p>

Source: APTPPL, Response to AER IR#23, January 2017.

<sup>33</sup> APTPPL claims that because this service facilitates the trade of gas between shippers and is not related to the provision of pipeline capacity or trade, it should not be considered a pipeline service, and as a consequence cannot be a reference service under NGR r. 101(1).

## 1.4 AER's assessment approach

When assessing APTPPL's proposal, we have had regard to the relevant provisions in the NGR and the NGL. We have also considered the challenges currently facing the gas market and reforms expected to occur in the upcoming access arrangement period that could have a bearing on the specification of reference and rebateable services. Further detail on the matters we have considered is below.

### 1.4.1 NGR and NGL requirements

#### 1.4.1.1 Reference services

Rule 48 of the NGR states that an access arrangement must describe the pipeline services<sup>34</sup> the service provider proposes to offer to provide by means of the pipeline and specify the reference services. Rule 101 further provides that:

- (1) A full access arrangement must specify as a reference service:
  - (a) at least one pipeline service that is likely to be sought by a significant part of the market and
  - (b) any other pipeline service that is likely to be sought by a significant part of the market and which the AER considers should be specified as a reference service.
- (2) In deciding whether to specify a pipeline service as a reference service the AER must take into account the revenue and pricing principles.

The term "likely to be sought" is not defined in the NGL or NGR, but the notion of "likely" means at its lowest that there is a "real chance or possibility" that something will occur,<sup>35</sup> and at its highest that it is "more probable than not" that an event will occur. The term "significant part of the market" is also not defined in the NGL or NGR. However, the ordinary construction of the word "significant" is something that is less onerous than the "majority", and may mean no more than that the part of the market seeking the service must not be "insignificant".

#### 1.4.1.2 Non-reference services and rebateable services

In principle, the costs to be recovered from the users of reference services should exclude the costs of providing non-reference services.<sup>36</sup> However, rule 93(3) allows us

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<sup>34</sup> The term 'pipeline service' is defined in the NGL as:

- (a) a service provided by means of a pipeline, including-
  - (i) a haulage service (such as firm haulage, interruptible haulage, spot haulage and backhaul); and
  - (ii) a service providing for, or facilitating, the interconnection of pipelines; and
- (b) a service ancillary to the provision of a service referred to in paragraph (a), but does not include the production, sale or purchase of natural gas or processable gas.

<sup>35</sup> See Deane J in *Tillmanns Butcheries Pty Ltd v The Australian Meat Industries Employees Union* (1979) ATPR 40-138 at p. 18,5000

<sup>36</sup> NGR, r. 93(1)-(2).

to allocate the costs of providing 'rebateable services', in whole or in part, to reference services if:

- we are satisfied that the service provider will apply an appropriate portion of the revenue generated from the sale of rebateable services to provide price rebates (or refunds) to the users of reference services, and
- any other conditions determined by us are satisfied.

Rule 93(4) provides that a service can be classified as a rebateable service if the service is not a reference service and if:

- substantial uncertainty exists concerning the extent of the demand for the service or the revenue to be generated from the service, and
- the market for the service is substantially different from the market for any reference service.

In considering whether a service is likely to satisfy these two criteria, we will have regard to:

- the nature of the demand for the service and the extent to which it is feasible to develop a forecast that represents the best forecast or estimate possible in the circumstances as required by rule 74, and
- market definition principles to determine whether the market in which the service is traded is different from the market for the reference service.

The NGL and the NGR do not define the term 'market' for the purposes of rule 93, or specify how we are to determine whether the market for the service is substantially different from the market for any reference service. In the absence of specific criteria, we consider competition law market definition principles provide the appropriate analytical framework. Box 1.1 provides an overview of the principles we have employed in this context.

### Box 1.1: Determining the market for the purpose of rule 93(4)

In competition law the delineation of markets hinges primarily on the concept of substitutability. The market should comprehend the range of activities and the geographic area within which, if given a sufficient economic incentive:

- buyers can switch to a substantial extent from one product to another and/or from one source of supply to another ('demand-side' substitution); and/or
- sellers can switch to a substantial extent from one production plan to another, or to an alternative location ('supply-side' substitution).

The emphasis placed on substitutability can be seen in the Trade Practices Tribunal's decision in *Re Queensland Cooperative Milling Associates Ltd*. In this case the Tribunal referred to a 'market' as comprising:<sup>37</sup>

"...the area of close competition between firms or, putting it a little differently, the field of rivalry between them.... Within the bounds of a market there is substitution - substitution between one product and another, and between one source of supply and another, in response to changing prices. So a market is the field of actual and potential transactions between buyers and sellers amongst whom there can be strong substitution, at least in the long run, if given a sufficient price incentive...

It is the possibilities of such substitution which sets the limits upon a firm's ability to "give less and charge more". Accordingly, in determining the outer boundaries of the market we ask a simple but fundamental question: If the firm were to 'give less and charge more' would there be, to put the matter colloquially, much of a reaction?"

Properly defined, a market should encompass the range of products and geographic areas between which there can be strong substitution by buyers and/or suppliers. In considering whether a non-reference service could be classified as a rebateable service we have focused on the potential for consumers to switch (i.e. on demand-side substitution). The other potential avenue of substitution – 'supply-side' substitution – are not relevant here because there are no suppliers whom can perform that role, given that the RBP is a monopoly

The issue of whether a non-reference service is in a substantially different market from any reference service is likely to be quite straightforward when the service in question provides a different function to the reference services, and the viable sources of supply are relatively clear. For example, consider connection services. A user would be unlikely to respond to an increase in the price of a connection by buying the reference services (e.g. the STFS or LTFS), because they serve different functions. In this case the services could be viewed as being in substantially different markets.

Finally, it is worth noting that while some products are purchased as part of an overall bundle, this does not mean they are all in the same market. For example, tyres and petrol are bought by the same customers, but are not substitutes (i.e. buying more petrol will not fix a flat tyre). Likewise, the fact that many users buy a collection of pipeline services (e.g. firm transportation, park and loan services, ancillary services) does not imply they are all part of the same market.

The rebateable service provisions in the NGR largely mirror the provisions in the National Third Party Access Code for Natural Gas Pipeline Systems (the Code). The

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<sup>37</sup> *Re Queensland Cooperative Milling Associates Ltd* (1976) ATPR 40-012 at 17,247.



purpose of these was explained in the information paper that accompanied the exposure draft of the Code, which is reproduced below:<sup>38</sup>

The general principle is that a Reference Tariff should be structured on the basis of only the costs that are properly allocated to that Reference Service. This principle may be difficult to apply in practice if the Service Provider expects to sell other Services that would share common assets, but where the volume and/or value of the other Services are difficult to forecast. These Services are termed Rebateable Services and may include interruptible and backhaul Services, where both the availability of the Service and the demand for such Services can be difficult to predict.

The difficulty arises because the uncertainty over the future volume and/or value of sales of the Rebateable Services makes it difficult to determine the amount of costs that should be allocated to those Services. This in turn makes it hard to determine the residual of costs that should be allocated to the Reference Service.

Section A (28)(b) provides an exception to the general cost allocation principle to handle Rebateable Services. It permits all of the costs that could theoretically be allocated to the Rebateable Service to be allocated to the Reference Service, provided that part or all of the revenue from sales of the Rebateable Services is rebated to the Users of the Reference Service. It would be expected that a portion of this revenue would be retained by the Service Provider to provide it with the incentive to offer these Services (which is an Incentive Mechanism).

While the rebateable service provisions in the NGR have not been widely used to date, the equivalent provisions in the Code were drawn on numerous times by the Australian Competition and Consumer Commission (ACCC), the Economic Regulation Authority (ERA) and its predecessor, Ofgar. For example, rebateable services were used in:

- the ACCC's 2001 final decision on the Moomba to Adelaide Pipeline System, which defined an interruptible transportation service as a rebateable service<sup>39</sup>
- the ACCC's 2002 final decision on the Amadeus Basin to Darwin Pipeline, which also defined an interruptible transportation service as a rebateable service,<sup>40</sup>
- the ERA's 2005 final decision on the Goldfields Gas Pipeline, which identified penalty charges as rebateable services,<sup>41</sup> and
- Ofgar's 2003 final decision on the Dampier to Bunbury Pipeline, which defined all non-reference services, including park and loan, seasonal and secondary market services, and penalty charges as rebateable services.<sup>42</sup>

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<sup>38</sup> Gas Reform Task Force, *Information Paper to Accompany the Exposure Draft of the National Third Party Access Code for Natural Gas Pipeline Systems*, 8 August 1996, pp. 67-68.

<sup>39</sup> ACCC, *Final Decision: Access Arrangement proposed by Epic Energy South Australia Pty Ltd for the Moomba to Adelaide Pipeline System*, 12 September 2001, p. ix.

<sup>40</sup> ACCC, *Final Decision: Access Arrangement proposed by NT Gas Pty Ltd for the Amadeus Basin to Darwin Pipeline*, 4 December 2002, p. 136.

<sup>41</sup> ERA, *Further Final Decision and Final Approval on the Proposed Access Arrangement for the GGP*, 14 July 2005, p. 26.



### 1.4.1.3 NGO and RPPs

The reference service and rebateable service provisions in the NGR provide us with full discretion. When exercising this type of discretion we are required to do so in a manner that is likely to contribute to the achievement of the NGO,<sup>43</sup> which is to:<sup>44</sup>

...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.

We may also take into account the RPPs if we consider it appropriate to do so, or if directed to in the NGR. Relevantly, the RPPs state that a service provider should:

- have a reasonable opportunity to recover at least the efficient costs of providing reference services,<sup>45</sup> and
- be provided with effective incentives to promote economic efficiency with respect to reference services, including efficient investment, efficient provision of services and efficient use of the pipeline.<sup>46</sup>

The RPPs also require us to have regard to the economic costs and risks of the potential for both under or over investment by a service provider, and under or over utilisation by pipeline users.<sup>47</sup>

### 1.4.2 Gas market challenges and reforms

Our consideration of APTPPL's proposal is occurring at a time when the east coast gas market is facing a number of challenges. The extent of these challenges was highlighted in the Australian Energy Market Operator's (AEMO) 2017 Gas Statement of Opportunities (GSOO), which noted that the demand and supply balance in the east coast gas market is continuing to tighten and that if steps are not taken to:<sup>48</sup>

- increase supply then there may be insufficient gas to meet the projected demand for gas fired generation in south eastern Australia from summer 2018-19; and
- address other constraints, then maintaining system security will become more challenging and increase the risk of supply shortfalls in gas and electricity markets.

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<sup>42</sup> Ofgar, *Final Decision: Proposed Access Arrangement for the Dampier to Bunbury Natural Gas Pipeline*, 23 May 2003, p. 136.

<sup>43</sup> NGL, s. 28(1)(a).

<sup>44</sup> NGL, s. 23.

<sup>45</sup> NGL, s. 24(2).

<sup>46</sup> NGL, s. 24(3).

<sup>47</sup> NGL, ss. 24(6)-(7).

<sup>48</sup> AEMO, *Gas Statement of Opportunities*, March 2017, p. 1.

AEMO also noted in the GSOO that rising production costs and gas prices would place continued upward pressure on gas and electricity prices and could threaten the financial viability of some industrial customers.<sup>49</sup>

The challenges facing the gas market have attracted the attention of a range of Commonwealth, State and Territory ministers, including the Prime Minister, who recently announced a number of measures to deliver “cheaper and more reliable energy to Australian households and increase gas supplies for businesses”. These measures include, amongst others:<sup>50</sup>

- The Gas Supply Guarantee, which is an undertaking that gas producers have made to make gas available during peak demand periods in the National Electricity Market (NEM) to address the projected shortfalls in supply from summer 2018–19.
- An undertaking by gas producers and LNG exporters to make more gas available to the domestic market and for LNG exporters to be net contributors of gas to the market.
- A direction to the Australian Competition and Consumer Commission (ACCC) that it monitor the east coast wholesale gas market for the next three years using its inquiry powers and in doing so monitor the compliance of the gas producers and LNG exporters with their undertakings.
- Requesting that the pipeline capacity trading and other gas market reforms identified by the Australian Energy Market Commission (AEMC) and the ACCC be accelerated and ‘urgent consideration’ be given to other reforms.

In relation to the latter of these measures, we understand that the Gas Market Reform Group (GMRG) and AEMO have agreed to work together to accelerate the work on a number of pipeline capacity trading reforms so that they can be implemented prior to the 2018–19 summer. These reforms are to facilitate more secondary trade in capacity amongst shippers and encourage more competition between pipeline operators and shippers for the provision of short-term capacity, include:

- the introduction of a day-ahead auction of contracted but un-nominated capacity
- the implementation of a capacity trading platform, with an exchange and listing service that shippers can use to trade secondary capacity
- the standardisation of key terms and conditions in transportation contracts to make capacity products more fungible, and
- the development of a reporting framework for secondary capacity trades.

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<sup>49</sup> AEMO, *Gas Statement of Opportunities*, March 2017, p. 1.

<sup>50</sup> Hon. M. Turnbull, *Media Release: Delivering Affordable Gas for All Australians*, 27 April 2017; Hon. M. Turnbull, *Media Release: Measures Agreed for Cheaper, More Reliable Gas*, 15 March 2017; and Ho. S. Morrison, *Media Release: ACCC to monitor Eastern Australian wholesale gas market*, 19 April 2017.

## 1.5 Reasons for draft decision

As outlined in section 1.3 stakeholders have raised a number of concerns with APTPPL's proposal. We have therefore considered whether:

- the LTFS and STFS proposed by APTPPL should be defined as reference services, and
- any of the other transportation, park and loan or ancillary services identified by stakeholders should be defined as reference services or rebateable services.

Our findings are set out in the remainder of this section.

### 1.5.1 Reference service

To determine whether the LTFS and STFS satisfy rule 101, we have considered whether:

- the services, as described by APTPPL, are likely to be sought by a significant part of the market, and
- the specification of these services as reference services is consistent with the RPPs and likely to promote the NGO.

Before setting out our views on these issues, it is worth noting that as part of our broader consideration of APTPPL's proposal, we have considered whether the reference service should continue to operate on a postage stamp basis, or if a more cost reflective part-haul or distance based service should be introduced. Attachment 10 discussed this issue detail.

In short, although we see merit in moving to a more cost reflective service we are concerned that this may place additional financial pressure on some users of the RBP. It may also exacerbate what is already a financially challenging environment for many gas users, which could have longer-term consequences for consumers of natural gas and the efficient use of the pipeline, contrary to the NGO. Our draft decision is therefore to retain the existing postage stamp service and tariff structure. While we have taken this position in the draft decision, we are interested in hearing stakeholders' views on this issue and the tariff options presented in Attachment 10.

#### 1.5.1.1 LTFS

APTPPL's specification of the LTFS is, as noted above, equivalent to the current reference service, with the only difference being that the service is now offered in an easterly and westerly direction.

Having regard to the issues raised by stakeholders, the material provided by APTPPL and section 101 of the NGR, we are of the view that the LTFS should continue to be defined as a reference service because:

- it is likely to be sought by a significant part of the market over the access arrangement period,<sup>51</sup> and
- its specification as a reference service is consistent with the RPPs and likely to promote the NGO.

Our draft decision is therefore to approve the specification of the LTFS as a reference service, subject to some refinements to the proposed access arrangement, to make it clearer that intra-day renominations form part of this service (see Attachment 12 for further detail).

### 1.5.1.2 STFS

In contrast to the LTFS, the STFS is a relatively new service and has not previously been defined as a reference service. While the forecasts provided by APTPPL suggest that this service is likely to be sought by a significant part of the market over the access arrangement period, we are not satisfied that its specification as a reference service would be consistent with the RPPs or promote the NGO. The reasons for this are two-fold.

First, it would appear from the material that APTPPL has provided that while the existing reference service is defined as a having a term of three years or more, shippers have been able to successfully negotiate access to shorter term transportation services. It is therefore not clear that defining the STFS as a reference service will benefit shippers.

Second, it would appear from the submissions made by stakeholders that the price APTPPL is proposing to charge for this service is higher than the price most shippers are prepared to pay for this service. There is a risk therefore that defining the STFS as a reference service and pricing it in the manner APTPPL has proposed could:

- result in lower than efficient utilisation of the RBP at a time when the pipeline is already facing a number of demand risks, the economic costs and risks of which would be borne by both APTPPL and shippers
- act as a potential impediment to the supply of gas to:
  - gas fired generators located on the RBP and in south east Australia that rely on short-term transportation services to manage demand during peak periods in the electricity market, which as noted in section 1.4.2, is of critical concern to AEMO and the Australian Government at present, and
  - other domestic customers that utilise the RBP that are reliant on short-term contracts, or that purchase gas produced in the fields in the Wallumbilla to Kogan region which is transported on the RBP to the GSH.

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<sup>51</sup> Based on the forecast demand data provided by APTPPL it would appear that the demand for this service will account for 58-78 per cent of the demand over the access arrangement period.

- adversely affect the development of liquidity in the Wallumbilla GSH by increasing the financial barriers to trade in this market (contrary to the COAG Energy Council's reform priorities and Vision for the gas market),<sup>52</sup> which could, in turn:
  - limit the ability of market participants across the east coast to respond in a more timely and efficient manner to changes in market conditions,<sup>53</sup> and
  - prevent gas from flowing to where it is valued most, which is of particular importance given the tight demand and supply conditions in the east coast market.

These outcomes are, in our view, inconsistent with a number of the RPPs<sup>54</sup> and are also contrary to the long term interests of consumers of natural gas, from both a pricing and a security of supply perspective.

Setting these issues aside, APTPPL's proposal to define the STFS as a reference service does raise a more fundamental question, which is whether a reference service should be defined if:

- the service is subject to some form of competition, and
- there is another reference service that can be used as the benchmark for negotiations, which in this case is the LTFS (i.e. APTPPL is proposing to price the STFS as a multiple of the LTFS so, in effect, the LTFS is the benchmark).

On the first of these points, we understand that the GMRG and AEMO are working together to accelerate the implementation of a number of capacity trading reforms, which are now expected to be in place before summer 2018–19. According to the AEMC, these reforms will facilitate more secondary capacity trading amongst shippers and encourage greater competition between shippers and pipeline operators for the provision of short-term capacity.<sup>55</sup> Given the competition that is expected to emerge in this area and the fact that the LTFS can still operate as a reference service for this service if required, we are not satisfied that the specification of the STFS as a separate reference service will promote economic efficiency or otherwise be in the long term interests of natural gas consumers.<sup>56</sup> We are not therefore satisfied that the specification of the STFS as a reference service is consistent with the RPPs or will promote the NGO.

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<sup>52</sup> See COAG Energy Council, Gas Market Reform Package, August 2016 and COAG Energy Council Australian Gas Market Vision, December 2014.

<sup>53</sup> This view is consistent with the views expressed by AEC and Shell. See AEC, Roma (Wallumbilla) to Brisbane Pipeline - Access Arrangement 2017-2022, 20 October 2016, pp. 1-2 and Shell, Roma (Wallumbilla) to Brisbane Pipeline - Access Arrangement, 27 October 2016, p.2.

<sup>54</sup> Specifically, the principles embodied in sections 24(2), 24(3)(c) and 24(7).

<sup>55</sup> AEMC, *Stage 2 Final Report: East Coast Wholesale Gas markets and Pipeline Frameworks Review*, 23 May 2016, pp. 67-112.

<sup>56</sup> NGL, s. 24(3).

We have therefore decided to exercise our discretion not to define the STFS as a reference service. A list of amendments that we require APTPPL to make to its proposed access arrangement to give effect to this change is provided in section 1.6.

It is worth noting in this context that while we have decided not to specify the STFS as a reference service, APTPPL can still offer this service to shippers as a non-reference (negotiated) service. If a dispute about the price or other elements of this service arises, shippers can have recourse to the access dispute provisions.

## 1.5.2 Rebateable services

Rule 93 of the NGR, in effect, provides us with two options for dealing with the costs associated with non-reference services. The first option, which is reflected in rule 93(2) is to exclude the costs from the allocation of costs to the reference service. The second option, reflected in rule 93(3), is to permit the allocation of these costs (in whole or in part) to the reference service, but require:

- an appropriate portion of the revenue from the sale of these services to be applied to users of reference services (through either a price rebate or refund), and
- any other condition we determine to be satisfied.

APTPL has advised that the first of these options is "not feasible" because there is a significant amount of uncertainty surrounding the demand for park, loan, capacity trading and in-pipe trading services.<sup>57</sup> We have therefore considered whether these services could be classified as reference or rebateable services.

### *Park and loan services*

Park services allow users to store gas on the pipeline up to a specified level by injecting more gas on a day than they take out. Loan services, on the other hand, allow users to take out more gas on a day than they inject, up to a specified level. These services may be provided on either a firm or interruptible basis (see Appendix A for more detail).

Based on the information APTPL has provided, it would appear that the demand for park and loan services and the revenue derived from these services has increased in this access arrangement period and will continue to do so in the upcoming access arrangement period.<sup>58</sup>

On its own, this information could support a finding under rule 101 that park and loan services are likely to be sought by a significant part of the market. However, we agree with APTPL that the demand for these services and the revenue they will generate over the 2017–22 period is subject to a significant degree of uncertainty and that it

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<sup>57</sup> APTPL Response to information request IR#23, 13 January 2017, p. 23.

<sup>58</sup> APTPL Response to information request IR#23, 13 January 2017; ATPPL, Response to AER Information Request - IR#23 Addendum, 14 February 2017.

would be difficult to develop a forecast that complied with the requirements in rule 74.<sup>59</sup> The reasons for this are two-fold.

First, it appears that a number of users are purchasing park and loan services on an 'as required' and interruptible basis. Second, the services are primarily being sought by users that require greater flexibility to deal with changes in operational conditions (e.g. a LNG facility going down), or changes in the electricity and gas markets, which are difficult to predict.

Given the level of uncertainty surrounding the demand for, and revenue to be generated from, these services, we agree that determining efficient reference tariffs for these services may not be possible. We have therefore considered whether these services could be defined as rebateable services under rule 93(4).

As outlined in section 1.4.1.2, this rule allows a service that is not a reference service to be defined as a rebateable service if:<sup>60</sup>

- substantial uncertainty surrounds either the demand for, or the revenue to be generated, from the services, and
- the market for these services is substantially different from the market for reference services.

Having established that there is a substantial degree of uncertainty surrounding demand for these services, the only other matter we need to consider is whether the market for park and loan services (provided on a firm or interruptible basis) is substantially different from the market for the reference services.

As noted in Box 1.1, in a competition law context the term 'market', properly defined should encompass the range of products and geographic areas between which there can be strong substitution. Any assessment of whether park and loan services are in the same market as the suite of reference services outlined above, therefore requires consideration to be given to whether the park and loan services are close substitutes for the reference services. In simple terms, this requires consideration to be given to whether users are likely to switch from the park and loan service to the reference service (or vice versa) in response to a price increase of, say 5-10 per cent.

As the description of park and loan services in the introduction to this section highlights, park and loan services serve a different function to a firm transportation services.

Users that require the flexibility provided by park and loan services would not therefore be in a position to switch to a transportation service in response to a 5-10 per cent increase in the price of park and loan services. Similarly, users that need to transport gas along the RBP on a firm basis using either the LTFS would not be in a position to

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<sup>59</sup> APTPPL Response to information request IR#23, 13 January 2017, p. 23.

<sup>60</sup> NGR, r. 93(4).



switch to park and loan services in response to a similar increase in the price of the reference services. It follows, that park and loan services are not substitutes for the reference services and should be considered as being in substantially different markets to the market for the reference services.

We are therefore of the view that park and loan services (provided on a firm or interruptible basis) should be classified as rebateable services. In reaching this view we have had regard to the NGO. We consider that classifying these services as rebateable services and allowing the revenue generated from their sale to be shared between APTPPL and users of the reference service will promote the NGO because it will:

- result in the overall charges payable for reference services better reflecting the cost of providing these services,<sup>61</sup> which will, in turn, promote the efficient use of the pipeline, as well as the efficient operation of and investment in the pipeline, and
- provide APTPPL with an incentive to continue to develop new services and respond to the changing needs of users, which is in the long-term interests of consumers of natural gas.

Classifying these services as rebateable services and allowing the revenue generated from their sale to be shared between APTPPL and users of the reference service is also consistent with the RPPs, because it will:

- provide APTPPL with an opportunity to recover its efficient costs (i.e. because the rebate is only payable if revenue is generated)
- provide APTPPL with effective incentives to promote economic efficiency (i.e. because the charge payable for the reference service once the rebate is taken into account will be more cost-reflective and because allowing APTPPL to retain a portion of the revenue will provide it with an incentive to respond to user needs)
- reduce the economic costs and risks associated with under or over investment in the pipeline (i.e. because the charge payable for the reference service after the rebate is taken into account will be more cost-reflective), and
- reduce the economic costs and risks associated with under or over utilisation of the pipeline (i.e. because the overall charge payable for the reference service after the rebate is taken into account will be more cost-reflective).

Our draft decision is therefore to classify park and loan services (provided on either a firm or interruptible basis) as rebateable services. It is worth noting in this context that this decision is consistent with the decision that Ofgar, reached in 2003 when it

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<sup>61</sup> If the rebate was not paid and the cost of providing these services was included in the calculation of the reference tariff then it would result in users of the reference service paying more than the efficient cost of providing the service, which will give rise to allocative, productive and dynamic inefficiencies. For example, if the price payable for reference services includes the cost of providing other services then from a user's perspective it will result in underutilisation of the reference service. From APTPPL's perspective, the higher prices may result in inefficiencies in the operation of the pipeline and over investment in the pipeline.



decided that park and loan services on the Dampier to Bunbury Pipeline should be classified as rebateable services.<sup>62</sup> It is also consistent with the view that the AEMC expressed in its reference service and rebateable service rule change process, which is that park and loan services “could be considered as rebateable services”.<sup>63,64</sup>

The way in which the rebate mechanism will operate and the portion of revenue that APTPPL will be allowed to retain is discussed in further detail in Attachment 10. We note that there is no requirement in the NGR that rebateable services must be purchased in conjunction with reference services. Any sales of park or loan services (provided on either a firm or interruptible basis) on the RBP would therefore be subject to the rebate mechanism.

### ***In-pipe trading services and capacity trading services***

In-pipe trading services enable gas to be traded between users at a notional point on the pipeline and also allow users to manage their imbalances on a pipeline. This service was introduced by APTPPL in 2012–13 and since then demand for this service has continued to increase.<sup>65</sup>

In contrast to in-pipe trading, which relates to the trade of gas, capacity trading services enable capacity traded between users to be managed by the pipeline operator rather than by the users. This service was introduced by APTPPL two years after in-pipe trading services. While it has not been as popular to date as in-pipe trading services, it is expected to become so when the AEMC’s capacity trading reforms are implemented.<sup>66</sup>

Like park and loan services, a case could be made that in-pipe trading and capacity trading services are likely to be sought by a significant part of the market in the 2017–22 period. However, we agree with APTPPL that the demand for these services is subject to a significant degree of uncertainty. The uncertainty reflects the underlying nature of these services, with:

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<sup>62</sup> Ofgar, *Final Decision: Proposed Access Arrangement for the Dampier to Bunbury Natural Gas Pipeline*, 23 May 2003, p. 136.

<sup>63</sup> AEMC, *Rule Determination: National Gas Amendment (reference service and rebateable service definitions) Rule 2012*, 1 November 2012, p. 54.

<sup>64</sup> The view that park and loan services are in a separate market is also consistent with the view the ACCC reached when assessing APA’s proposed acquisition of Hastings Diversified Utilities Fund. In that case, the ACCC noted that there were two markets relevant to the assessment of the competitive impact of the proposed acquisition, one of which was the market for transmission services and the second was the market for ancillary services, which included park and loan services. See ACCC, *Public Competition Assessment – APA Group – proposed acquisition of Hastings Diversified Utilities Fund*, 14 February 2013.

<sup>65</sup> APTPPL, Response to information request IR#23, 13 January 2017 and ATPPL, Response to AER Information Request - IR#23 Addendum, 14 February 2017.

<sup>66</sup> As noted in Appendix A, the AEMC has recommended that all trades through the proposed capacity trading exchange and day-ahead auction be conducted using the capacity trading services offered by pipelines. Service providers will therefore have an effective monopoly on the provision of these services for these types of transactions. The demand for these services can therefore be expected to increase.

- in-pipe trade services only being required by users when a gas trade occurs and title to the gas needs to change, and
- capacity trading services only being required by users if they decide to trade capacity with another user and give effect to that trade through an operational transfer with APTPPL, rather than through a bare transfer.

Given the level of uncertainty surrounding the demand for, and revenue to be generated from, these services, we agree that developing forecasts that comply with the requirements in rule 74 and determining efficient reference tariffs for these services may not be possible. We have therefore considered whether these services could be defined as rebateable services under rule 93(4).

In a similar manner to park and loan services, we have considered whether:

- the market for capacity trading services is substantially different from the market for the reference services, and
- the market for in-pipe trading services is substantially different from the market for the reference services.

In doing so, we have had regard to the market definition principles set out in Box 1.1. As outlined in the preceding section, any assessment of whether in-pipe trading or capacity trading services are in the same market as the suite of reference services outlined above requires consideration to be given to whether these services are close substitutes for the reference services.

As the description in the introduction to this section highlights, in-pipe trading and capacity trading services perform a very different function to the LTFS. Users seeking the services provided by these services would not therefore be in a position to switch to the LTFS transportation services in response to a 5-10 per cent increase in price of these ancillary services. Similarly, users that want to transport gas along the RBP using the LTFS would not be in a position to switch to in-pipe trading or capacity trading services in response to an increase in the price of the reference services.

It follows that in-pipe trading services and capacity trading services are not substitutes for the reference services and should be viewed as being in substantially different markets to the market for the reference services.

We are therefore of the view that these services should be classified as rebateable services. In reaching this view we have had regard to the NGO and RPPs. For the same reasons as those set out in the preceding section, we are of the view that classifying these services as rebateable services and allowing APTPPL to retain a portion of the revenue would promote the NGO and be consistent with the RPPs.

Our draft decision is therefore to classify capacity trading and in-pipe trading services as rebateable services. The way in which the rebate mechanism will operate is discussed in further detail in Attachment 10.

Finally, it is worth noting that while APTPPL has suggested that in-pipe trading services may fall outside the scope of the term 'pipeline services' in the NGL and

therefore outside our review. We disagree with this position. In our view, this service can be classified as a 'service ancillary to the provision of a service' provided by means of a pipeline (e.g. it is ancillary to a haulage service) and therefore does fall within the scope of our review.

### **1.5.2.1 Other services**

In addition to the services outlined above, some stakeholders have proposed that as available, interruptible and/or backhaul services should be treated as reference services or rebateable services. While we have given some thought to this proposal, we agree with APTPPL that:

- as available and interruptible transportation services will be effectively replaced by firm services in the upcoming period, and
- backhaul services will be replaced by bi-directional services.

We are therefore of the view that these services do not need to be defined as reference or rebateable services in the 2017–22 access arrangement period.

In relation to as available and interruptible services, it is worth noting that our view that they will be replaced by firm services in the 2017–22 period is based on our assumption that there will be excess capacity in the pipeline over this period. The excess capacity means that there is a very low (or non-existent) risk of the as available service not being available or the interruptible service being interrupted, so the services will effectively become firm services. If conditions change in the future and constraints start to emerge on the RBP, then it is possible that there could be a role for these services to be specified as reference services in future access arrangement periods.

## **1.6 Required amendments**

To give effect to our draft decision a number of amendments will need to be made to the access arrangement, the terms and conditions and pro-forma transportation agreement. In the table below and Attachment 10 we have attempted to deal with these as comprehensively as possible, but we anticipate further refinements may be thought necessary or desirable once stakeholders including APTPPL have considered the draft decision.

In making our final decision we will have regard to submissions on any further changes to the access arrangement and terms and conditions consequential upon our decision on reference and rebateable services.

**Table 1.2: Required amendments to the access arrangement**

Clause	Amendment
<b>Access Arrangement</b>	
2.1	<p><b>Services under Access Arrangement</b></p> <p>The following services are offered under this Access Arrangement:</p> <p>(a) <del>Firm Service</del>— Reference Service as described in section 2.2; and</p> <p>(b) Negotiated Services – non-Reference Services, as described in section 2.3; <u>and</u></p> <p>(c) <u>Rebateable Services, as described in section 2.3A.</u></p>
2.2	<p><b><del>Firm Reference Service</del></b></p>
2.2.1	<p><u>The Reference Service is the Long Term Firm Service</u></p> <p>The <u>Long Term Firm Service</u> is a service for the receipt, transportation and delivery of Gas through any length of the Covered Pipeline.</p> <p>Service Provider must provide the Long Term Firm Service on the following basis:</p> <p>(a) the receipt by Service Provider at the Receipt Point of quantities of Gas Nominated by the User, not exceeding the applicable Receipt Point MDQ and in aggregate not exceeding the Firm MDQ, at a rate per Hour net exceeding the applicable Receipt Point MHQ;</p> <p>(b) the transportation of the Gas referred to in paragraph (a) on a firm basis and without interruption, except as is expressly permitted under the Transportation Agreement; and</p> <p>(c) the delivery by Service Provider to, or on account of, User at the Delivery Points of quantities of Gas Nominated by User, not exceeding the applicable Delivery Point MDQ and in aggregate not exceeding the Firm MDQ, at a rate per Hour not exceeding the applicable Delivery Point MHQ,</p> <p>as Scheduled in accordance with clauses 11 to 14 (inclusive) of the Terms and Conditions.</p> <p>Despite paragraphs (a) to (c) above (inclusive) and 2.2.4, the transportation of Gas received at Receipt Points by Service Provider under <del>the a</del> <u>a</u> Firm Service is, for STTM purposes, to the Brisbane hub or, if Scheduled by Service Provider in accordance with clauses 11 to 14 (inclusive) of the Terms and Conditions, to Delivery Points upstream of the Brisbane hub.</p> <p>The Long Term Firm Service is provided at the Long Term Firm Reference Tariff.</p> <p>The Long Term Firm Service includes the following:</p> <p>(a) ability of User to request an Authorised Overrun;</p> <p>(c) for installations owned and operated by Service Provider, the measurement of gas quantity and quality and of gas pressures as detailed in the Terms and Conditions.</p>

Clause	Amendment
2.2.5	<p><b>Term</b></p> <p>The term of a <del>Firm Service</del> is:</p> <p>(a) <del>for a Long Term Firm Service</del> is three years from the commencement of the Firm Service or such longer period ending on an anniversary of the commencement of the Firm Service as the User elects (<del>Long Term Firm Service</del>); or</p> <p>(b) <del>as agreed between the User and the Service Provider, but less than three years (Short Term Firm Service).</del></p>
2.3	<p><b>Negotiated Services</b></p> <p>If a Prospective User's requirements and circumstances vary from the conditions of the <del>Long Term Firm Service Firm Service</del>, including where the Prospective User seeks access to capacity other than the Existing Capacity, the Prospective User may seek to negotiate different terms and conditions, including tariffs, as a Negotiated Service.</p> <p>Negotiated Services will have priority agreed to in a Non-Discriminatory Manner in accordance with the Terms and Conditions set out in Schedule 3, but will not be higher than a <del>Firm Service</del>.</p>
2.3A	<p><b>Rebateable Services</b></p>
2.3A.1	<p><u>The following Rebateable Services are offered:</u></p> <ul style="list-style-type: none"> <li>(a) <u>Capacity Trading Service;</u></li> <li>(b) <u>In-Pipe Trade Service;</u></li> <li>(c) <u>Parking Service; and</u></li> <li>(d) <u>Loan Service.</u></li> </ul> <p><u>The Capacity Trading Service is the facilitation services provided by Service Provider to a User for the sale of all or part of User's Operational MDQ to another User, or the purchase by User of all or part of another User's Operational MDQ.</u></p> <p><u>The In-Pipe Trade Service is the facilitation services provided by Service Provider to the User for a Gas Trade.</u></p> <p><u>The Parking Service is the service provided by Service Provider enabling a User to store quantities of gas in the Covered Pipeline which do not exceed prescribed limits agreed with Service Provider.</u></p> <p><u>The Loan Service is the service provided by Service Provider enabling a Prospective User to receive quantities of gas from the Covered Pipeline which do not exceed prescribed limits agreed with Service Provider.</u></p>
4.2.1	<p><b>Reference Service and Tariffs</b></p> <ul style="list-style-type: none"> <li>(a) The amount payable by the User for <del>the</del> a Long Term Firm Service Reference Service is the <u>applicable</u> Long Term Firm Service Charge.</li> <li>(b) <del>The amount payable by the User for the</del> a Short Term Firm Service (Reference Service) is the Short Term Firm Service Charge.</li> <li>(c) <del>(b)</del> Users will also pay any Other Tariff Charges applicable.</li> </ul>

Clause	Amendment
4.2.2	<p><b><u>Long Term Firm Service Charges</u></b></p> <p>The Long Term Firm Service Charge for each Day is the product of:</p> <p>(a) the <u>applicable</u> Long Term Firm Reference Tariff <u>as specified in section 2.2.1</u>; and</p> <p>(b) the Firm MDQ (expressed in GJ) specified in the Transportation Agreement.</p>
4.2.3	<p><b><u>Short Term Firm Service Charges</u></b></p> <p>The Short Term Firm Service Charge for each Day is the product of:</p> <p>(a) <del>the Short Term Firm Reference Tariff; and</del></p> <p>(b) <del>the Firm MDQ (expressed in GJ) specified under the Transportation Agreement.</del></p>
4.7	<p><b>Reference Tariff after 30 June 2022</b></p> <p>In the event that the Revisions Commencement Date is later than 30 June 2022, the tariff in effect at 30 June 2022 shall continue to apply to the provision of <u>Long Term Firm Service Firm Services</u> between 30 June 2022 and that later Revisions Commencement Date.</p> <p>If the Reference Services under the revised Access Arrangement are different to those in this Access Arrangement, the applicable Reference Tariff and terms for an existing Service being supplied to a User are those as at the Revisions Commencement Date.</p>
5.5	<p><b>Changing Receipt and Delivery Points</b></p> <p>[an additional paragraph at the end of section 5.5 as follows:]</p> <p><u>If the User's request relates to a Receipt Point or a Delivery Point which is in a different Zone to the existing Receipt Point or Delivery Point, Service Provider may make an adjustment to the relevant tariff and amount payable under the Transportation Agreement.</u></p>
<b>Terms and Conditions</b>	
1	<p><b>Authorised Overrun Rate:</b> 120% of the Long Term Firm Reference Tariff <del>or Short Term Firm Reference Tariff (as applicable)</del></p> <p><b>Unauthorised Overrun Rate:</b> 250% of the Long Term Firm Reference Tariff <del>or Short Term Firm Reference Tariff (as applicable)</del></p> <p><b>Imbalance Rate:</b> 250% of the Long Term Firm Reference Tariff <del>or Short Term Firm Reference Tariff (as applicable)</del></p> <p><b>Imbalance Allowance:</b> 5% (either positive or negative) of the sum of the MDQ for all Delivery Points</p> <p><b>Daily Variance Rate:</b> 250% of the Long Term Firm Reference Tariff <del>or Short Term Firm</del></p>

Clause	Amendment
	Reference Tariff (as applicable))
	<p><b>Daily Variance Allowance:</b> 5% (either positive or negative) of the MDQ for the applicable Delivery Point or Receipt Point</p>
	<p>Notes on Tariffs:</p> <ol style="list-style-type: none"> <li>1. Reference tariffs apply from the date on which the approval of the AER takes effect under Rule 62.</li> <li>2. These tariffs apply as at 1 July 2017 to the <u>a LTFS Firm Service</u>. For other services and terms, tariffs will be determined by negotiation.</li> <li>3. The minimum term for the <u>a Long Term Firm Service</u> is 3 years. <del>The minimum term for the Short Term Firm Service is one day.</del></li> <li>4. Refer to section 4 of this Access Arrangement for details of the charges to which the above rates and tariffs apply and the basis upon which they will be adjusted.</li> <li>5. These tariffs are quoted on a GST exclusive basis.</li> </ol> <p>[...]</p>
2.1	<p><b>Definitions</b></p> <p>[...]</p> <p><b>Capacity Trading Service</b> has the meaning given in section 2.3A of this Access Arrangement.</p> <p>[...]</p> <p><b>Gas Trade</b> means <u>an agreement between a Prospective User and another User for the sale and purchase of gas which is situated in the Covered Pipeline on account of or at the direction of the seller in accordance with a Transportation Agreement.</u></p> <p>[...]</p> <p><b>In-Pipe Trade Service</b> has the meaning given in section 2.3A of this Access Arrangement.</p> <p>[...]</p> <p><b>Intra-Day Nomination</b> means <u>a new or revised Nomination, for Services on a Day, given after the Nomination Deadline in respect of that Day, except Nominations that User must give to otherwise comply with this Access Arrangement (for example, for balancing or to provide System Use Gas).</u></p> <p>[...]</p> <p><b>Loan Service</b> has the meaning given in section 2.3A of this Access Arrangement.</p> <p>[...]</p> <p><b>Long Term Firm Service</b> has the meaning given in section 2.2.1 of this Access Arrangement.</p> <p><b>Parking Service</b> has the meaning given in section 2.3A of this Access Arrangement.</p> <p>[...]</p>

Clause	Amendment		
	<p>[...]</p> <p><b>Rebateable Service</b> has the meaning given in the NGR.</p> <p>[...]</p> <p><b>Schedule</b>, for a Day, means a determination made prior to the Day <u>(or, for any Intra-Day Nominations, made during the Day)</u> by the Service Provider (acting reasonably, in accordance with the Transportation Agreement and having regard to nominations of (and appropriate Receipt Point and Delivery Point allocations between) all Users, the capacity of the Pipeline, rights and obligations under Transportation Agreements and Good Engineering and Operating Practice) of the Service Provider's intended Schedules of receipt quantities and delivery quantities of Gas and quantities of Gas transported to the Brisbane hub on that Day under Transportation Agreements, as amended by the Service Provider for intra-day nominations (before or on the Day) or for operational reasons. Scheduled and Scheduling have corresponding meanings.</p>		
3	<p><b>Terms and conditions applying to the <u>Long Term</u> Firm Service</b></p> <p>1. Service Provider will provide the <u>Long Term</u> Firm Service to Users with whom it has a Transportation Agreement to provide the <u>Long Term</u> Firm Service, in accordance with the Terms and Conditions set out in this Schedule 3.</p> <p>[...]</p> <p>3. <u>For a Long Term Firm Service</u>, the User must give to Service Provider, at least 3 Days before the beginning of each Month, a completed Nomination for the <u>applicable</u> Firm Service for each day of the Month about to commence. If the User fails to provide such a Nomination by this time then its Nomination for each Day it has failed to give a Nomination will be deemed to be zero GJ.</p> <p>[...]</p> <p><u>10AA User may submit an Intra-Day Nomination for any service, in which case:</u></p> <ul style="list-style-type: none"> <li>(a) <u>Service Provider may accept or reject the Intra-Day Nomination, or any part of it, at its discretion and without liability to the user;</u></li> <li>(b) <u>Service Provider must, as soon as possible after receipt of the Intra-Day Nomination, advise User if and to the extent that Service Provider is prepared to accept the Intra-Day Nomination; and</u></li> <li>(c) <u>to the extent that Service Provider accepts the Intra-Day Nomination, the quantities of Gas to which the acceptance relates must be Scheduled by Service Provider in accordance with the terms and conditions of the Service under the Transportation Agreement to which the acceptance relates.</u></li> </ul>		
8	<p><b>Pro-forma Transportation Agreement</b></p> <p>[...]</p> <table border="0"> <tr> <td style="vertical-align: top;"><b>Services</b></td> <td style="padding-left: 20px;"> <u>Long Term</u> Firm Service            Authorised Overrun Service         </td> </tr> </table> <p>[...]</p>	<b>Services</b>	<u>Long Term</u> Firm Service Authorised Overrun Service
<b>Services</b>	<u>Long Term</u> Firm Service Authorised Overrun Service		



## A Transmission pipeline services

The box below provides an overview of a number of the services that are referred to in this attachment.

### Box A.1: Services provided by transmission pipelines

#### Transportation services

Transmission pipelines operating on a point-to-point basis usually offer:

- Forward haul services, which provide for the transportation of gas from a receipt point to a delivery point in the direction of the predominant flow of gas.
- Backhaul services, which involve the 'virtual transportation' of gas in the opposite direction to the predominant flow of gas. The term 'virtual transportation' is used in this context, because a backhaul service does not involve the physical transportation of gas. It instead involves a physical swap of gas at the point at which it is supplied into the pipeline for an equivalent amount of gas at the backhaul delivery point. To be able to provide this service, the volume of gas being backhauled must be less than, or equal to, the volume of gas to be transported on a forward haul basis, which is why it is offered on an as available or interruptible basis.

If a pipeline can physically flow in both directions across its full length (i.e. a bi-directional pipeline), then it will usually offer a single transportation service, which enables gas to be transported in either direction.

Forward haul and bi-directional services can be provided on:

- a firm basis – a firm service allows users to transport gas up to their maximum daily and hourly capacity reservation. The priority accorded to this service in terms of scheduling is higher than any other services and is the last service to be curtailed.
- an as available basis – an as available service allows users to transport gas without reserving and having to pay for capacity on a daily basis, if there is spare capacity available. The priority accorded to this service is lower than that accorded to a firm transportation service in terms of scheduling and is curtailed before firm services.
- an interruptible basis – an interruptible service also allows a buyer to transport gas without reserving and paying for capacity on a daily basis. However, the priority accorded to this service in terms of scheduling is usually lower than as available services and is usually curtailed ahead of both as available and firm services.

#### Storage services

Transmission pipelines may also be used to provide the following storage related services:

- Park services, which allow users to inject more gas into a pipeline than they take out on a particular day, up to a specified level and to store that gas in the pipeline. The additional gas supplied into the pipeline may be withdrawn by users at a later point in time, subject to constraints in their transportation contracts.
- Park and loan services, which in addition to allowing users to store gas on the pipeline, also allows users to inject less gas than it takes on any given day (a loan), up to a specified level.

### **Ancillary services**

Transmission pipelines can be used to provide a range of ancillary services, including:

- Renomination services, which enable users to amend their nominations after the nomination cut-off time, which is typically the afternoon before the gas day.
- In-pipe trade services, which enable gas to be traded between users at a notional point on the pipeline and allow users to manage their imbalances.
- Capacity trading services, which enables capacity traded between users to be managed by the pipeline operator rather than by the users (e.g. the user purchasing the capacity can make nominations directly to the pipeline rather than through the user selling the capacity). Note that the AEMC has recommended, as part of its capacity trading related reforms, that any trades carried out through the capacity trading exchange and day-ahead auction be given effect through this service. Pipeline operators will therefore have an effective monopoly on the provision of these services when the reform is implemented.