DRAFT DECISION
Roma to Brisbane Gas Pipeline Access Arrangement 2017 to 2022

Attachment 11 – Reference tariff variation mechanism

July 2017

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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

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Contents

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

11 Reference tariff variation mechanism

This attachment sets out our draft decision on the reference tariff variation mechanism that APTPPL has proposed for the Roma to Brisbane Pipeline (RBP) over the 2017–22 access arrangement period. The mechanism comprises both:

- an annual reference tariff variation mechanism, and
- a cost pass through mechanism.

11.1 Annual reference tariff variation

11.1.1 Draft decision

11.1.1.1 Tariff variation mechanism

Our draft decision is to accept APTPPL's proposal to employ individual price caps and to apply the following tariff variation mechanism proposed to the Long Term Firm Service (LTFS):

Figure 11-1: Draft decision reference tariff variation mechanism, RBP

$$RT_n = RT_{n-1} \times \left[1 + \frac{CPI_{n-1} - CPI_{n-2}}{CPI_{n-2}}\right] \times (1 - X)$$

As noted in Attachments 1 and 10, we have decided not to define the Short Term Firm Service (STFS) as a reference service. It is unnecessary therefore for us to approve the form of control or tariff variation mechanism for this service.

11.1.1.2 Process for annual assessment

The tariff variation mechanism provides for the LTFS reference tariff to be adjusted on 1 July each year, commencing on 1 July 2018. To enable this to occur, APTPPL will be required to provide us with a tariff variation proposal at least 50 business days prior to each 1 July. We will then be required to provide APTPPL with written notification of whether or not we approve the variation no later than 30 business days after receiving the tariff variation.

This time can be extended for a period of up to 90 business days if we require further information from APTPPL or other relevant parties. We must provide APTPPL with written notification of any time extensions.

11.1.2 Proposal

11.1.2.1 Tariff variation mechanism

APTPPL proposed the use of an individual price cap tariff variation mechanism for the 2017–22 access arrangement and also proposed to adjust the reference tariff on an annual basis using the formula below:

$$RT_n = RT_{n-1} \times \left[1 + \frac{CPI_n - CPI_{n-2}}{CPI_{n-2}}\right] \times (1 - X)$$

Where:

RT_n means the firm service tariff in year n.

n is the year in which the capacity tariff is to be applied.

RT_{n-1} is the firm service tariff to be adjusted in year n-1.

CPI is the consumer price index (All Groups–Weighted Average Eight Capital Cities) published quarterly by the Australian Bureau of Statistics. If the Australian Bureau of Statistics ceases to publish the quarterly value of that index, then CPI means the quarterly values of another Index which Service Provider reasonably determines most closely approximates that Index.

CPI_{n-1} is the Consumer Price Index for the March quarter applying in year n-1.[1]

CPI_{n-2} is the Consumer Price Index for the March quarter applying in the year n-2.

X is the X factor for each financial year of the 2017–22 access arrangement period as determined in the PTRM as approved in the AER's final decision, and annually revised for the changes in the Consumer Price Index and the return on debt.

11.1.2.2 Process for annual assessment

APTPPL has proposed that tariffs be adjusted on an annual basis on 1 July each year, which is in line with the approach adopted in the current access arrangement. To ensure that we have sufficient time to assess and approve the proposed tariff variation before they take effect, APTPPL has proposed the following process be followed:

- ATPPPL will provide us with tariff variation application 50 business days before 1 July each year.
- Within 30 business days of receiving the application, we will be required to provide it with our decision on whether tariffs have been approved or rejected. We will, however, have the power to extend this period up to a maximum of 90 business days if we consider additional information is required from APTPPL or other external parties, but we must provide APTPPL with written notice of any extension.

11.1.3 AER's assessment approach

Rule 92(2) of the NGR states that the reference tariff variation mechanism to be designed to equalise (in present value terms):[2]

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1 Note APTPPL has a typographical error in its proposed formula. It has $CPI_n - CPI_{n-2}$ in the numerator. It should have $CPI_{n-1} - CPI_{n-2}$ in the numerator. We have taken that into account when making this draft decision.

- forecast revenue from reference services over the access arrangement period, and
- the portion of total revenue allocated to reference services for the access arrangement period.

Rule 97 also states that the tariff variation mechanism may provide for variation of a reference tariff:[3]

- in accordance with a schedule of fixed tariffs,
- in accordance with a formula set out in the access arrangement,
- as a result of a cost pass through for a defined event, or
- by the combined operation of two or more of these.

A formula for variation of a reference tariff may (for example) provide for variable caps on the revenue to be derived from a particular combination of reference services, a tariff basket price control, a revenue yield control or a combination of all or any of these.[4]

In deciding whether a particular reference tariff variation mechanism is appropriate to a particular access arrangement, the NGR require us to have regard to:[5]

- the need for efficient tariff structures; and
- the possible effects of the reference tariff variation mechanism on administrative costs of the AER, the service provider, and users or potential users; and
- the regulatory arrangements (if any) applicable to the relevant reference services before the commencement of the proposed reference tariff variation mechanism; and
- the desirability of consistency between regulatory arrangements for similar services (both within and beyond the relevant jurisdiction); and
- any other relevant factor.

A reference tariff variation mechanism must give us adequate oversight or powers of approval over variation of the reference tariff.[6]

In deciding whether a particular reference tariff variation mechanism is appropriate to a particular access arrangement, other factors we have regard to include:[7]

- the nature and scope of the reference services to which the reference tariffs are applicable

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2 NGR, r. 92(2).
3 NGR, r. 97(1).
4 NGR, r. 97(2).
5 NGR, r. 97(3).
6 NGR, r. 97(4).
7 NGR, r. 97(3)(e).

- how the proposed mechanism compares to that which applied under the current access arrangement, and to those that apply to other network service providers from our recent decisions
- the potential impact of the proposed mechanism on the service provider's incentives under the access arrangement to operate its network—and manage its risks—in a manner consistent with the National Gas Objective (NGO) and Revenue and Pricing Principles (RPPs)
- in the case of cost pass through events, the considerations discussed in section 11.2.3 below.

The reference tariff variation mechanism is an area of our decision over which we have full discretion. This means that we may not approve a proposed reference tariff variation mechanism if we consider a preferable alternative exists that complies with the applicable requirements of the NGL.[8]

11.1.4 Reasons for draft decision

APTPPL is currently subject to an individual price cap form of control and we approve the maintenance of this form of control for the LTFS over the 2017–22 access arrangement. We also approve APTPPL's proposed tariff variation mechanism for the LTFS, which is similar to the mechanism used in the current access arrangement, and the access arrangements for other gas service providers that we regulate. We have adjusted the formula to correct for a typographical error, where CPI $_{n-1}$ should replace CPI_n in the numerator.

Our draft decision on the reference tariffs that will apply to the LTFS in the first year of the access arrangement period (i.e. 1 July 2017 – 30 June 2018) are set out in the table below. These initial tariffs reflect our draft decisions on APTPPL's revenue requirement (see Attachments 2-9) and the demand forecasts (see Attachment 13).

Table 11-1: LTFS tariff, 2017–18

Reference Service	Year	Tariff ($/GJ of MDQ)
Long term firm service	2017–18	$0.6843

From 1 July 2018 to the end of the access arrangement period, the LTFS reference tariff will be adjusted on an annual basis using the control mechanism**Error! Reference source not found.** in Figure 11-1 which is reproduced below: :

$$RT_n = RT_{n-1} \times \left[1 + \frac{CPI_{n-1} - CPI_{n-2}}{CPI_{n-2}}\right] \times (1 - X)$$

Where:

8 NGR, rr. 40(3), 92, 97.

RT_n means the long term firm service tariff in year n.

n is the year in which the adjusted long term firm service tariff is to be applied.

RT_{n-1} is the long term firm service tariff to be adjusted in year n-1.

CPI is the consumer price index (All Groups–Weighted Average Eight Capital Cities) published quarterly by the Australian Bureau of Statistics. If the Australian Bureau of Statistics ceases to publish the quarterly value of that index, then CPI means the quarterly values of another Index which Service Provider reasonably determines most closely approximates that Index.

CPI_{n-1} is the Consumer Price Index for the March quarter applying in year n-1. For tariffs in year 2018–19, n-1 is March quarter 2018.

CPI_{n-2} is the Consumer Price Index for the March quarter applying in the year n-2. For tariffs in year 2018–19, n-2 is the March quarter 2017.

X is the X factor for each financial year of the 2017–22 access arrangement period as determined in the PTRM as approved in the AER's final decision, and annually revised for the changes in the return on debt.

As noted in the introduction to this attachment, we have decided not to define the STFS as a reference service, so it is unnecessary for us to approve the form of control or tariff variation mechanism for this service.

11.1.4.1 Process for annual assessment

We approve APTPPL's proposal to provide us with a tariff variation application with sufficient time for the proposed tariffs to be assessed and approved. The 50 business day notification period also provides users with adequate advance notice of impending changes to tariffs.

Our tariff approval assessment will determine if APTPPL's proposed tariffs to apply from 1 July 2018 onwards comply with the price controls set out in the approved access arrangement.

This process is similar to what has occurred in past access arrangements for APTPPL and other gas and electricity service providers we regulate and is therefore consistent with established regulatory practice.

We also approve APTPPL’s proposal to provide it with formal notification on whether the proposed tariffs have been approved no later than 30 business days after we have received them. Likewise, we approve the proposal to allow us to extend the time it takes to make a decision by up to a maximum of 90 business days, should we require additional information to inform our approval decision.

APTPPL and the AER will publish the approved tariffs on their respective websites.

11.2 Pass through events

11.2.1 Draft decision

We approve APTPPL's proposed cost pass through mechanism and seven of its eight pass through event categories, with amendments to six of the definitions as set out in Table 11-2 below.

We do not approve APTPPL's proposed carbon cost event.

We require APTPPL to remove this pass through event and all references to it from the AA proposal.

11.2.2 Proposal

APTPPL proposed the same pass through mechanism as the one we approved for its current access arrangement. In summary:[9]

- The service provider must notify the regulator within 90 business days of a cost pass through event occurring, regardless of whether it will lead to an increase or a decrease in reference tariffs.
- The service provider must notify the regulator of the cost impact as soon as this is known or can reasonably be estimated, and must verify that the costs are net of any payments by an insurer or third-party which offsets the financial impact of the event.
- The regulator will notify the Service Provider of its decision to approve or reject the proposed adjustments within 90 business days plus any required extension of time.
- The regulator will, in deciding on a pass through application, give consideration to:
    - whether the costs are for the delivery of pipeline services
    - whether the costs are incremental to the costs already allowed in the reference tariff
    - whether the costs are building block components of total revenue, and
    - whether the costs meet the NGR criteria for determining total revenue.
- Any adjustment to the reference tariffs as a result of a cost pass through will occur on 1 July of any year.

11.2.3 Assessment approach

The NGR state that a reference tariff variation mechanism may provide for the variation of a reference tariff:[10]

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9 APTPPL, *Roma to Brisbane Pipeline proposed revised access arrangement 2017-22,* September 2016, cl. 4.5.3

10 NGR, r. 97(1)(c)

as a result of a cost pass through for a defined event (such as a cost pass through for a particular tax).

As a component of the reference tariff variation mechanism, a cost pass through mechanism must be assessed having regard to the matters in rule 97(2)[11] of the NGR and must give us adequate oversight and power to approve reference tariff variations.[12]

We must approach this assessment in a manner likely to contribute to the achievement of the National Gas Objective (NGO),[13] which states that the purpose of the NGL is to promote efficient investment, operation and use of natural gas services for the long term interest of consumers with regard to price, quality, safety and security of supply.[14]

In addition, we must take into account the Revenue and Pricing Principles (RPPs) whenever we exercise discretion in approving or making those parts of an access arrangement relating to a reference tariff.[15] The RPPs state that the service provider should be provided with a reasonable opportunity to recover at least the efficient costs incurred in providing reference services and complying with a regulatory obligation or requirement.[16] They also provide incentives to promote economic efficiency.[17] Together, the RPPs promote a balance between the economic costs and risks of the potential for under and over investment by a service provider, to promote efficient investment.[18]

In the context of pass through events, the RPPs require particular regard to the impact on price, quality, safety, reliability and security of supply that may arise as a result of any change in the efficient operation of, and ability and incentive of, a service provider to invest in its network.[19]

Our decision on the cost pass through mechanism includes a decision on what categories of event to approve.[20] In approaching this part of our task we also take into account the following considerations:[21]

- whether the type of event is covered by another category of pass through event;
- whether the nature or type of event can be clearly identified at the time the access arrangement is approved for the service provider;

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11 In summary: efficient reference tariff structures; administrative costs; prior regulatory arrangements; consistency between regulatory arrangements; any other relevant factor.

12 NGR, r. 97(3).

13 NGL, s. 28(1)(a).

14 NGL, s. 23.

15 NGL, s. 28(2)(a).

16 NGL, s. 24(2).

17 NGL, s. 24(3).

18 NGL, s. 24(6).

19 NGL, s. 23; See also AEMC, *Cost pass through arrangements for Network Service Providers, Rule Determination,* 2 August 2012, p. 6.

20 NGR, r. 97(1)(c).

21 NGR, r. 97(3)(e).

- whether a prudent service provider could reasonably prevent an event of that nature or type from occurring or substantially mitigate the cost impact of such an event;
- whether the relevant service provider could insure against the event, having regard to:
- the availability (including the extent of availability in terms of liability limits) of insurance against the event on reasonable commercial terms; or
- whether the event can be self-insured on the basis that it is possible to calculate the self-insurance premium; and the potential cost to the relevant service provider would not have a significant impact on the service provider's ability to provide network services.

These considerations appear in the National Electricity Rules (NER), where they guide the regulator's decision on whether to approve additional categories of pass through event beyond those already included in the NER.[22] We consider they are consistent with the factors referred to in NGR (r. 97(2)), and pertinent to our examination of the degree to which a proposed category of event is likely to contribute to the achievement of the NGO.[23]

The Australian Energy Market Commission (AEMC) described the purpose of these considerations as:

- to incorporate and reflect the essential components of a cost pass through regime. It was intended that in order for appropriate incentives to be maintained, any nominated pass through event should only be accepted when event avoidance, mitigation, commercial insurance and self-insurance are unavailable. That is, a cost pass through event is the least efficient option for managing the risk of unforeseen events.[24]
- that a pass through event should only be accepted when it is the least inefficient option and event avoidance, mitigation, commercial insurance and self-insurance are found to be inappropriate. That is, it is included after ascertaining the most efficient allocation of risks between a service provider and end customers.[25]

Viewing pass throughs as a 'last resort' and accepting them only when event avoidance, mitigation and insurance are unavailable, is consistent with the RPPs and will contribute to the achievement of the NGO. It maintains the incentives on service providers to use market based mechanisms to mitigate the cost impacts that would

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22 NER, cll. 6.5.10(b), 6A.6.9(b); NER Chapter 10: Glossary, definition of 'nominated pass through event considerations'.

23 NGR, r. 100(1).

24 AEMC, *Cost pass through arrangements for Network Service Providers, Rule Determination,* 2 August 2012, p. 19.

25 AEMC, *Cost pass through arrangements for Network Service Providers, Rule Determination,* 2 August 2012, p. 20.

arise if the event is triggered.[26] In turn, this promotes the efficient investment in, and efficient operation and use of, natural gas services for the long term interests of consumers with respect to price.[27]

We also look to promote consistency in our approach to pass through categories across our electricity determinations and gas access arrangements.[28]

11.2.3.1 Interrelationships

Tariffs are derived from the total revenue requirement after consideration of demand for each tariff category. APTPPL operates under a weighted average tariff cap. This means the tariffs we determine (including the means of varying the tariffs from year to year) are the binding constraint across the 2017–22 access arrangement period, rather than the total revenue requirement set in our decision.[29] Except as provided by a reference tariff variation mechanism, a reference tariff is not to vary during the course of an access arrangement period.[30]

In assessing and approving a reference tariff variation mechanism, we consider the potential impact of the proposed mechanism on the service provider's incentives under the access arrangement to operate its network—and manage its risks—in a manner consistent with the NGO and RPPs.[31]

The pass through component of the reference tariff variation mechanism is also interrelated with other parts of this decision, in particular with the forecast opex,[32] capex[33] and rate of return[34] included in our forecast revenue requirement. These interrelationships require us to balance the incentives in the various parts of our decision.

Pass through events are one way, but not the only way, in which service providers can manage their risks under an access arrangement. For systemic risks, service providers are compensated through the allowed rate of return. Service providers also face business–specific, or residual, risks. Service providers are compensated for the prudent and efficient management of these risks through the forecast opex and capex we include in our forecast revenue requirement for strategies such as:

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26 NGL, s. 24(3); AEMC, *Cost pass through arrangements for Network Service Providers, Rule Determination,* 2 August 2012, p. 8.

27 NGL, s. 23; AEMC, *Cost pass through arrangements for Network Service Providers, Rule Determination,* 2 August 2012, p. 8.

28 See NGR r. 97(2)(d) and (e).

29 Where actual demand across the 2016–21 access arrangement period varies from the demand forecast in the access arrangement, APTPPL's actual revenue will vary from the revenue allowance determined in our decision. In general, if actual demand is above forecast demand, APTPPL's actual revenue will be above forecast revenue, and vice versa.

30 NGR, r. 97(5).

31 NGL, ss. 23, 24.

32 See Attachment 7 (Operating expenditure) to this draft decision.

33 See Attachment 6 (Capital expenditure) to this draft decision.

34 See Attachment 3 (Rate of return) to this draft decision.

- prevention (avoiding the risk)
- mitigation (reducing the probability and impact of the risk)
- insurance (transferring the risk to another party)
- self-insurance (putting aside funds to manage the likely costs associated with a risk event).

An efficient business will manage its risk by employing the most cost effective combination of these strategies. In order to maintain appropriate incentives under an access arrangement, we only accept pass through events where we are satisfied that event avoidance, mitigation, commercial insurance and self-insurance under approved forecasts of prudent and efficient opex and capex are either unavailable or inappropriate.[35]

For smaller expenditure a service provider should generally utilise its existing expenditure allowance or reprioritise its work program rather than seeking approval of a pass through.[36] This is reflected in the materiality threshold that applies to applications for cost pass through under the approved access arrangement.[37]

Cost pass through amounts approved in an access arrangement period are added to forecast opex for the purpose of calculating efficiency carryover amounts under the efficiency carryover mechanism in the approved access arrangement.[38]

11.2.4 Reasons for draft decision

11.2.4.1 Consistency

APTPPL's submission does not specifically address its proposed pass through mechanism. Its proposal contains pass through events and assessment processes substantially identical to those in its access arrangement for 2012-2017.

We considered pass through mechanisms in a number of decisions in 2015 and 2016, and have progressed towards a largely consistent set of definitions for common pass through events.[39] The amendments set out in Table 11-2 align the definitions with those in other recent access arrangements and electricity determinations. The changes beyond those which are merely stylistic are discussed below.

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35 This is consistent with the AEMC's conclusions in its review of the NER pass through arrangements. See: AEMC, Cost pass through arrangements for Network Service Providers, Rule Determination, 2 August 2012, pp. 19–20.

36 This is consistent with the AEMC's conclusions in its review of the NER pass through arrangements. See: AEMC, *Economic Regulation of Network Service Providers, and Price and Revenue Regulation of Gas Services, Final Rule Determination*, 29 November 2012, p. 186.

37 AER, *Approved Access Arrangement for the Amadeus Gas Pipeline - 1 July 2016 to 30 June 2021*, May 2016, cl. 4.7.3, definition of 'materiality threshold'.

38 AER, *Approved Access Arrangement for the Amadeus Gas Pipeline - 1 July 2016 to 30 June 2021*, May 2016, cl. 8.1(i); See Attachment 9 (Efficiency carryover mechanism) to this draft decision.

39 AER, *Amadeus Gas Pipeline Access Arrangement Final Decision 2016-21*, May 2016.

Firstly, a number of our required amendments identify certain factors which we will have regard to when determining a pass through application. These go to the degree to which the service provider has insured against or mitigated the impact of the event. These affect the following pass through events:

- Insurance cap event
- Insurer credit risk event
- Natural disaster event, and
- Terrorism event (in relation to which we also identify that we will have regard to whether a government authority has declared that an act of terrorism has occurred).

Secondly, we require amendments the Natural Disaster Event to remove the words 'materially' and 'major' to avoid confusion with the materiality threshold of one percent of forecast revenue that an event must cause before a pass through will be allowed. We also require an amendment to the effect that a natural disaster caused by the service provider is not covered.

Thirdly, we require amendments to limit the Regulatory Change Event and the Service Standard Event to regulatory and service standard changes which substantially affect the manner in which a service provider provides the reference service. This aligns the access arrangement with the corresponding provisions of the NER.[40]

11.2.4.2 Carbon costs

APTPPL's proposal includes a 'carbon cost' pass through event, defined as follows:[41]

> An event that occurs if, for a given Regulatory Year of the Access Arrangement Period, the total carbon cost incurred (part of which maybe an estimate) by Service Provider in complying with the carbon pricing mechanism established under the Clean Energy Act 2011 (Cth) and associated legislation related to the management of greenhouse gas for that Regulatory Year is higher or lower than the forecast amount for that Regulatory Year set out in table 5.1 of Service Provider's Access Arrangement Information. The carbon cost event is taken to have occurred at the time that it is possible for the Service Provider to calculate the carbon costs it has incurred for a Regulatory Year without use of estimation.

APTPPL's proposed process for a carbon cost pass-through differs from the other categories (see above) in that:

- there is an express requirement that the Service Provider apply for a pass-through if the carbon cost occurrence materially decreases the cost of providing the reference service (cl. 4.5.2),[42] and

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[40] NER, Part 10 Glossary, definition of Regulatory Change Event and Service Standard Event.

[41] APTPPL, *Roma to Brisbane Pipeline proposed revised access arrangement 2017-22*, September 2016, cl. 4.5.2.

- the materiality threshold does not apply to the carbon cost event (cl. 4.5.3).

The AER approved the same carbon cost definition and process for the 2012-17 RBP Access Arrangement. That decision also approved an opex allowance for forecast carbon costs,[43] with the pass-through intended to allow trueing-up of forecast against actual carbon costs once these were known.[44] However APTPPL's current proposal does not contain specific opex forecasts for carbon costs, so the intended operation of the clause is unclear.

In response to our inquiries APTPPL:[45]

- agreed the reference to the Clean Energy Act should be removed, but confirmed its desire to include a carbon cost event
- stated the tax change event cannot be relied upon as it may not cover the costs of establishing and administering systems to comply with a new carbon scheme (e.g. participating in a mandatory cap and trade scheme), and the scheme itself may not consist of a 'tax'
- stated the regulatory change event is unsuitable as it requires "a material change to the way we operate the pipeline,"[46] and
- indicated it wishes to exclude the materiality threshold (as in RBP Access Arrangement 2012-17), to allow it to recover even minor costs through the pass through mechanism.

Carbon cost pass through events were included in a number of access arrangements around the time of the Clean Energy Act.[47] That scheme has now been repealed, and the definition no longer refers to a specific carbon or greenhouse gas management scheme. We cannot assess at this point in time whether the cost impact of a future scheme will best be managed by a service provider or its customers. Likewise we cannot assess the degree to which those costs can be foreseen, prevented or mitigated.

The Regulatory Change Event and the Tax Change Event potentially allow for pass through of costs of a carbon abatement scheme, subject to the AER's assessment and meeting the materiality threshold. While some earlier decisions did not apply a materiality threshold to carbon cost pass throughs, we are no longer persuaded this is

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[42] The service provider is also required to notify of the occurrence of pass through events other than a Carbon Cost Event:. APTPPL, *Roma to Brisbane Pipeline proposed revised access arrangement 2017-22*, September 2016, cl. 4.5.4.

[43] AER, *Final Decision – APT PPL Access arrangement Roma to Brisbane Pipeline, 2012-13 to 2016-17,* August 2012, p. 100.

[44] AER, *Final Decision – APT PPL Access arrangement Roma to Brisbane Pipeline, 2012-13 to 2016-17,* August 2012, p. 43.

[45] APTPPL, *Reply to information request 18*, 2 November 2016.

[46] APTPPL's reply slightly misstates this requirement: the relevant element of the regulatory change event is that the change 'substantially affects the manner in which the service provider provides the reference service.'

[47] The current access arrangements for the RBP and the Victorian Transmission System are two examples.

appropriate. As with all other pass throughs, these costs should be subject to the materiality threshold, with service providers expected to utilise existing allocations or reprioritise its work program for smaller expenditure.[48]

[48] This is consistent with the AEMC's conclusions in its review of the NER pass through arrangements. See: AEMC 2012, *Economic Regulation of Network Service Providers, and Price and Revenue Regulation of Gas Services, Final Rule Determination*, 29 November 2012, Sydney, p. 186.

Table 11-2 Pass through events

This table sets out our approved pass through event categories with AER required revisions

Category	Definition
Insurance cap event	An event that would be covered by an insurance policy but for the amount that materially exceeds the policy limit, and as a result the Service Provider must bear the amount of that excess loss. For the purposes of this Cost Pass Through Event, the relevant policy limit is the greater of the actual limit from time to time and the limit under the Service Provider's insurance cover at the time of making this Access Arrangement. This event excludes all costs incurred beyond a cap that are due to the Service Provider's negligence. This also excludes all liability arising from the Service Provider's unlawful conduct. Insurance Cap Event means an event where: (a) the Service Provider makes a claim or claims and receives the benefit of a payment or payments under a relevant insurance policy; (b) the Service Provider incurs costs beyond the policy limit; and (c) the costs beyond the policy limit increase the costs to the Service Provider of providing the Reference Service. For this Insurance Cap Event: (d) a relevant insurance policy is an insurance policy held during the Access Arrangement Period or a previous period in which access to the pipeline services was regulated; and (e) the Service Provider will be deemed to have made a claim on a relevant insurance policy if the claim is made by a related party of the Service Provider in relation to any aspect of the Network or the Service Provider's business. Note in making a determination on an Insurance Cap Event, the AER will have regard to, amongst other things:

Category	Definition
	(i) the insurance policy for the event; (ii) the level of insurance that an efficient and prudent Service Provider would obtain in respect of the event; and (iii) any assessment by the AER of the Service Provider's insurance in approving the access arrangement for the RBP for the relevant period.
Insurer credit risk event	Insurer Credit Risk Event means an event where the insolvency of the insurers of Service Provider occurs, : (a) an insurer of the Service Provider becomes insolvent, and (b) as a result, in respect of an existing or potential claim for a risk that was insured by the insolvent insurer, of which the Service Provider: (a) incurs materially higher or materially lower costs for insurance premiums than those allowed for in the Access Arrangement; or (b) in respect of a claim for a risk that would have been insured by Service Provider's insurers, is subject to a materially higher or lower claim limit or a materially higher or lower deductable that would have applied under that policy; or (i) is subject to a higher or lower claim limit or higher or lower deductible than would have otherwise applied under the insolvent insurer's policy; or (ii) incurs additional costs associated with self-funding an insurance claim, which would have otherwise been covered by the insolvent insurer. Note for the avoidance of doubt, in making a determination on an Insurer Credit Risk Event, the AER will have regard to, amongst other things: (i) the Service Provider's attempts to mitigate and prevent the event from occurring by reviewing and considering the insurer's

Category	Definition
	track record, size, credit rating and reputation, and (ii) in the event that a claim would have been made after the insurance provider became insolvent, whether the Service Provider had reasonable opportunity to insure the risk with a different provider.
Natural disaster event	Natural disaster event means any natural disaster including but not limited to major fire, flood or earthquake or other natural disaster beyond the control of Service Provider (but excluding those events for which external insurance or self-insurance has been included within the Service Provider's forecast operating expenditure) that occurs during the access arrangement period and materially increases the costs to the Service Provider in providing the Reference Firm Service, provided the fire, flood or other event was not a consequence of the acts or omissions of the Service Provider. Note for the avoidance of doubt, in making a determination on a Natural Disaster Event, the AER will have regard to, amongst other things: (a) whether the Service Provider has insurance against the event, and (b) the level of insurance that an efficient and prudent service provider would obtain in respect of the event.
Regulatory change event	An imposition of, a A change in, or the removal of a regulatory obligation or requirement that: (a) falls within no other category of pass through event; and (b) occurs during the course of an access arrangement period; and (c) substantially affects the manner in which the Service Provider provides the Reference Service(as the case requires); and (d) materially increases or materially decreases the costs of providing those services.
Service standard	A legislative or administrative act or decision that: (a) has the effect of:

Category	Definition
event	(i) substantially varying, during the course of an access arrangement period, the manner in which a Service Provider is required to provide the Reference Service; or (ii) imposing, removing or varying, during the course of an access arrangement period, minimum service standards applicable to the Reference Service; or (iii) altering, during the course of an access arrangement period, the nature or scope of the Reference Service, provided by the Service Provider; and (b) materially increases or materially decreases the costs to the Service Provider of providing the Firm Service.
Tax change event	A tax change event occurs if any of the following occurs during the course of the access arrangement period for Service Provider: (a) a change in a relevant tax, in the application or official interpretation of a relevant tax, in the rate of a relevant tax, or in the way a relevant tax is calculated; (b) the removal of a relevant tax; (c) the imposition of a relevant tax; and in consequence, the costs to Service Provider of providing the Reference Service are materially increased or decreased.
Terrorism event	Terrorism event means an act (including, but not limited to, the use of force or violence or the threat of force or violence) of any person or group of persons (whether acting alone or on behalf of or in connection with any organisation or government), which: (a) from its nature or context is done for, or in connection with, political, religious, ideological, ethnic or similar purposes or reasons (including the intention to influence or intimidate any government and/or put the public, or any section of the public, in fear); and

Category	Definition
	(b) increases the cost to the Service Provider in providing a Reference Service. Note for the avoidance of doubt, in making a determination on a Terrorism Event, the AER will have regard to, amongst other things: (i) whether the Service Provider has insurance against the event; (ii) the level of insurance that an efficient and prudent service provider would obtain in respect of the event; and (iii) whether a declaration has been made by a relevant government authority that an act of terrorism has occurred.