



**FINAL DECISION  
APT Pipelines (NT)  
Gas Distribution Determination**

**2021 to 2026**

**Reference Service**

November 2019

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## Note

This AER final decision applies to APTNT's reference service proposal for the 2021–26 gas access arrangement period commencing 1 July 2021 to 30 June 2026.

Under the National Gas Rules (NGR), gas network service providers are required to submit their reference service proposals to the AER twelve (12) months in advance of the submission date for their access arrangement revisions proposal.

The NGR require us to complete our assessment of a reference service proposal no later than six (6) months in advance of the due date for submission of the relevant access arrangement revisions proposal.

APTNT's access arrangement revisions submission date is 1 July 2020. We are required to conclude our assessment no later than 1 January 2020.

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## Shortened forms

Shortened form	Extended form
AA	access arrangement
AEMC	Australian Energy Market Commission
AER	Australian Energy Regulator
AGP	Amadeus Gas Pipeline
APTNT	APT Pipelines (NT) Pty Limited
Cl.	clause
NGR	National Gas Rules

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# 1 Overview

The Australian Energy Regulator (AER) works to make all Australian energy consumers better off, now and in the future. We regulate energy networks in all jurisdictions except Western Australia. We set the amount of revenue that network businesses can recover from customers for using these networks.

The National Gas Law and Rules (NGL and NGR) provide the regulatory framework governing gas transmission and distribution networks. Our work under this framework is guided by the National Gas Objective (NGO):<sup>1</sup>

to 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

APT (NT) (APTNT) provides reticulated natural gas pipeline services in Northern Territory via the Amadeus Gas Pipeline (AGP).

APTNT was required to submit its reference service proposal by 1 July 2019, however we agreed to a deferral until 1 August 2019. This deferral was granted to allow APTNT to consult with stakeholders both in the Northern Territory and more broadly.<sup>2</sup> APTNT submitted to the AER a reference service proposal for its gas distribution network for the 2021/22 – 2025/26 access arrangement period. We have assessed the proposal against the requirements set out in the NGR.

APTNT proposed a firm transportation service as the single reference service on the AGP; continuing on from the current access arrangement as the sole reference service that APTNT offer on the AGP.

We published APTNT's proposal on the AER website and called for submissions. Although we received no submissions before our submission deadline we did receive a late submission from Central Petroleum (Central).

Central submitted that as all firm capacity is currently contracted; companies seeking access to services on the Amadeus pipeline must use services other than firm transportation. Therefore, as-available transportation, interruptible transportation, park and loan, and in-pipe trade should all be made reference services.

We then gave APTNT the opportunity to respond to Central's submission. APTNT submitted it currently has no scope to offer as-available transportation, and park and loan services as all firm capacity is contracted. There are also engineering limitations on the pipeline associated with its age and limited compressor capacity. APTNT further submitted there has never been an instance of in-pipe trade occurring therefore cost

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<sup>1</sup> *National Gas (South Australia) Act 2008*, s. 23.

<sup>2</sup> Our decision to grant the deferral requested by APTNT was influenced by the relatively short time between establishment of the new regulatory requirements for a separate reference service proposal and the due date for APTNT's reference service proposal. The new requirements are discussed further in section 2 of this paper.

allocation is not feasible. As for interruptible transportation, APTNT submitted that setting a reference tariff for interruptible transportation is difficult because the volume of the service which might be provided is difficult to forecast, and therefore so is the value for the service to an average user.

In conducting our analysis of Central's submission we compared each of the services proposed to the reference service factors as specified in the NGR. Based on that assessment and the available evidence about the pipeline's operational capacity the only service proposed by Central which warrants being made a reference service, in addition to the current firm transportation service, is interruptible transportation.

Our final decision is to establish firm transportation and interruptible transportation as reference services. This decision is consistent with the objectives of the AEMC's rule change, in addition to reflecting the reference service factors.

We may amend this decision in the context of our assessment of APTNT's access arrangement revisions proposal, if a material change in circumstances arises.<sup>3</sup>

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<sup>3</sup> NGR, cl. 48(1a).

## 2 Background

This section discusses the new reference service requirement in the NGR and describes APTNT's AGP.

### 2.1 APTNT's AGP

The AGP is a transmission pipeline which extends approximately 1,600 kilometres from the Amadeus Basin, in central Australia, to Darwin. It transports natural gas to Darwin, Alice Springs, and other regional centres; principally to fuel electricity generation.

### 2.2 Background

In March 2019, the Australian Energy Market Commission (AEMC) made a final determination to implement a range of improvements to regulation of covered transmission and distribution gas pipelines across Australia.<sup>4 5</sup>

Within this package of reforms the AEMC introduced a new approach to determine which pipeline services should be specified as reference services for a full regulation pipeline's access arrangement. This included:<sup>6</sup>

- a new process requiring identification of reference services at the start of an access arrangement assessment process
- new criteria for determining appropriate reference services.

#### 2.2.1 New process

In terms of process, gas network service providers (NSPs) are now required to submit a separate reference service proposal to the AER for assessment. Previously, a reference service proposal was an element of a NSP's broader access arrangement revisions proposal.

Further, NSPs must now submit their reference service proposals to the AER twelve (12) months in advance of the submission date for their access arrangement revisions proposal.

The amended NGR require us to complete our assessment of a reference service proposal no later than six (6) months in advance of the due date for submission of the relevant access arrangement revisions proposal.

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<sup>4</sup> Covered pipelines are those pipelines that are regulated under Parts 8 to 12 of the National Gas Rules by the Australian Energy Regulator or the Economic Regulation Authority of Western Australia.

<sup>5</sup> AEMC, *Regulation of covered pipelines*, March 2019.

<sup>6</sup> NGR, cl. 47A.



APTNT's access arrangement revisions submission date is 1 July 2020.<sup>7</sup> This means APTNT was required to submit its reference service proposal to the AER by no later than 1 July 2019. However, we agreed to a deferral of its submission until 1 August 2019 so APTNT could consult with stakeholders. We are required to conclude our assessment no later than 31 December 2019.

## 2.2.2 Criteria

In preparing its reference service proposal and in undertaking our assessment, the NGR require APTNT and ourselves to have regard to the reference service factors specified in the NGR.<sup>8</sup> The factors include:<sup>9</sup>

- the actual and likely demand for the pipeline's services and the number of prospective users
- the extent to which the pipeline service is substitutable with another service
- the feasibility of allocating costs to the pipeline service
- the usefulness of specifying the pipeline service as a reference service in supporting negotiations and dispute resolution
- likely regulatory costs for all parties in specifying the pipeline service as a reference service.

Relevant elements of cl. 47A are listed in our detailed compliance assessment in section 4 of this decision paper.

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<sup>7</sup> Access arrangement revisions for the 2021/22 to 2025/26 access arrangement period.

<sup>8</sup> NGR, cl. 47A(1)(c); 47A(13)(a); 47A(14).

<sup>9</sup> NGR, cl. 47A(15).

## 3 APTNT's reference service proposal

This section outlines APTNT's reference service proposal including the stakeholder consultation it undertook in developing its proposal.

### 3.1 APTNT's stakeholder consultation

APTNT submitted that it undertook stakeholder consultation in two ways, by:<sup>10</sup>

- engaging with its existing and prospective pipeline users, and the operators of interconnected pipelines
- engaging with a wider group, principally in the Northern Territory, who might represent end users, or who might be interested in energy supply and use,.

#### 3.1.1 APTNT's existing and prospective users, and interconnected pipeline operators

APTNT submitted that it:

- contacted and provided AGP reference service information to its existing users, prospective users, and interconnected pipeline operators
- offered to discuss, individually, with each of these stakeholders possible reference services for the AGP.

APTNT submitted that in response to the offer to discuss possible reference services:

- three of the existing and prospective users agreed to meet APTNT and discuss possible reference service decisions; in these meetings discussion revolved around the services that each user would be seeking to access
- one of the prospective users stated that

"...it would be seeking either directly (itself), or indirectly through a provider of power generation services, access to firm transportation service on the AGP."<sup>11</sup>

- one of the operators of the pipelines which interconnects with the AGP advised that:

"...it did not have a strong interest in reference services on interconnected pipelines. Reference services were a matter for the users of those pipelines."<sup>12</sup>

#### 3.1.2 APTNT's potentially interested stakeholders

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<sup>10</sup> APTNT, *Reference service proposal*, July 2019, p.18.

<sup>11</sup> APTNT, *Reference service proposal*, July 2019, p.19.

<sup>12</sup> APTNT, *Reference service proposal*, July 2019, p.19.

APTNT additionally submitted it met with a number of other stakeholders, including:

- four end users of gas supplied from the Darwin distribution network
- 19 Territory-based organisations who potentially represent end users
- six government agencies, including five Northern Territory Government agencies.

APTNT submitted that once identified each stakeholder was:

- telephoned and provided with an overview of the process
- invited to attend a workshop to be held in Darwin
- provided with an information pack containing information on the AGP, the reference service proposal process, and on the services that can reasonably be provided using the pipeline.

In total 24 organisations across various industry and government sectors were invited to participate in the workshop, while six people attended representing two end user representative groups and three Northern Territory Government agencies.

APTNT stated that during the workshop it became clear that:

“Participants were not concerned with the specification of pipeline reference services”, rather they were “interested in the pricing of pipeline services, and the way that tariffs might feed through to the prices paid by domestic residential electricity consumers in the Northern Territory.” Or “were concerned with future development of the AGP in the context of a changing Northern Territory energy sector.”<sup>13</sup>

## 3.2 APTNT’s reference service proposal

### Reference services

APTNT proposed a firm transportation service as the single reference service on the AGP.

A firm transportation service is a service between any AGP receipt point and any delivery point on the pipeline where gas is transported between the two. APTNT has limited ability to interrupt or curtail the service without incurring liability.

### Non-reference services

In addition to the reference services listed above, APTNT proposed to offer several non-reference services:<sup>14</sup>

- interconnection

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<sup>13</sup> APTNT, *Reference service proposal*, July 2019, p.22.

<sup>14</sup> APTNT, *Reference service proposal*, June 2019, pg.23-28.

- in-pipe trade
- operational capacity transfer
- parking and loan
- interruptible transportation.

APTNT noted that the non-reference services it proposed to offer have low to zero demand, other than interruptible transportation, or are offered as a service in addition to firm transportation. Nonetheless, APTNT submitted that there is only demand for an interruptible transportation service because firm transport on the AGP is currently at its maximum limit.

In addition APTNT stated that it is difficult to allocate specific costs to interruptible transportation as it is entirely dependent on the terms and conditions of the arrangement. Therefore, in APTNT's view, just because one contract has a certain value does not mean every contract for interruptible transportation contract will have a similar value.

## 4 AER assessment

This section sets out our assessment of APTNT’s reference service proposal, including the stakeholder consultation we undertook.

### 4.1 AER stakeholder consultation

We published APTNT’s reference service proposal on the AER website. We called for written submissions by no later than 6 September 2019. To alert stakeholders to this process we issued a communications notice on 2 July 2019 which was emailed to all AER website subscribers.

In response, we received no submissions on APTNT’s reference service proposal. We were not otherwise contacted by stakeholders wishing to express views on this issue.

As a consequence of receiving no submissions we reached out to some key stakeholders. In response we received some interest in how the reference service process has changed, however only one stakeholder expressed interest in engaging with this process. Central Petroleum subsequently provided a late submission. We also allowed APTNT the opportunity to respond to Central’s submission.

When we undertake our reference service assessment we place considerable weight on the views of stakeholders, particularly customers or prospective customers of the gas network in question. While we received only one submission we note the context—the Amadeus pipeline services a relatively small number of shippers, including one shipper which has contracted 100 per cent of the pipeline’s firm capacity. In undertaking our assessment we have given considerable weight to the single submission we received.

### 4.2 AER assessment of APTNT’s reference service proposal

To assess APTNT’s reference service proposal we considered the extent to which it conforms to each regulatory requirement set out in the NGR cl 47A. Our detailed assessment is set out in Table 4-1.

**Table 4-1 Summary of NGR cl. 47A reference service requirements**

NGR cl. 47A requirement	Compliance assessment
(1) A service provider in respect of a full regulation pipeline must, whenever required to do so under subrule (3), submit to the AER a reference service proposal in respect of a forthcoming full access arrangement proposal that:	
(a) identifies the pipeline and includes a	Compliant. See section 3.1 of APTNT’s

reference to a website at which a description of the pipeline can be inspected;	reference service proposal.
(b) sets out a list of all the pipeline services that the service provider can reasonably provide on the pipeline and a description of those pipeline services having regard to the characteristics in subrule (2);	Compliant. See section 4.
(c) from the list referred to in subrule (1)(b), identifies at least one of those pipeline services that the service provider proposes to specify as reference services having regard to the reference service factors including any supporting information required by the AER; and	Partially compliant. See section 6.6 - 6.7. Having assessed APTNT's proposal we consider interruptible supply should also be defined as a reference service.
(d) if the service provider has engaged with pipeline users and end users in developing its reference service proposal, describes any feedback received from those users about which pipeline services should be specified as reference services.	Compliant. See section 5.
(2) A pipeline service is to be treated as distinct from another pipeline service having regard to the characteristics of different pipeline services, including:	APTNT's reference service proposal appropriately defines pipeline services in regard to their characteristics, priority and receipt points.
(a) the service type (for example, forward haul, backhaul, connection, park and loan);	
(b) the priority of the service relative to other pipeline services of the same type; and	
(c) the receipt and delivery points.	
(14) In deciding whether or not a pipeline service should be specified as a reference service, the AER must have regard to the reference service factors.	We have had regard to the reference service factors in assessing APTNT's reference service proposal.
(15) The reference service factors are:	
(a) actual and forecast demand for the pipeline service and the number of prospective users of the service;	APTNT's reference service proposal is premised on there being ongoing high demand for the firm transportation service.  In respect of APTNT's proposed non-reference services, APTNT submitted there was low demand for the proposed non-reference services as the main purpose of a

transmission pipeline is to provide firm transportation.

We accept APTNT's proposition that actual and forecast demand for services other than firm transportation will be low, other than interruptible transportation.

(b) the extent to which the pipeline service is substitutable with another pipeline service to be specified as a reference service;

The firm transportation service is not substitutable with other services. Given the pipeline's circumstances, the interruptible service is also not substitutable.

(c) the feasibility of allocating costs to the pipeline service;

Costs may be allocated to the firm transportation service and, we consider, the interruptible service.

(d) the usefulness of specifying the pipeline service as a reference service in supporting access negotiations and dispute resolution for other pipeline services, such that:

(i) reference services serve as a point of reference from which pipeline services that are not reference services can be assessed by a user or prospective user for the purpose of negotiating access to those other pipeline services;

To the extent there is demand for the non-reference services, firm transportation and interruptible transportation as reference services may be used as a point of reference for negotiations with APTNT.

(ii) a reference tariff serves as a benchmark for the price of pipeline services that are not reference services; and

As above.

(iii) reference service terms and conditions serve as a benchmark for the terms and conditions of pipeline services that are not reference services;

As above.

(e) the likely regulatory cost for all parties (including the AER, users, prospective users and the service provider) in specifying the pipeline service as a reference service.

By specifying firm transportation and interruptible transportation as reference services there will be only limited change from the current arrangements. As a result, regulatory costs for all parties will be minimised.

### 4.3 AER assessment of Central Petroleum's submission

To assess Central Petroleum's submission we considered the extent to which the reference services it proposed meet the reference service factors. All services below except for as-available transportation service and pipeline expansion services have been identified as services that can be reasonably provided and as potential reference

services by APTNT in its proposal and in its consultation with stakeholders respectively.<sup>15 16</sup>

### **As-available transportation service**

*Service description:*

- Supplied on a firm basis but only if the service is included as a part of a Gas Supply Agreement (GSA) or if APA agrees to provide an as-available transportation service on a particular day.

*AER assessment:*

- Given all firm transportation capacity is contracted an as-available transportation service would not be offered as a part of a GSA. APA then has the discretion to offer the service on a particular day outside of a GSA, which is substitutable with an interruptible transportation service. One of as-available or interruptible transportation services therefore does not need to be offered as a reference service as they can be used interchangeably by APA.

### **Interruptible transportation service**

*Service description:*

- transportation from a receipt point to a delivery point
- lower priority service (may not be available on a day)
- available between any receipt point and any delivery point.

*AER assessment:*

- Actual and forecast demand: As all firm transportation capacity is currently contracted, any shippers will have to request an interruptible transportation service if they wish to move gas along the AGP. Central submitted that this service is critical to its operations, while APTNT submitted it has two prospective users who have sought an interruptible transportation service.<sup>17</sup> APTNT's prospective users want to utilise 20 TJ/d of pipeline capacity on an interruptible transportation service. There is therefore non-negligible demand for an interruptible transportation service.
- Substitutability to another reference service: An interruptible transportation service is substitutable with a firm transportation service, which will be specified as a reference service. However, as all firm transportation capacity is already contracted to one shipper any prospective shippers must opt for and can only choose an interruptible transportation service. Prospective shippers do not have the option of substituting one service for another.

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<sup>15</sup> APTNT, *Reference service proposal*, July 2019, p.11.

<sup>16</sup> APA Group, *Northern Territory Reference Services Stakeholder Engagement Summary*, July 2019, p.6.

<sup>17</sup> APTNT, *Reference service proposal*, July 2019, p.27.



- Feasibility of cost allocation: Interruptible transportation price is often set by reference to the price for firm transportation, as a proportion (a fraction between zero and one) of the firm service price. This reflects the relative priority of the services.<sup>18</sup> It is possible therefore to price an interruptible transportation service as a fraction of a firm service, with regard to the forecast quantity of gas that actually is delivered.
- Usefulness of specification as a reference service: To the extent there is demand for the non-reference services, interruptible transportation as a reference service can be used as a point of reference for negotiations with APTNT. As firms can't contract firm and must contract interruptible transportation, this would serve as a benchmark for any prospective users over the upcoming access arrangement period.

### **Firm park service**

#### *Service description:*

- pipeline storage of gas
- highest priority right to store.

#### *AER assessment:*

- Given all firm transportation capacity is contracted there is no scope for APTNT to offer firm parking as a service. We have also considered the AGP's engineering limitations.

### **Firm loan service**

#### *Service description:*

- borrowing of gas from pipeline line pack
- highest priority right to borrow.

#### *AER assessment:*

- Given all firm transportation capacity is contracted there is no scope for APTNT to offer a firm loan service. We have also considered the AGP's engineering limitations.

### **Interruptible park service**

#### *Service description:*

- pipeline storage of gas
- lower priority service (may not be available on a day).

#### *AER assessment:*

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<sup>18</sup> APTNT, *Reference service proposal*, July 2019, p.27.

- Actual and forecast demand: As all firm transportation capacity is currently contracted, any shippers will have to request an interruptible park service if they wish to park gas on the AGP. APTNT submitted it has several users who have contracted for interruptible parking service.<sup>19</sup> There is therefore non-negligible demand for an interruptible transportation service. However, due to engineering constraints, including that Amadeus has only a single compressor station, there is little scope for interruptible parking services to be provided by APTNT. We discuss this issue in greater detail below.
- Substitutability to another reference service: An interruptible park service is substitutable with a firm park service. It is not substitutable with any current or proposed reference services.
- Feasibility of cost allocation: Interruptible park price is often set by reference to the price for the firm park service, as a proportion (a fraction between zero and one) of the firm service price. This reflects the relative priority of the services. It is possible therefore to price an interruptible parking service, if it were able to be provided, as a fraction of a firm service, with regard to the forecast interruptions to the service.
- Usefulness of specification as a reference service: APTNT submitted that it is unlikely park and loan services can be used as a benchmark for other pipeline services as terms and conditions are unlike other services. It also submitted that with the high utilisation of capacity available in a long, narrow diameter pipeline with little compression capacity, APTNT has little scope for providing park and loan services.<sup>20</sup>
- APTNT submitted that with the new interconnection with the Northern Gas Pipeline, any capacity not used by the shipper who has contracted it is now subject to more demand from other shippers utilising interruptible transportation services than it used to be. In other words the asset is operating closer to its full capacity on a daily basis than it used to. That, combined with the asset's engineering limitations, a single compressor station and narrow diameter pipeline, mean the parking services that used to be provided are no longer viable.

### **Interruptible loan service**

#### *Service description:*

- borrowing of gas from pipeline line pack
- lower priority service (may not be available on a day).

#### *AER assessment:*

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<sup>19</sup> APTNT, *Reference service proposal*, July 2019, p.26.

<sup>20</sup> APTNT, *Reference service proposal*, July 2019, p.26.

- Actual and forecast demand: As all firm transportation capacity is currently contracted, any shippers will have to request an interruptible loan service if they wish to loan gas from the AGP. There is no evidence from either submission suggesting that there is demand for an interruptible loan service.
- Substitutability to another reference service: An interruptible loan service is substitutable with a firm loan service. It is not substitutable with any current or proposed reference services.
- Feasibility of cost allocation: Interruptible loan price is often set by reference to the price for the firm loan service, as a proportion (a fraction between zero and one) of the firm service price, this reflects the relative priority of the services. It is possible therefore to price an interruptible loan service as a fraction of a firm service, with regard to the forecast interruptions to the service.
- Usefulness of specification as a reference service: APTNT submitted it is unlikely that park and loan services can be used as a benchmark for other pipeline services as terms and conditions are unlike other services. It also submitted that with the high utilisation of capacity available in a long, narrow diameter, pipeline, with limited compression, APTNT has little scope for providing park and loan services.<sup>21</sup>
- APTNT submitted that with the new interconnection with the Northern Gas Pipeline, any capacity that isn't used by the shipper who has contracted it is now subject to more demand from other shippers utilising interruptible transportation services than it used to be. In other words the asset is operating closer to its full capacity on a daily basis than it used to. That, combined with the asset's engineering limitations, mean the loan services are not viable.

### **In-pipe trade service**

#### *Service description:*

- Facilitation of transfer of firm transportation capacity between pipeline users.

#### *AER assessment:*

- Actual and forecast demand: APTNT submitted that of its 7 current contracts it has only one that includes in-pipe trade and that it is not routinely sought.<sup>22</sup> We have no evidence it has been sought by prospective users.
- Substitutability to another reference service: In-pipe trade is not substitutable with any current or proposed reference services.
- Feasibility of cost allocation: Costs are based on the cost of developing the systems to manage the service provision, and the on-going cost of gas accounting and billing. APTNT submitted these costs are incurred by the wider

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<sup>21</sup> APTNT, *Reference service proposal*, July 2019, p.26.

<sup>22</sup> APTNT, *Reference service proposal*, July 2019, p.24.

APA group, not specifically by APTNT.<sup>23</sup> It therefore could be hard to specify the cost itself to the AGP.

- Usefulness of specification as a reference service: Given that in-pipe trade is not substitutable with any other service offered on the AGP, terms and conditions will not serve as a reference point for other services specified as non-reference.

#### **4.4 AER final decision**

Based on information submitted by APTNT and Central Petroleum's we conclude that interruptible transportation should be included as a reference service in addition to firm transportation. In the absence of additional evidence it is not clear that any other services should be included as reference services. As-available transportation, park and loan, and in-pipe trade should remain as services that can be offered by APTNT on the Amadeus pipeline, subject to engineering constraints, though not as reference services.

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<sup>23</sup> APTNT, *Reference service proposal*, July 2019, p.24.