

Final Decision

Roma to Brisbane Pipeline

Access Arrangement 2022 to 2027

(1 July 2022 to 30 June 2027)

Attachment 9

Reference tariff setting

May 2022

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Inquiries about this publication should be addressed to:

Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601

Tel: 1300 585 165

Email: AERInquiry@aer.gov.au

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Note

This attachment forms part of the AER's final decision on the access arrangement that will apply to APT Petroleum Pipelines Pty Limited's (APTPPL) Roma to Brisbane Pipeline for the 2022–27 access arrangement period. It should be read with all other parts of the final decision.

The final decision includes the following documents:

Overview

Attachment 3 – Rate of return

Attachment 5 – Capital expenditure

Attachment 6 – Operating expenditure

Attachment 9 – Reference tariff setting

Attachment 12 – Demand

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9 Reference tariff setting

This attachment outlines our assessment of the reference tariffs proposed by APTPPL for the Roma to Brisbane Pipeline (RBP) against the requirements of the National Gas Rules (NGR). Our assessment focuses on the design and structure of reference tariffs and the allocation of costs to services, and takes into account the revenue and pricing principles.¹ This attachment also sets out the revisions required by this decision.

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

9.1 Final decision

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

Nevertheless, the quantum of the proposed reference tariffs must be amended to reflect our assessment of the building block proposal set out in this draft decision.

However, we do not accept APTPPL's proposed westbound prudent discount. We are not satisfied that it meets rule 96 of the NGR.

9.2 APTPPL's revised proposal

APTPPL proposed a prudent discount under rule 96 related to the westbound service. APTPPL submits that for the westbound service, the RBP competes for some loads with other pipelines in the region. These pipelines have posted tariffs less than the westbound reference tariff derived following the building block procedures under the NGR.

As envisioned in rule 96(2)(a), a discount is sometimes necessary to respond to competition from other providers of pipeline services

APTPL's proposed prudent discount tariff is the breakeven point reflecting the cost incurred by a shipper to connect to the Darling Downs Pipeline and the tariff charged on the Darling Downs Pipeline.

APTPPL proposed that recovery of revenue foregone to provide the discount would be calculated into the westbound reference tariff as it is these customers who most benefit from the ongoing presence of the discounted westbound demand.⁴ This is because APTPPL proposed to split the RBP into separate eastbound and westbound reference services with an initial 50-50 split of total costs between the two services. APTPPL's

¹ NGL, ss. 24(2)–(7).

² NGR, rr. 93, 95 and 96.

³ NGL, ss. 23 and 24.

⁴ APTPPL, *Roma to Brisbane Pipeline 2022–27 access arrangement, Revised Proposal*, January 2022, p. 5.

approach means that shippers using the eastbound service would be unaffected by both the westbound prudent discount and by the loss of any westbound volumes due to competition from other pipelines.

With its initial proposal APTPPL proposed a prudent discount under rule 96 related to the eastbound service. However, with its revised proposal APTPPL withdrew this application. This has now been reflected in the calculation of eastbound tariffs.⁵

9.3 Assessment approach

In an access arrangement a service provider is required to specify for each reference service, the reference tariff and proposed approach to setting the reference tariff.⁶ This is done by:

- explaining how revenues and costs are allocated, including the relationship between costs and tariffs⁷
- explaining how the tariffs have been designed to generate the portion of referable total revenue from each reference service and from each user, or class of users⁸
- explaining and describing any pricing principles it employed.⁹

We assessed APTPPL's proposed reference tariffs for the RBP against the provisions of the NGR and the NGL, in particular, rules 93, 95 and 96 of the NGR. We have also taken into account the revenue and pricing principles¹⁰ and the requirement for consistency with the National Gas Objective.¹¹

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

In our assessment of the proposed reference tariffs, we reviewed the RBP 2022–27 access arrangement information and proposal. We also had regard to stakeholder submissions on APTPPL's proposed RBP access arrangement.¹²

⁵ APTPPL, *Roma to Brisbane Pipeline 2022–27 access arrangement, Revised Proposal*, January 2022, p. 53.

⁶ NGR, rr. 48(1)(d)(i) and 72(1)(j).

⁷ *Ibid.*, rr. 72(1)(j)(i), 93(1)–(2).

⁸ *Ibid.*, r. 95(1).

⁹ *Ibid.*, r. 72(1)(j)(ii).

¹⁰ *Ibid.*, s. 28(2); s. 24.

¹¹ *Ibid.*, r. 100(a); NGL, s. 23.

¹² *Ibid.*, r. 59.

9.3.1 Identifying the reference service

The NGR require service providers to specify a reference tariff for each reference service.¹³ When undertaking our review, we first consider what is (or are) the reference service(s) for the purpose of the NGR. Our decision on what constitutes the reference service was published in November 2020¹⁴ and is referenced in our draft decision on the services covered by the access arrangement.

9.3.2 Interrelationships

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

Our RBP final decision on:

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

9.4 Reasons for final decision

We accept all aspects of APTPPL’s revised proposal tariff setting, except for the proposed westbound prudent discount.

9.4.1 Westbound prudent discount

Our RBP final decision is to not accept APTPPL’s proposed prudent discount on the westbound service. Based on the information submitted to us, APTPPL has not satisfied us it meets the requirements of rule 96 of the NGR.

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

¹³ NGR, r. 48(1)(d)(i).

¹⁴ AER, *Final decision, APT Petroleum Pipelines Pty Ltd (APTPPL) – Roma to Brisbane Pipeline gas transmission determination 2022 to 2027 – Reference services*, November 2020.

- the ‘necessity of the discount’ limb (rule 96(2)(a)) – under this limb, the AER must be satisfied the discount is necessary to respond to competition from other providers of pipeline services or other sources of energy or that it is necessary to maintain the efficient use of the pipeline; and
- the ‘reduction in tariffs’ limb (rule 96(2)(b)) – under this limb of the test, the AER must be satisfied that the discount is likely to lead to tariffs being lower than they would otherwise have been, compared to a situation of the customer leaving the pipeline entirely which pushes up other customers tariffs.

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

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

9.4.1.1 Responding to competition

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

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

Details of our assessment are set out in the confidential appendix to this attachment.

9.4.1.2 Is it necessary to maintain efficient use of the pipeline?

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

9.4.1.3 Equivalent reference tariffs

Because we are not satisfied that a prudent discount is necessary, we are also not satisfied that a prudent discount will likely result in lower reference or equivalent tariffs

than what would have applied without the discount. We do not consider our final decision will reduce APTPPL’s proposed western haul volumes. The result of our final decision is that RBP costs are spread over larger total forecast volumes which will lower westbound tariffs compared to APTPPL’s tariff proposal.

We have provided a tariff comparison in Table 9.1. These calculations indicate that there would be an increase in the westbound reference tariff (in nominal terms) of 0.9% for all five years for users not eligible to the discounted tariff if we accepted the prudent discount.

Table 9.1 Tariffs for the RBP¹⁵

Tariffs (\$/GJ/day (nominal))	Current	Next (proposed)				
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Westbound with prudent discount	0.5802	0.6316	0.6483	0.6655	0.6831	0.7012
Westbound without prudent discount	0.5802	0.6260	0.6426	0.6596	0.6771	0.6950

9.5 Revisions

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

Table 9.2 APTPPL’s reference tariff setting revisions

Revision	Amendment
Revision 9.1	Make all changes necessary in Schedule 1 Details to amend the quantum of reference tariffs to reflect our final decision on APTPPL’s building block proposal as per the Overview Table 3 and the approved tariff model.

¹⁵ APTPPL, *Roma to Brisbane Pipeline 2022–27 – Updated reference tariff model*, 30 September 2021.

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

B. Shortened forms

Shortened form	Extended form
AER	Australian Energy Regulator
APTPPL	Australian Petroleum Pipelines Pty Limited
NGL	National Gas Law
NGO	National Gas Objective
NGR	National Gas Rules
RBP	Roma to Brisbane Pipeline