



FINAL DECISION
Amadeus Gas Pipeline
Access Arrangement
2016 to 2021

Attachment 10 – Reference
tariff setting

May 2016

© Commonwealth of Australia 2016

This work is copyright. In addition to any use permitted under the Copyright Act 1968, all material contained within this work is provided under a Creative Commons Attributions 3.0 Australia licence, with the exception of:

- the Commonwealth Coat of Arms
- the ACCC and AER logos
- any illustration, diagram, photograph or graphic over which the Australian Competition and Consumer Commission does not hold copyright, but which may be part of or contained within this publication. The details of the relevant licence conditions are available on the Creative Commons website, as is the full legal code for the CC BY 3.0 AU licence.

Requests and inquiries concerning reproduction and rights should be addressed to the:

Director, Corporate Communications
Australian Competition and Consumer Commission
GPO Box 4141, Canberra ACT 2601

or publishing.unit@acc.gov.au.

Inquiries about this publication should be addressed to:

Australian Energy Regulator
GPO Box 520
Melbourne Vic 3001

Tel: (03) 9290 1444

Fax: (03) 9290 1457

Email: AERInquiry@aer.gov.au

Note

This attachment forms part of the AER's final decision on the access arrangement for the Amadeus Gas Pipeline for 2016–21. It should be read with all other parts of the final decision.

The final decision includes the following documents:

Overview

Attachment 1 - Services covered by the access arrangement

Attachment 2 - Capital base

Attachment 3 - Rate of return

Attachment 4 - Value of imputation credits

Attachment 5 - Regulatory depreciation

Attachment 6 - Capital expenditure

Attachment 7 - Operating expenditure

Attachment 8 - Corporate income tax

Attachment 9 - Efficiency carryover mechanism

Attachment 10 - Reference tariff setting

Attachment 11 - Reference tariff variation mechanism

Attachment 12 - Non-tariff components

Attachment 13 - Demand

Contents

Note	10-2
Contents	10-3
Shortened forms	10-4
10 Reference tariff setting	10-6
10.1 Final decision	10-6
10.2 APTNT’s revised proposal	10-6
10.3 AER’s assessment approach	10-7
10.4 Reasons for final decision	10-7

Shortened forms

Shortened form	Extended form
AA	Access Arrangement
AAI	Access Arrangement Information
APTNT	APT Pipelines (NT) Pty Limited (APTNT)
AER	Australian Energy Regulator
AGP	Amadeus Gas Pipeline
ATO	Australian Tax Office
capex	capital expenditure
CAPM	capital asset pricing model
CPI	consumer price index
DRP	debt risk premium
ECM	Efficiency carryover mechanism
ERP	equity risk premium
Expenditure Guideline	Expenditure Forecast Assessment Guideline
gamma	value of imputation credits
GTA	Gas Transport Services Agreement
MRP	market risk premium
NGP	Northern Gas Pipeline (formerly North East Gas Interconnector/NEGI)
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
TAB	tax asset base
UAFG	unaccounted for gas

Shortened form	Extended form
WACC	weighted average cost of capital
WPI	Wage Price Index

10 Reference tariff setting

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

10.1 Final decision

For the reasons set out in our draft decision, our final decision accepts APTNT's proposed structure of reference tariffs for the 2016–21 access arrangement period.² We are satisfied the proposed structure of the reference tariffs complies with the requirements of the NGR.³

Nevertheless, the quantum of the proposed reference tariffs must be amended to reflect our final decision forecast demand and revenue allowance set out in this final decision. Our revisions are reflected in schedule 1 of the *Approved Access Arrangement for the Amadeus Gas Pipeline 1 July 2016 to 30 June 2021*, which gives effect to this decision.

10.2 APTNT's revised proposal

APTNT's revised proposal did not contain any changes to the proposed structure of reference tariffs approved in our draft decision.⁴

APTNT proposed a single tariff class and a single tariff for the 2016–21 access arrangement period.⁵ It considers there is only one class of pipeline user, being users supplying mining or generation facilities. The proposed reference tariff structure is consistent with that in the current access arrangement period which is a capacity tariff based on firm Maximum Daily Quantities (MDQs) at each delivery point.

¹ NGL, ss. 24(2)–(7).

² AER, *Draft decision: Amadeus Gas Pipeline access arrangement 2016 to 2021: Attachment 10–Reference tariff setting*, November 2015, p. 10-6.

³ NGR, rr. 93, 94.

⁴ APTNT, *Amadeus Gas Pipeline access arrangement revised proposal: Response to draft decision submission*, January 2016, p. 103.

⁵ APTNT, *Amadeus Gas Pipeline access arrangement revision proposal submission*, August 2015, pp. 171–172.

10.3 AER's assessment approach

In a full access arrangement, a service provider is required to specify for each reference service the reference tariff and proposed approach to setting the reference tariffs.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 are required to assess APTNT's proposed reference tariffs. Where we do not accept them, we must determine the initial reference tariffs to apply for each reference service.

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

- access arrangement information¹⁰
- access arrangement proposal.¹¹

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

Identifying the reference service

Service providers are required under the NGR to specify a reference tariff for each reference service.¹² We first consider what is (or are) the reference service(s) for the purpose of the NGR when undertaking our review.¹³ Our decision on what constitutes the reference service is set out in Attachment 1 to this final decision.

10.4 Reasons for final decision

For the reasons set out in our draft decision, we accept APTNT's proposed reference tariff structure because we are satisfied that it complies with the NGR requirements.¹⁴

⁶ NGR, rr. 48(1)(d)(i); 72(1)(j).

⁷ NGR, rr. 93(1)–(2), 72(1)(j)(i).

⁸ NGR, r. 95(1).

⁹ NGR, r. 72 (1)(j)(ii).

¹⁰ APTNT, *Amadeus Gas Pipeline access arrangement revision proposal submission*, August 2015, pp. 170–177.

¹¹ APTNT, *Access arrangement for the Amadeus Gas Pipeline: 1 July 2016 to 30 June 2021*, August 2015.

¹² NGR, r. 48(1)(d)(i).

¹³ APTNT, *Access arrangement for the Amadeus Gas Pipeline: 1 July 2016 to 30 June 2021*, August 2015, section 2.

¹⁴ NGR, rr. 93, 95.

The tariff structure is consistent with that applied in the current access arrangement. However, the quantum of the proposed initial reference tariff must be amended to reflect the final decision forecast demand and revised revenue allowance.

We are satisfied APTNT's allocation of its revenues and costs between its services are compliant with the requirements of the NGR.¹⁵ We note there is one significant user of the pipeline, which is currently contracted for the full firm capacity of the pipeline. It is the main driver of the costs of the pipeline. The materiality of costs of the other services is minor and therefore we accept APTNT's proposal to allocate all of its costs and revenue to the reference service. We note this is consistent with approach applied for the current access arrangement.¹⁶

We are also satisfied that APTNT's tariffs will generate a portion of referable total revenue from the reference service and from each user as required by the NGR.¹⁷ APTNT has only one class of user and one reference service which all of its revenue has been allocated to.¹⁸ APTNT applies a single capacity tariff based on firm Maximum Daily Quantities at each delivery point. This allows APTNT to recover its revenue requirement from users of the pipeline in proportion to their capacity requirements.

¹⁵ NGR, r. 93(2).

¹⁶ AER, *Final decision: N.T. Gas: Access arrangement proposal for the Amadeus Gas Pipeline 1 July 2011* — 30 June 2016, July, 2011, pp. 110–111.

¹⁷ NGR, r. 95.

¹⁸ APTNT, *Amadeus Gas Pipeline access arrangement revision proposal submission*, August 2015, p. 172.