



FINAL DECISION
Amadeus Gas Pipeline
Access Arrangement
2016 to 2021

Attachment 13 – Demand

May 2016

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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

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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

13 Demand

This attachment sets out the AER's assessment of the demand forecasts for APTNT for the 2016-21 access arrangement period. Demand is an important input into the derivation of APTNT's reference tariffs.

13.1 Final decision

We are satisfied that APTNT's proposed demand forecasts comply with rule 74(2) of the National Gas Rules (NGR).

13.2 APTNT's revised proposal

APTNT noted that our draft decision accepted APTNT's demand and pipeline utilisation forecasts for the access arrangement period.¹ APTNT did not propose any further revisions to its demand and pipeline utilisation forecasts.²

13.3 AER's assessment approach

Our assessment approach is the same as in the draft decision.³

13.3.1 Interrelationships

Tariff prices depend on estimates of forecast total demand (GJ/day). Changes in these forecasts will translate into changed tariff prices. In simple terms, tariff prices are determined by dividing cost (as reflected in the forecast revenue requirement) by total demand (GJ/day), such that an increase in forecast demand has the effect of reducing the tariff price and vice versa.

The demand forecasts also affect capital and operating expenditure linked to increased network capacity. However, APTNT has not proposed to increase the capacity of the network during the access arrangement period.

The Power and Water Corporation (PWC) submitted that the firm capacity of the AGP will materially increase with the connection of the Northern Gas Pipeline (NGP) to the Amadeus Gas Pipeline (AGP).⁴ PWC also challenged APTNT's view that the reference

¹ APTNT, *Amadeus Gas Pipeline Access Arrangement Revised Proposal Response to Draft Decision - Submission*, January 2016, p. 28.

² APTNT, *Amadeus Gas Pipeline Access Arrangement Revised Proposal Response to Draft Decision - Submission*, January 2016, p. 28.

³ AER, *Draft Decision, Amadeus Gas Pipeline Access Arrangement 2016 to 2021, Attachment 13 - Demand*, November 2015, pp. 13-6 to 13-7.

⁴ Power and Water Corporation, *Submission to Amadeus Gas Pipeline Access Arrangement 2016-21*, 4 February 2016, p. 2.

tariff will be unaffected by the NGP, particularly where existing AGP capacity is reallocated from PWC to new NGP users.⁵

We maintain our view that the connection of the NGP to the AGP may impact on future demand on the AGP and as a result the reference tariff. As such, to address this uncertainty we have retained our approach in the draft decision to make provision for an early review of the access arrangement if this becomes necessary (refer to attachment 12).

13.4 Reasons for final decision

In our draft decision we accepted APTNT's proposed demand and pipeline utilisation forecasts on the basis that:⁶

- we considered that the demand forecast methodology and assumptions adopted by APTNT were arrived at on a reasonable basis in accordance with the NGR
- we were satisfied that the information in APTNT's access arrangement information satisfied the requirements of the NGR in relation to minimum, maximum and average demand from the earlier access arrangement period and forecast pipeline capacity and utilisation over the 2016–21 access arrangement period
- we were satisfied that APTNT's forecast user numbers for the 2016–21 access arrangement period had been arrived at on a reasonable basis.

On the basis that we have not identified any new information which impacts upon our reasoning as set out in the draft decision, we are satisfied that APTNT's demand forecasts, including forecasts for capacity utilisation, are arrived at on a reasonable basis. As such we consider that APTNT's demand forecasts represent the best estimate possible in the circumstances.⁷ This conclusion must be read in conjunction with our draft decision, which details our analysis of APTNT's demand forecasts.⁸

⁵ Power and Water Corporation, *Submission to Amadeus Gas Pipeline Access Arrangement 2016-21*, 4 February 2016, p. 2.

⁶ AER, *Draft Decision, Amadeus Gas Pipeline Access Arrangement 2016 to 2021, Attachment 13 - Demand*, November 2015.

⁷ NGR, r. 74(2).

⁸ AER, *Draft Decision, Amadeus Gas Pipeline Access Arrangement 2016 to 2021, Attachment 13 - Demand*, November 2015.