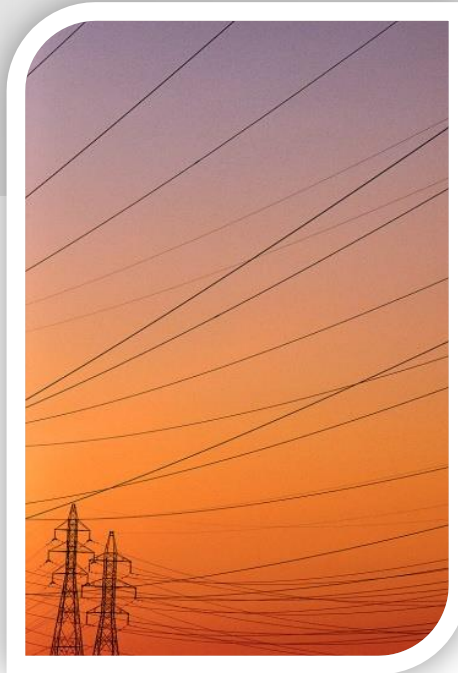


The Australian Energy Regulator

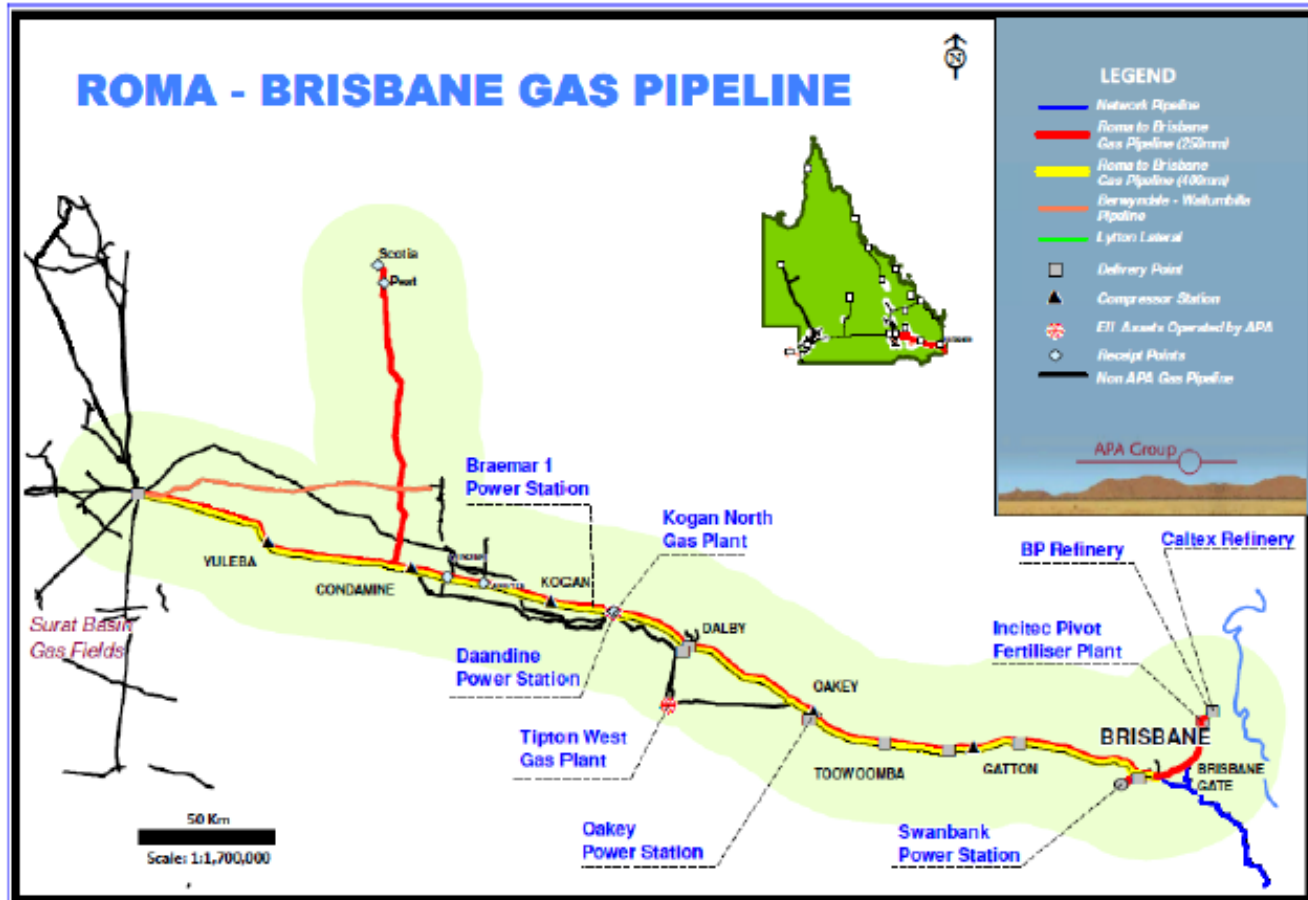


APT Petroleum Pipelines Pty Limited
Roma to Brisbane Pipeline (RBP)

Summary of access arrangement
proposal

AER public forum
5 October 2016

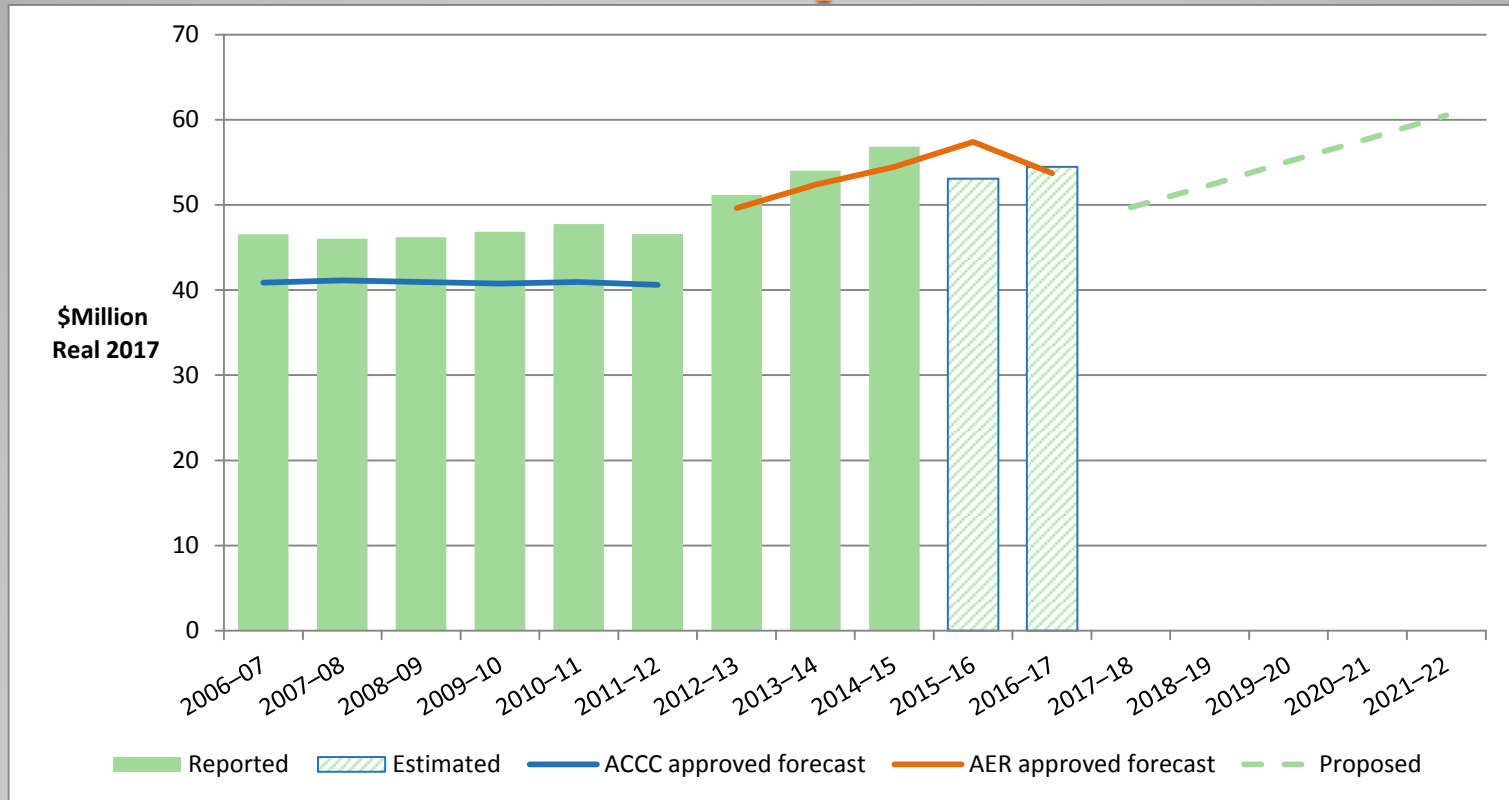
Map of the RBP



Key points

- APT Petroleum Pipelines Pty Limited (APTPPL) lodged its 5-year 2017-22 revenue proposal for the Roma to Brisbane Pipeline (RBP) on 1 September 2016
- APTPPL proposed a total revenue requirement of \$293 million (\$ nominal) over the access arrangement period
- This is 2.9 per cent more than APTPPL's allowed revenue for 2012-17, in real dollar terms.

Proposed revenue requirement



Source: AER analysis

WACC is driving proposed revenue

- APTPPL proposed a rate of return of 7.7 per cent
- APTPPL adopted the Guideline for a limited range of parameters, with a particular focus on those that have been affirmed by the Tribunal
- APTPPL departed from the Guideline:
 - proposed equity beta 0.8
 - MRP of 8.06 per cent
 - utilisation rate of 0.35
 - return on debt - proposing to immediately adopt a historical trailing average cost of debt
 - only use the RBA curve (instead of RBA and BVAL)

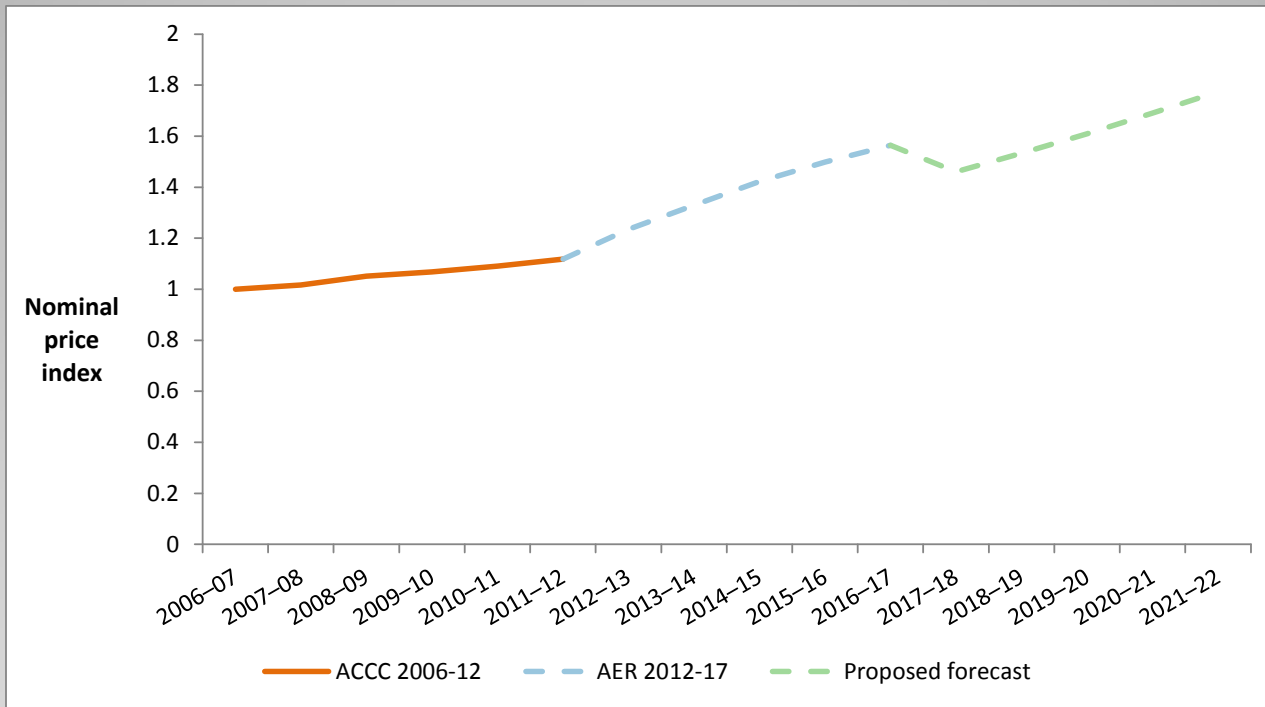
Rate of return (% nominal)

	Current period	APTPPL proposal
Return on equity (nominal post-tax)	7.75%	8.4%
Return on debt (nominal pre-tax)	7.01%	7.3%
Gearing	60%	60%
Nominal vanilla WACC	7.31%	7.7%
Forecast inflation	2.55%	2.3%

Forecast inflation

- APTPPL used the method adopted by the AER in its previous regulatory decisions for forecasting inflation
- APTPPL proposes to vary its CPI-X control mechanism to account for the risk of out-turn inflation being different than AER's forecast inflation in the PTRM
- This method led APTPPL to propose 2.3 percent as the forecast of inflation. However, as a result of the control mechanism, the inflation that impacts APTPPL total revenue is updated annually within the access arrangement.

Proposal price impact (nominal)



APTPPL – indicative transmission price path from 2006-07 to 2021-22

New short term firm service

- APTPPL proposes to introduce a second reference service - Short Term Firm Service (STFS)
- STFS is the same as the existing Long Term Firm Service (LTFS) except the duration of the contract is less than required for LTFS
- STFS ranks equally with the LTFS in terms of curtailment and scheduling
- The STFS costs 166 percent of the LTFS
- The LTFS tariff is \$0.6944 per GJ of MDQ per day, the STFS tariff is \$1.1527 per GJ of MDQ per day

New short term firm service (con't)

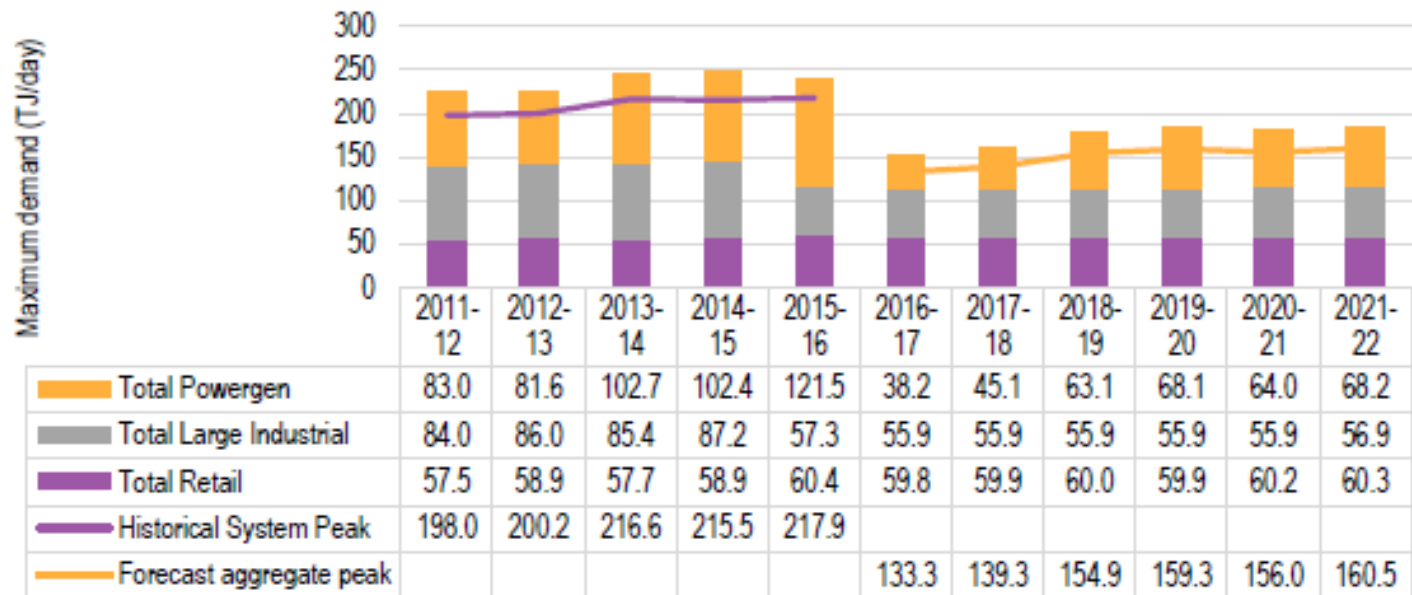
- We welcome submissions on APTPPL's proposed STFS. In particular we would appreciate feedback on the following issues:
 - Do users consider the Short Term Firm Service (STFS) is likely to be sought by a significant part of the market?
 - Is a STFS for anything from up to a day to three years (as proposed by APTPPL) the appropriate length?
 - Is the calculation of $[1 / \text{average load factor}]$ the appropriate method to calculate the 166% STFS premium relative to LTFS price?

Demand

- **AER's role:** to assess whether APA's demand forecast is the best forecast possible in the circumstances.
- **Why demand forecasts matter:** demand forecasts have an effect on tariffs:
 - Tariffs are determined based on recovering a fixed allowance revenue from forecast demand (MDQTJ/day)
 - As a price cap applies, tariffs will not adjust during the 2017-2022 period when actual demand is known so APA may over or under recover.
- **APA forecast:**
 - an overall (short term and long term) decline in demand for the eastbound service
 - the westbound demand forecast is subject to greater uncertainty as the service has only been offered since October 2015.

Demand (cont.)

FIGURE 4.14 BASE CASE FORECAST FOR RBP EAST-BOUND PEAK DAY FLOW



SOURCE: ACIL ALLEN ANALYSIS; HISTORICAL DAILY THROUGHPUT DERIVED FROM AEMO DATA

Demand (cont.)

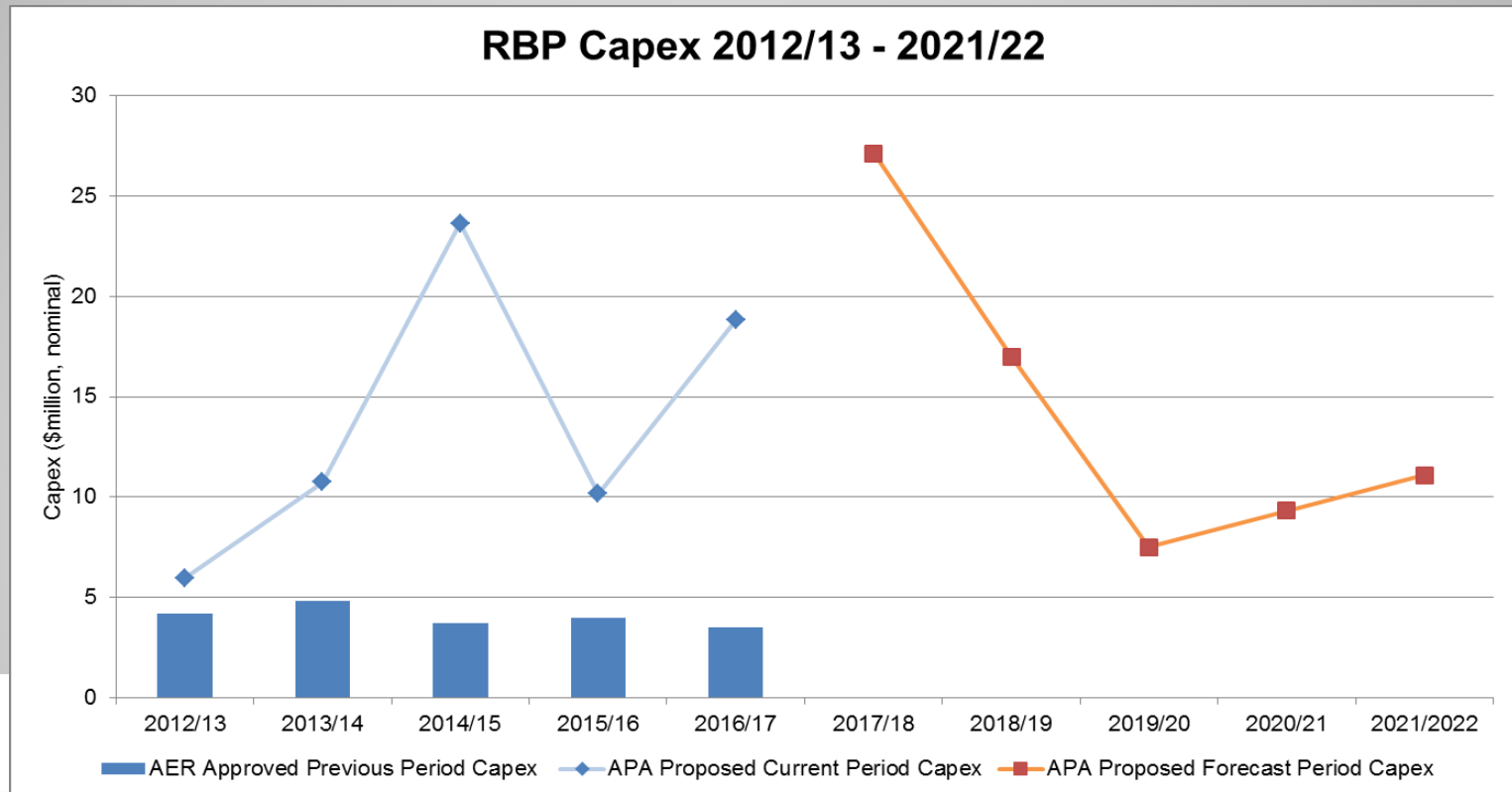
- Some of the questions we would like submissions to address are:
 - If you anticipate using Short-term service:
 - what term lengths do you think you will use?
 - would you use more Short-term service if the price multiplier was lower (than 1.66)?
 - at what price multiplier would Short-term service no longer be of interest because the price is too high? (e.g. 1.75, 2, 2.5?)
 - Do you think the introduction of the Short-term service will lead to increased demand for services, relative to similar services being obtained on a negotiated basis?
 - Do you think the proposed rise in both STFS and LTFS tariffs (5% real from 2018 to 2022) will result in lower demand by your firm, and by all users?
 - Are there any major new sources of demand that are likely to eventuate during the Access Arrangement period from 2018 to 2022?

Queuing Policy

- APTPPL has proposed the auctioning of spare capacity on the RBP
- Such a proposal was rejected by the AER in 2012 but has recently been accepted by the ERA for the Goldfields Gas Pipeline
- Under the proposed auction system, APTPPL holds an auction if spare pipeline capacity won't cover the capacity sought by prospective users
- If spare capacity is sufficient to cover EOIs, APTPPL negotiates access with each user
- Developable capacity will NOT be auctioned

Proposed capex

- APA has proposed \$69.4m in capex over the current 2012-17 period compared to \$20.2m approved in 2012.
- APA forecast capex of \$66.6m for the 2017-22 period



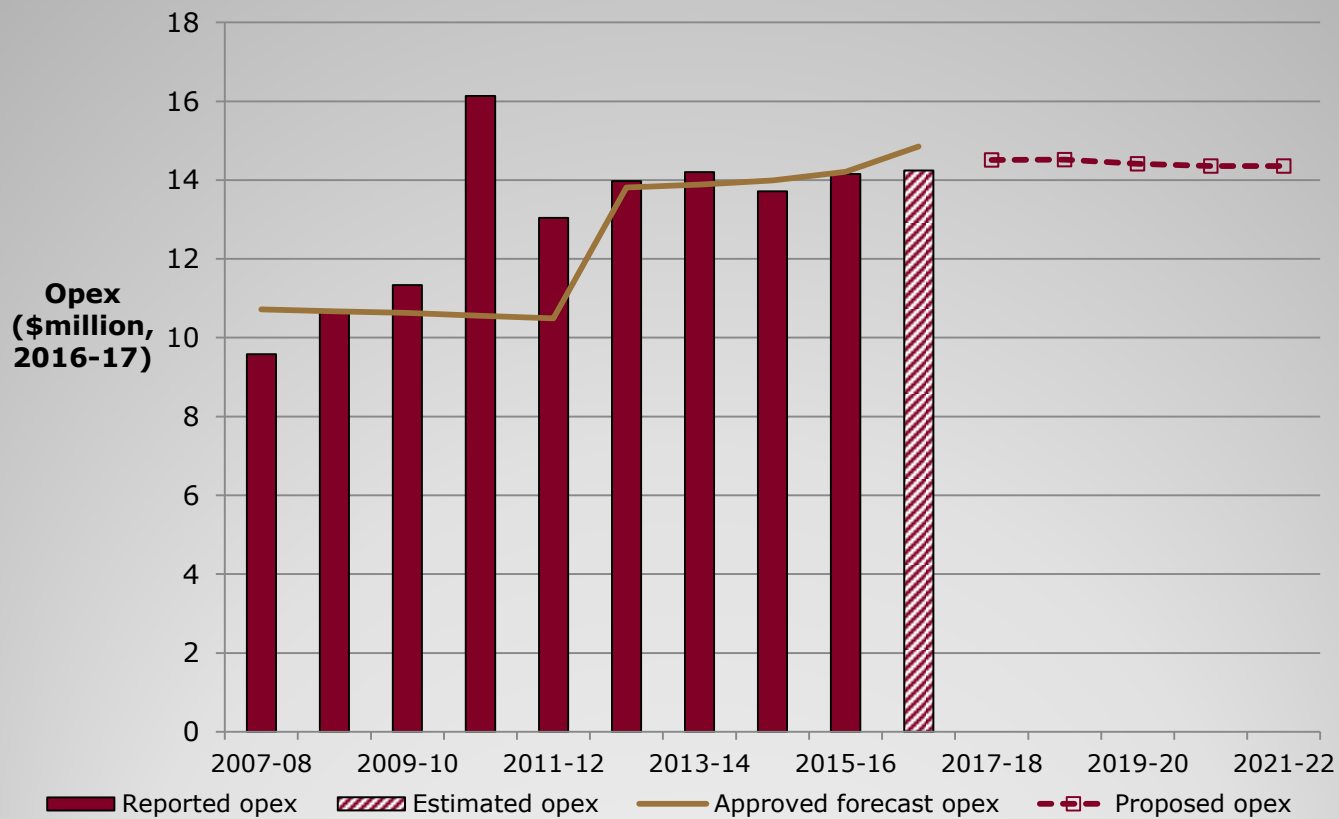
Capex (cont.)

- APA proposed several new projects and expanded the scope of existing projects
- Main drivers of current period and forecast capex:
 - Bidirectional flow upgrade
 - Completed in October 2015 and already received demand and revenue for this service.
 - Flood recovery emergency works
 - Repair works for severe weather events
 - Pipeline integrity management
 - Expansion of inspection and excavation to address coating deterioration and corrosion. Contributes to a majority of forecast capex.
 - Urban risk reduction
 - Pressure regulation and installation of protective barriers

Capex (cont.)

- We welcome submissions on the prudence and efficiency for all of APA's proposed capex projects.
- In particular we appreciate feedback on the following issues:
 - How should revenue for westbound services earned by APA in the current period be accounted for in the asset base?
 - Should the portion of emergency repair works, which do not increase capacity or asset life, be treated as capex?
 - Do stakeholders agree with the scope of APA's pipeline integrity inspections and excavations?

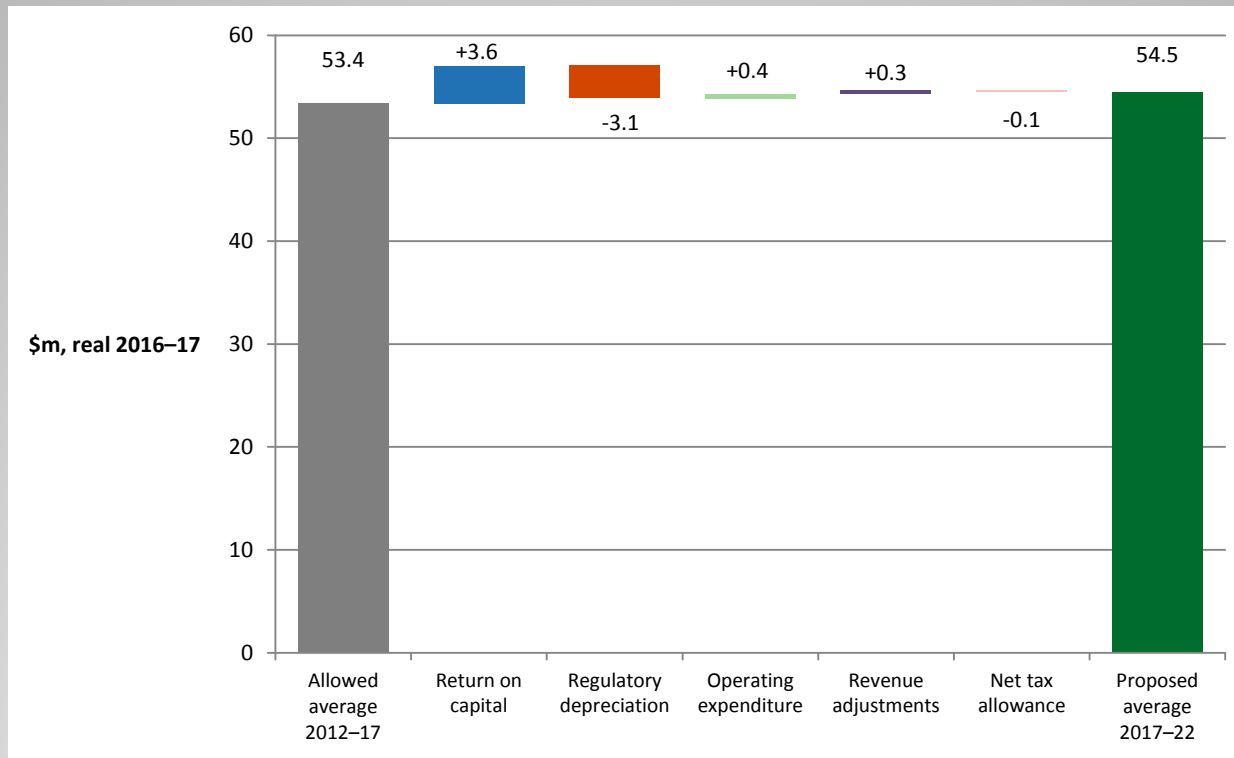
Proposed opex



Proposed opex

- Total opex over the current AA period was \$70.3 million. This is below the \$70.7 million approved by the AER.
- Forecast opex is \$72.1 million (2.7 per cent more than current period actual opex)

Change in unsmoothed revenue



Source: AER Analysis

Reset timeline

Step	Date
Access arrangement proposal submitted to AER	1 September 2016
Proposal published	16 September 2016
Public forum on access arrangement proposal	5 October 2016
Submissions on proposal close	18 October 2016
AER to publish draft decision	TBC