



FINAL DECISION
APT Petroleum Pipelines Pty
Ltd (APTPPL) – Roma to
Brisbane Pipeline

Gas Transmission
Determination

2022 to 2027

Reference Services

November 2020

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Inquiries about this publication should be addressed to:

Australian Energy Regulator
GPO Box 520
Melbourne Vic 3001

Tel: 1300 585 165

Email: AERInquiry@aer.gov.au

Note

This AER final decision applies to the APT Petroleum Pipelines Pty Ltd (APTPPL) reference service proposal for the 2022–27 gas access arrangement period commencing 1 July 2022 to 30 June 2027.

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.

APTPPL's access arrangement revisions submission date is 1 July 2021. APTPPL submitted its reference service proposal on 30 June 2020. We are required to conclude our assessment of the reference service proposal no later than 31 December 2020.

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Shortened forms

Shortened form	Extended form
AA	access arrangement
AEMC	Australian Energy Market Commission
AER	Australian Energy Regulator
APTPPL	APT Petroleum Pipelines Pty Ltd
Cl.	clause
NGL	National Gas Law
NGO	National Gas Objective
NGR	National Gas Rules, Rules
RBP	Roma to Brisbane Pipeline

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 users for using these networks.

The National Gas Law and National Gas 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):¹

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

APTPL provides reticulated natural gas pipeline services in Queensland via the Roma to Brisbane Pipeline (RBP).

Consistent with the NGR, on 30 June 2020 APTPL submitted its reference service proposal for the 2022-27 RBP access arrangement period. We assessed the proposal against the requirements set out in the NGR.

APTPL proposed as reference services on the RBP:

- firm transportation eastbound
- firm transportation westbound

APTPL also proposed that the RBP parking and loan services be rebateable services. As rebateable services 70 per cent of revenue earned from these services will be used to reduce reference tariffs.

We published APTPL's proposal on the AER website and called for submissions. We received no submissions.

Our final decision is to approve APTPL's reference service proposal:²

- firm transportation eastbound and westbound will be reference services.

We also determine to:³

- retain in-pipe trade as a rebateable service, as it currently is
- make firm parking and loan services rebateable services, as proposed by APTPL.

¹ *National Gas (South Australia) Act 2008*, s. 23.

² NGR cl. 47A(10).

³ NGR cl. 93(4).

Firm transportation services may have demand reasonably forecast and have costs allocated to them. Setting reference tariffs for these services will be useful to users in negotiating use of the RBP's capacity.

While the EUAA called for parking and loan services to be made reference services, we accept APTPPL's argument that it is not feasible to reasonably forecast their demand given large variations from year to year.⁴ This means allocating costs to these services is not practicable. Making parking and loan services rebateable services will provide a benefit to RBP users.

In-pipe trade is currently a rebateable service. Our decision is that in-pipe trade will remain a rebateable service.

We may amend this decision in the context of our assessment of APTPPL's access arrangement revisions proposal if a material change in circumstances arises.⁵

While beyond the scope of our decision, we note that in response to EUAA feedback APTPPL undertook to:⁶

- align RBP reference services with the length of the APA standard long term contract at 12 months
- publish RBP revenue and customer numbers by service type following an external audit.

⁴ APTPPL, *Reference service proposal*, June 2020, p. 34.

⁵ NGR, cl. 48(1a).

⁶ APTPPL, *Reference service proposal*, June 2020, p. 22.

2 Background

This section discusses the reference service requirement in the NGR and describes APTPPL's RBP.

2.1 APTPPL's RBP

The RBP is a transmission pipeline extending around 444 kilometres from Wallumbilla in south central Queensland to Gibson Island in Brisbane. The RBP includes a number of laterals servicing gas fields proximate to its main trunk line. It transports natural gas from the Surat Basin plus the Peat and Scotia gas fields east to Brisbane and west to the Queensland Gas Pipeline (which runs from Wallumbilla to Rockhampton). Wallumbilla functions as a hub for supply of natural gas in Queensland.

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.^{7 8}

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:⁹

- 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 broader access arrangement revisions proposal.

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.

⁷ 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.

⁸ AEMC, *Regulation of covered pipelines*, March 2019.

⁹ NGR, cl. 47A.

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.

APTPPL's access arrangement revisions submission date is 1 July 2021.¹⁰ This means APTPPL was required to submit its reference service proposal to the AER by no later than 1 July 2020. We are required to conclude our assessment no later than 31 December 2020.

2.2.2 Criteria

In preparing its reference service proposal and in undertaking our assessment the NGR require APTPPL and ourselves to have regard to the reference service factors.¹¹
¹²

- 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.

¹⁰ Access arrangement revisions for the 2022-27 access arrangement period.

¹¹ NGR, cl. 47A(1)(c); 47A(13)(a); 47A(14).

¹² NGR, cl. 47A(15).

3 APTPPL's reference service proposal

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

3.1 APTPPL's stakeholder consultation

APTPL submitted that it undertook stakeholder consultation by:¹³

- engaging with its existing and prospective pipeline users
- engaging with a wider group, principally in Queensland, who might represent end users, or who might be interested in energy supply.

APTPL submitted that it contacted and provided RBP reference service information to stakeholders and offered to discuss with each of these stakeholders possible reference services for the RBP.

On 27 May 2020 APTPL held a video conference to discuss its RBP reference service proposal with stakeholders. The following feedback was provided:

- a consumer representative proposed that a broader set of services be defined as reference services for reduce complexity for shippers and to mitigate risk of monopoly pricing by APTPL
- a shipper asked for prices and the rate of return applicable to the RBP.

In response to the above feedback, APTPL explained why RBP services other than firm transportation east and west were not proposed to be reference services. Also that reference tariffs would be set by the AER in the upcoming access arrangement reset process.

APTPL circulated a draft of its reference service proposal to members of its Community Engagement Group prior to submission to the AER.

In response to the draft reference service proposal the Energy Users Association of Australia (EUAA):¹⁴

- agreed to the firm transportation services being reference services
- asked that parking and loan services be made reference services
- asked that the reference service proposal be aligned to the APA standard long term contract period of 12 months
- asked APTPL to publish RBP revenue and customer numbers by service type to enhance transparency.

¹³ APTPL, *Reference service proposal*, June 2020, p. 18.

¹⁴ APTPL, *Reference service proposal*, June 2020, p. 34.

In response to the EUAA feedback, APTPPL:

- did not propose firm parking and loan as reference services but did propose that they be made rebateable services
- aligned the firm transportation reference services with the APA standard contract at 12 months
- agreed to publish RBP revenue and customer numbers following an external audit.

3.2 APTPPL's reference service proposal

Reference services

APTPL proposed firm transportation east and west as reference services on the RBP.

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

Non-reference services

In addition to the reference services listed above, APTPL proposed to offer several non-reference services:¹⁵

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

Rebateable services

APTPL proposed that firm parking and loan services be rebateable services.

APTPL noted that in-pipe trade is currently a rebateable service.

¹⁵ APTPL, *Reference service proposal*, June 2019, pg.23-29.

4 AER assessment

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

4.1 AER stakeholder consultation

We published APTPPL's reference service proposal on the AER website on 30 July 2020. We called for written submissions by no later than 4 September 2020.

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

When we undertake our reference service assessment we place considerable weight on the views of stakeholders, particularly users or prospective users of the gas pipeline in question.

While we did not receive submissions ourselves we have noted APTPPL's description of stakeholder feedback provided to it. We have taken that feedback into account in making our reference service decision.

4.2 AER assessment of APTPPL's reference service proposal

To assess APTPPL'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	AER 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 reference to a website at which a description of the pipeline can be inspected;	Compliant. See section 3 of APTPPL's 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	Compliant. See section 4.

characteristics in subrule (2);

(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

Compliant. See section 6.

(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:

(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.

APTPPL's reference service proposal appropriately defines pipeline services in regard to their characteristics, priority and receipt 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 APTPPL'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;

Based on APTPPL's submitted demand information there is likely to be ongoing demand for **eastbound transportation** and increasing demand for **westbound transportation** on the RBP.¹⁶

In respect of APTPPL's proposed non-reference services, its reference service proposal noted:

- **in-pipe trade** (currently a rebateable

¹⁶ APTPPL, *Reference service proposal*, June 2020, pp. 23-24.

service) volumes fluctuate from year to year but even in the highest earning years total revenue from this service has not exceeded \$200,000

- **operational capacity transfer** service is not sought in its own right but gives users flexibility in their gas transportation services
- forecasting volumes for **parking and loan** services (currently rebateable services) is not possible as demand fluctuates considerably from year to year
- demand for **interruptible transportation** services is a function of the extent to which firm transportation capacity is available and that auctioned contracted but unominated capacity takes priority over dispatch of the interruptible service – undermining demand for this service.

With respect to **in-pipe trade**, we consider the marginal cost to APTPPL of administering the reference tariff adjustment mechanism for **in-pipe trade** will be minimal. So while we note APTPPL's proposition that current revenues are relatively small, APTPPL proposed to expand rebateable services to include parking and loan services. Concerns about the materiality of **in-pipe trade** revenue are less significant in the context of an existing mechanism to reduce reference tariffs and APTPPL's proposal to retain that mechanism for other purposes.

With respect to **parking and loan** services, the EUAA wrote to APTPPL and presented revenue information indicating that its earnings from these services varied from \$2.7 million in 2018 to \$0.6 million in 2019.¹⁷ The EUAA considered this to be evidence of material demand for these services.

While we agree with the EUAA that demand for RBP **parking and loan** services may be

¹⁷ APTPPL, *Reference service proposal*, June 2020, p. 36.

material, the revenue information it presented reinforces APTPPL's point that demand for these services is volatile. This volatility makes demand forecasting impractical which in turn makes allocating costs to these services impractical.

We accept APTPPL's argument that **parking and loan** services are not appropriate reference services. We agree with APTPPL that **parking and loan** services are suitable to be made rebateable services.

With respect to **interruptible transportation**, we agree with APTPPL that in the RBP's current market circumstances, with excess capacity and unominated capacity available at low prices, demand for this service will be low or non-existent. This differentiates the RBP from, for example, the Amadeus pipeline for which we recently specified **interruptible transportation** as a reference service.

In the case of Amadeus, 100 per cent of firm capacity is contracted, leaving shippers seeking capacity to source it through **interruptible transportation** services. The RBP's circumstances are materially different, justifying a different regulatory approach.

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

The **east and west bound firm transportation** services are substitutable with **interruptible transportation**.

In-pipe trade is not substitutable with other services.

Operational capacity transfer is substitutable with the AEMO exchange capacity trading service but not with other RBP services.

Parking and loan services are substitutable in terms of the firm and non-firm variants of these services. They are not substitutable with other services.

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

Costs may be allocated to **the firm transportation service** and, in principle, the **interruptible transportation services**.

In-pipe trade services are provided by APTPPL's corporate group with costs allocated to APTPPL. As submitted by APTPPL the allocation of further RBP specific costs to in-pipe trade is possible but would

result in minor change.

The price of the **operational capacity transfer** service is set by regulatory processes administered by AEMO and allocating further costs to this service is not feasible.

APTPPL submitted that because demand for **parking and loan** services cannot be adequately forecast it is not feasible to allocate costs to the services. We accept APTPPL's proposition.

(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, specifying **firm transportation** services as reference services may be useful to users.

(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 retaining **firm transportation** as reference services regulatory costs for all parties will be minimised.

By retaining **in-pipe trade** and specifying **parking and loan** services as rebateable services, regulatory costs for APTPPL will be minimal. The rebateable revenue framework is already in place.