

APA VTS Access arrangement 2023-27: Overview of AER draft decision

Public forum | Monday, 25 July 2022

Agenda/Contents

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|---|--------------------------------------|-------|---|---------------------|-------|
| 1 | Welcome and introductions | 9.30 | 6 | Discussion time | 11.15 |
| 2 | AER – key findings in draft decision | 9.35 | 7 | Thank you and close | 11.25 |
| 3 | AER Consumer Challenge Panel (CCP28) | 10.00 | | | |
| 4 | Brotherhood of St Laurence | 10.30 | | | |
| 5 | APA VTS | 10.45 | | | |

About us

- The AER exists to ensure energy consumers are better off, now and in the future
- Effective regulation of monopoly infrastructure through:
 - Better resets handbook: towards consumer-centric regulatory proposals
 - Supporting the energy market transition
 - Information paper: regulating gas pipelines under uncertainty
- This review will determine the access arrangement that applies to APA's Victorian gas transmission system for 2023-27
 - The price and non-price terms and conditions on which APA's reference service will be offered from 1 January 2023 to 31 December 2027

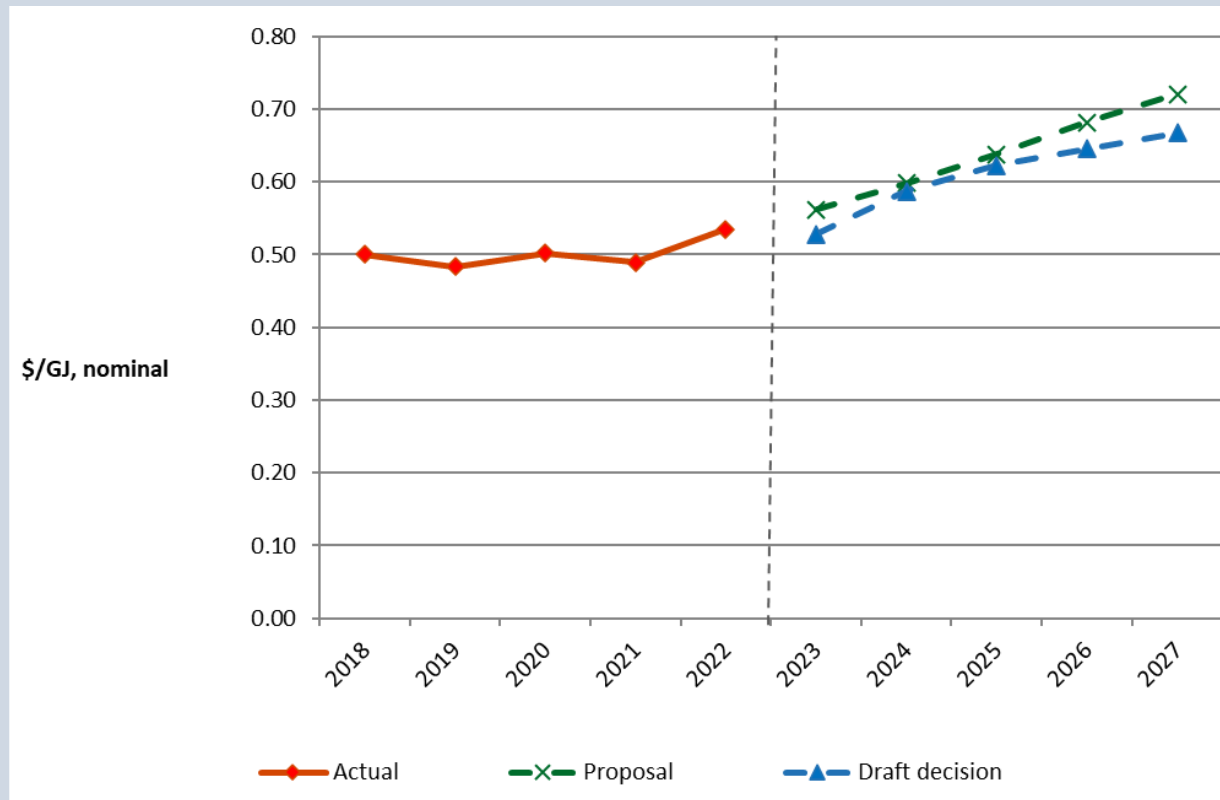
Where we are now

Milestone	Date
<i>APA submitted its access arrangement proposal to the AER</i>	<i>1 December 2021</i>
<i>AER held an online public forum on the proposal</i>	<i>1 February 2022</i>
<i>Submissions on APA's proposal closed</i>	<i>18 February 2022</i>
<i>AER published its draft decision on the proposal</i>	<i>30 June 2022</i>
AER holds online public forum on the draft decision	25 July 2022
APA to submit a revised proposal responding to the draft decision	10 August 2022
Submissions on the AER's draft decision and APA's revised proposal close	6 September 2022
AER publishes final decision on the access arrangement proposal	December 2022

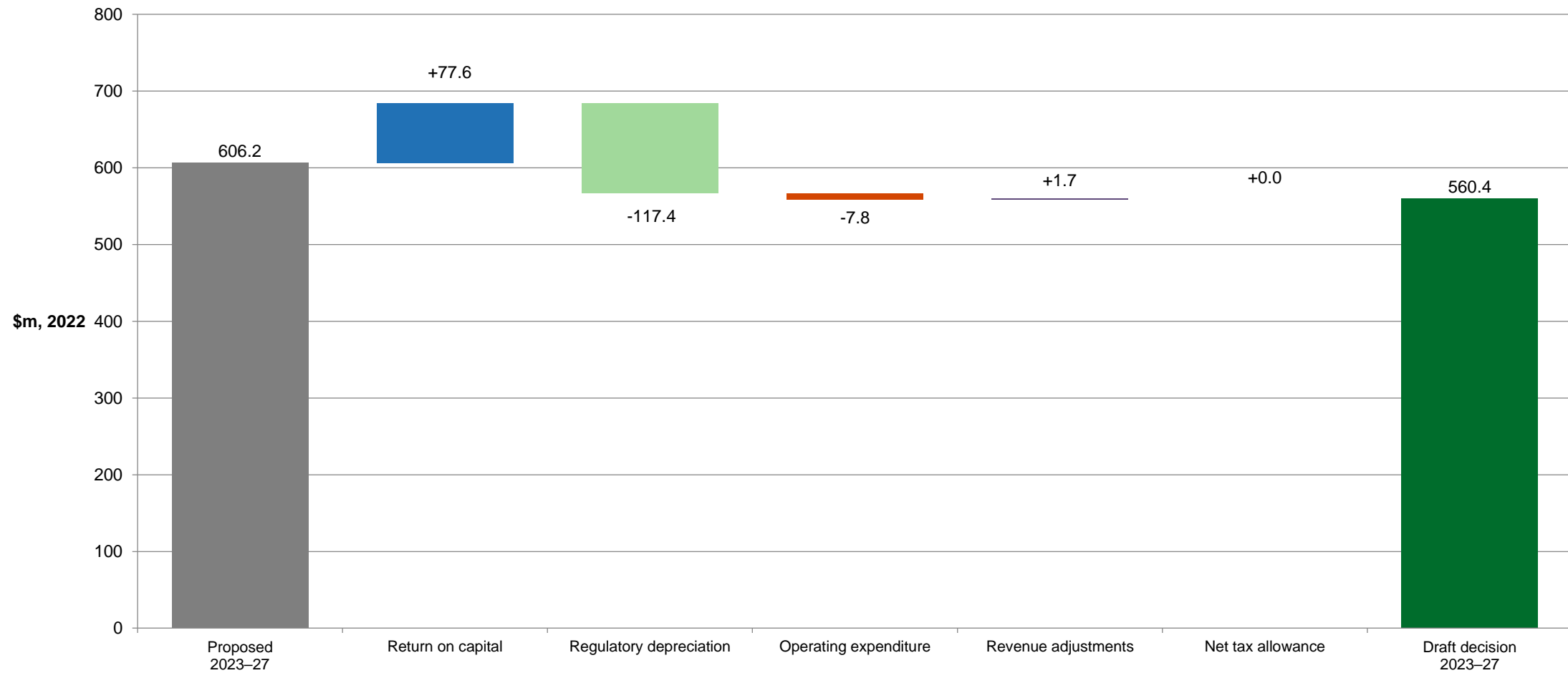
Today: 

About our draft decision

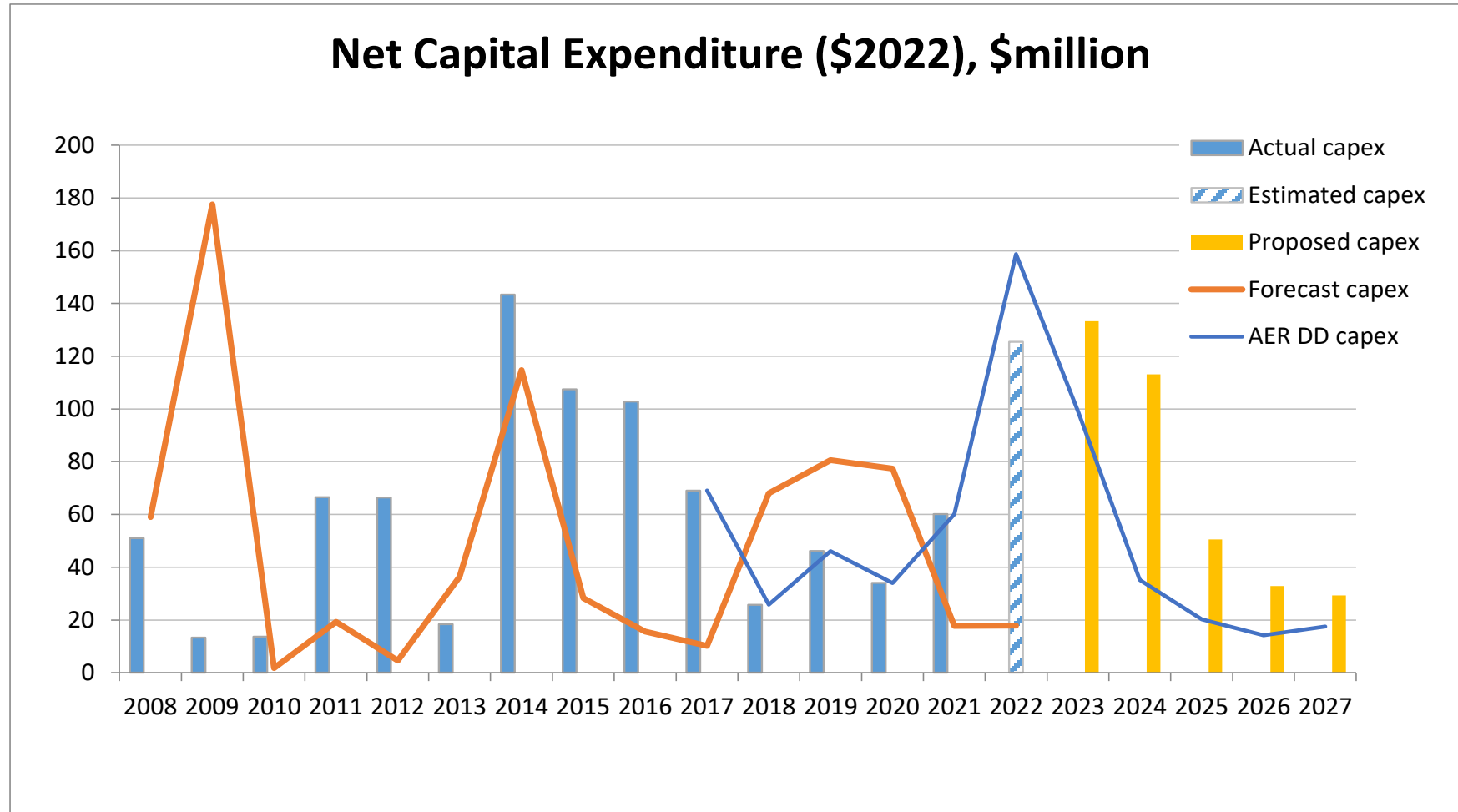
- Indicative average reference tariffs 2018 to 2027



Key areas of difference between proposal and draft decision

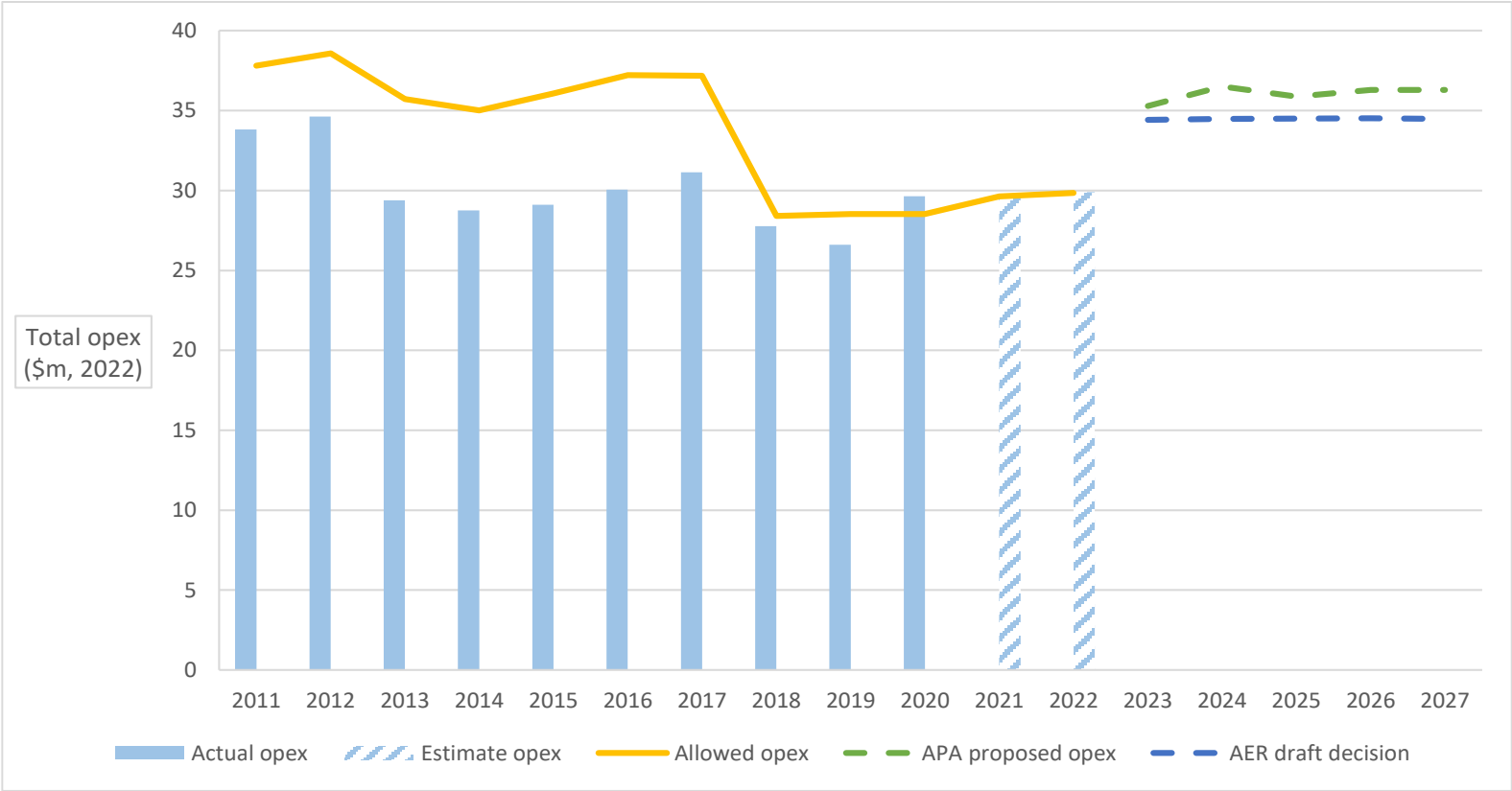


Capital expenditure



Operating expenditure

Historical and forecast opex (\$million, 2022)



Forecast demand

- In APA's access arrangement:
 - The 'average revenue yield' form of control we apply to APA's tariffs is similar to a price cap. In very simple terms, tariffs are determined by cost (revenue allowance) divided by total demand. In this draft decision, declining forecast demand has the effect of increasing tariffs.
 - Forecast demand is also a driver of opex and capex for network growth or expansion
- Two potential demand outlooks:
 - Step change: an accelerated transition towards a net zero economy with significant electrification occurring in the short to medium term, increasing renewable energy penetration and retiring coal generation.
 - Progressive change: slower action towards the transition to a net zero economy, allowing time for technologies to develop with strong transformation efforts occurring in the long term to achieve net zero 2050.
- **Draft decision uses updated load and demand forecasts from APA based on the Progressive Change scenario as a placeholder**

Accelerated depreciation

- AER - Regulating gas pipelines under uncertainty - Information paper - November 2021:

“Our preliminary view is that some form of accelerated depreciation would be appropriate if there is sufficient evidence to demonstrate and quantify the pricing risk and stranded asset risk arising from demand uncertainty.”

“Maintaining the status quo is a default option if the risks are not adequately substantiated.”

- Our draft decision does not approve accelerated depreciation:
 - APA has not provided sufficient justification to satisfy us that accelerated depreciation of the VTS is warranted at this time.
 - We have maintained the remaining asset lives as calculated under the weighted average approach and the current standard asset lives that reflect the technical lives of the asset classes will continue to apply for the 2023–27 period.

The importance of consumer engagement

- While a step up from previous APA processes, consumer engagement has fallen short of expectations in the Better Resets Handbook for consumer *partnership*
- Better Resets Handbook - Towards consumer-centric network proposals – December 2021:

*“to encourage networks to better engage and have **consumer preferences drive** the development of regulatory proposals. If regulatory proposals also meet our expectations, they are more likely to be accepted by us, earlier in the assessment process and thereby create a more efficient regulatory process for all stakeholders”.*

- Where revisions to APA’s proposal are required in response to this draft decision, we expect APA to engage with consumers on how they think APA should respond.
- Consumer views on how successful this has been?

Next steps

- APA's revised proposal must be submitted by 10 August 2022.
- Stakeholders will then have until 6 September to make any submissions on our draft decision and APA's revised proposal.
- You can find our draft decision (and when it is submitted APA's revised proposal) on the AER website here:

<https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/apa-victorian-transmission-system-access-arrangement-2023%E2%80%9327>

- Submissions can be sent to: APAVTS2023@er.gov.au

