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Victorian Transmission System 2023-2027 access
arrangement proposal

Engaging with stakeholders on VTS plans



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Foreword

APA proudly owns the Victorian Transmission System which plays an important role providing gas to Victorian households and businesses. The gas transported on the VTS is used to power communities and the economy in Victoria.

APA's Purpose is to strengthen communities through responsible energy. This means doing the right thing, even in tough situations; creating value for all our stakeholders; taking a long-term view and being here for our future generations; investing in future technologies and new energy; and innovating for a sustainable future.

The stakeholder engagement we have undertaken as a critical part of our access arrangement plans for VTS aligns with our Purpose. By consulting widely with stakeholders who rely on gas carried on the VTS, APA is now able to prepare an access arrangement for 2023 through 2027 that truly does strengthen communities through responsible energy.

Before submitting our proposed five-year plans for the VTS to the regulator, we wanted to share our assessments and views on the key matters that will impact the VTS over the next 5 years and beyond. Understanding what impacts the VTS will impact our stakeholders we wanted to know and, where appropriate, incorporate what our customers, consumer advocates and businesses had to say about plans for the VTS.

To that end, we established the Victorian Transmission System Stakeholder engagement group to provide community perspectives about our proposed plans for the VTS. In this document you will learn about the composition of our Stakeholder Group, how we engaged with the Stakeholder Group, and what our Stakeholder Group told us. The outcomes resulting from the stakeholder involvement are interlaced throughout our VTS 2023-2027 access arrangement proposal.

This was an exciting and important initiative for APA and we are looking forward to engaging with you. We learnt a lot from our stakeholders and we sincerely thank them for their interest and involvement.

We wish to express how sorry we are that David Headberry, a fierce advocate for consumers and participant on the engagement group, sadly passed away in November. He was a big influence on us here at APA. Our condolences to his family.

Ways we engaged

In this document 'Engaging with stakeholders on VTS plans' we present the way we engaged with Victorian Transmission System stakeholders to develop plans for the 2023-2027 VTS access arrangement revision. We present information on who was involved, things we engaged on and when, and stakeholder influence.

The purpose of the VTS engagement was to receive insights and input from the community of gas customers, consumers and stakeholders in Victoria who are impacted by the VTS.

We wanted to have a better understanding of stakeholder views for operating and investing in the VTS over the 2023-2027 access arrangement period. The involvement from stakeholders helped shape our thinking for the VTS.

Stakeholder influence is discussed in more detail in VTS access arrangement proposal overview.

Getting started

When getting started we looked for guidance from our peers in the energy sector who were already doing a lot of stakeholder engagement. We drew on what we thought was fit for the purpose of the VTS access arrangement.

We prepared a draft engagement plan setting out what we considered to be good industry practice on engagement principles and ways to engage.

Stakeholder engagement group

APA established the VTS Stakeholder Engagement Group to involve stakeholders in preparing the proposal. We mapped out key stakeholders and sought representation from consumer advocates, business advocates, customers (shippers), storage facilities, AEMO (Australian Energy Market Operator) and government at our roundtables. APA VTS considered that consumer and business advocates would represent the hard to reach residential and small business groups. We had over thirty stakeholder organisations participating in the roundtable discussion. A further five wanted to be on the mailing list for important notices.

The AER and the Australian Competition and Consumer Commission attended as observers. During the engagement process we had feedback from the AER about the engagement process which we took on board.

We expected stakeholder engagement group members to represent the views of their organisations. We valued the broad range of views and we sought to include, where appropriate, stakeholder opinions in our draft proposal.

The engagement group has provided valuable insight, and feedback on matters important to customers and stakeholders and has served to challenge and enhance our consideration of regulatory matters. Feedback from stakeholders was provided to the VTS Board.

The stakeholder engagement group included representation from:

Organisation	Type of organisation
AGIG	Gas business
AGL	Energy business
Agora Retail	Energy retailer
Alinta Energy	Energy business
AusNet Services	Energy business
Australian Energy Market Operator	Market operator
Brickworks	Energy user
Brotherhood of St Laurence (joined August 2021)	Customer & consumer advocate
Central Petroleum	Energy business
Council of the Ageing	Customer & consumer advocate
CQ Energy	Energy business
Department of Environment, Land, Water and Planning (DELWP)	Victorian Government
DISER	Australian Government
Energy Safe Victoria	Safety regulator
Energy Users Association Australia	Customer & consumer advocate
EnergyAustralia	Energy business
ERM Power	Energy business
Gas Trading/ Energy Matrix	Energy consulting
Jemena	Gas business
Lochard Energy	Storage Facility
Lumo Energy/ Red Energy	Energy Business
Major Energy Users Group	Customer & consumer advocate
Origin Energy	Energy business
Santos GLNG	Energy business/ LNG
Seagas	Energy business
Shell / ERM Power	Energy business
Simec Energy	Energy business
St Vincent de Paul	Customer & consumer advocate

Organisation	Type of organisation
Venice Energy	LNG import terminal proponent
Visy	Energy user
Viva Energy	LNG import terminal proponent
Vopak	LNG import terminal proponent
Others on email distribution list	
Consumer Action Group	Customer & consumer advocate
Energy Consumers Australia	Customer & consumer advocate
Manufacturing Australia	Customer advocate
SGM Solutions	Energy consulting
VCOSS	Customer & consumer advocate
Observers	
Australian Competition and Consumer Commission	Competition regulator
Australian Energy Regulator	Economic regulator

Engagement principles

We developed a draft set of engagement principles that we drew on from other businesses and IAP2 spectrum. Importantly, the engagement principles guided our approach to engagement.

We sought to align our engagement with principles as much as possible.

Engagement principles

- **No surprises.** We want stakeholders and the regulator to feel that during the engagement process we revealed details of our thinking as we went along. At each roundtable we presented what we heard and our response to the issues raised in previous roundtables. At the last roundtable we let stakeholders know how feedback had been incorporated into the draft proposal.
- **Clear, accurate and timely communication.** We aimed to prepare information with sufficient time for stakeholders to consider and provide feedback. We held monthly roundtables and distributed material before the roundtables.
- **Easy to understand.** We aimed to prepare and provide accessible, non-technical information that could be read and understood by a wide audience. We made stakeholder engagement material and the timetable available on our website.
- **Transparent.** We wanted to be transparent about our thinking and plans. APA is ASX-listed and there are rules about what we can and cannot make public. The information we provided met the disclosure requirements.
- **Provides for influence.** We wanted to be open about what is and what is not open to stakeholder influence. We let stakeholders know whether we are simply providing you with information or seeking to consult and involve you in developing our plans. For example, our operating and capital expenditure plans are open to influence, and we will consult on these, however, rates of return align with regulatory instruments and were presented for information only.

Ultimately, in developing the regulatory proposal, we wanted to have open and honest dialogue with truly engaged stakeholders.

At the last scheduled roundtable (R12) we polled participants for feedback on the engagement process, against the above principles. The results are presented further on in this document.

Timetable of key activities, topics and dates

The draft engagement Plan presented an indicative timetable and topics for discussion. We sought feedback on the activities and timelines.

In response, we held a Capital Program Issues workshop on 29 July to provide opportunity for deeper discussion on capital expenditure programs and projects. We held a Hydrogen Information session led by our technology team on 26 August to discuss APA work on hydrogen.

Following a request by stakeholders we let stakeholders know where the session sat on the International Associations for Public Participation spectrum (IAP2 spectrum). The IAP2 rating varied on the topics we discussed ranging from inform, involve, consult, and involve.

Phase 1 - Setting the Scene focused on informing stakeholders about APA, VTS and the regulatory framework under the National Gas Rules. Our Asset Management team presented on the Asset Management Framework and strategic objectives for VTS. AEMO subject matter experts presented on the Declared Wholesale Gas Market exit and entry capacity certificates (presentation by AEMO) & we presented on the VTS reference services draft proposal. We consulted on the engagement plan to make sure we were meeting stakeholder expectations.

Phase 2 - Getting to the detail focused on the regulatory building block and VTS tariff structures. Our Asset Management Team provided preliminary information about replacement (stay-in-business) including the Unpiggables program which is one of the largest components of the replacement program.

AEMO presented on the Victorian Gas Planning Report (VGPR) which is an important input into capital planning for the VTS. The complex range of issues affecting the VTS, stakeholders sought to better understand capital expenditure drivers for the VTS.

On 13 May we published the Capital Program Issues Paper and we received written feedback from two stakeholders. We held a follow-up Capital Program Issues workshop to provide opportunity for a deeper dive and feedback on proposed direction for VTS.

We involved stakeholders in developing terms of reference for a demand and supply study. Oakley Greenwood presented to the stakeholders on three occasions providing updates and taking on stakeholder feedback.

Phase 3 - Putting the plans together involved presenting preliminary thinking on tariff scenarios and proposed capital and operating expenditure forecasts. We played back how stakeholder engagement has shaped our thinking. In the final roundtable before we submitted we presented our final positions which included measures to lessen the impact on tariffs and customer bills.

The following timetable was updated as the engagement went along to avoid clashes with other consumer engagement events. The timetable was posted on the VTS stakeholder engagement webpage.

VTS stakeholder engagement key activities and dates			
Date	Activity	Topics	IAP2 spectrum
Phase 1 - Setting the scene			
28-Oct-2020	Consultation	2023-27 access arrangement - engagement plan. Draft for comment	Consult / Involve
28-Oct-2020	Roundtable 1	Setting the scene, about APA, VTS and the regulatory landscape & draft engagement plan	Inform/ Consult
18-Nov-2020	Consultation	APA draft Reference Service Proposal circulated for comment	Consult / Involve
25-Nov-2021	Roundtable 2	Declared wholesale market exit and entry capacity certificates (presentation by AEMO) & reference services draft proposal	Inform/ Consult
10-Feb-2021	Roundtable 3	APA asset management framework & strategic issues influencing VTS asset management plan	Inform/ Consult
Phase 2 - Getting to the detail - revenue requirements, tariffs and access arrangements			
16-Mar-2021	Roundtable 4	Introduction to regulatory building block and VTS tariff structure	Inform/ Consult
14-Apr-2021	Roundtable 5	Overview of 2021 Victorian Gas Planning Report; and first look at capital program for VTS	Inform/ Consult
13-May-2021	Issues Paper	Capital program	Involve
19-May-2021	Roundtable 6	AEMO presentation on VGPR. Demand forecasts.	Inform/ Consult
16-Jun-2021	Roundtable 7	Capital program update & first look at operating expenditure Pigging the Unpigtable: An asset futureproofing initiative	Inform/ Consult/ Involve
29-Jul-2021	Capital Issues Workshop	Workshop to describe on drivers and decision-making for capital expenditure and engage of issues of concern to stakeholders	Inform/ Consult/ Involve
18-Aug-2021	Roundtable 8	Capital issues - continuing discussion. Demand and Supply study, South West Pipeline and Depreciation,	Inform / Consult/ Involve
26-Aug-2021	Information session	Hydrogen: Why it is important to explore options to repurpose the VTS for hydrogen	Inform/ Consult/ Involve
15-Sep-2021	Roundtable 9	Demand & Supply Final Report, depreciation again, Transformation & Technology, Stay in business update	Inform / Consult
Phase 3 - Putting the plans together			
10-Jun-2021	Roundtable 10	How you have influenced our draft proposal. First look at the revenue requirements - capital and operating expenditure forecasts, impact on tariffs.	Inform / Consult
15-Oct-2021	Consultation	APA release APA VTS early consultation document	Involve
25-Oct-2021	Roundtable 11	Early consultation proposal - Q&A session	Involve
11/10/2021 to 22/10/2021	Consultation	Opportunity for one on one meetings with stakeholders	Involve
TBA	Placeholder	Follow-up on any outstanding issues & updates	Involve
8-Nov-2021	Consultation	Submissions to APA on early consultation document	
22-Nov-2021	Roundtable 12	How you shaped our thinking on the VTS regulatory proposal	Involve
01-Dec-2021	Submission	APA VTS regulatory proposal submitted to AER	
TBA	Further roundtables	Proposed during the regulatory process	

Stakeholder engagement roundtables

APA VTS held monthly roundtables with the VTS Stakeholder Engagement Group. We held roundtables between October 2020 and November 2021. We also held a Capital Issues workshop on 29 July to provide opportunity for deeper discussion on capital expenditure programs and projects.

From the start of the engagement, stakeholders expressed interest in APA's technical work on hydrogen. We held a Hydrogen Information session led by our technology team on 26 August to discuss APA investigations into transporting hydrogen on gas transmission pipelines.

At each roundtable we let stakeholders know where the session sat on the International Associations for Public Participation spectrum (IAP2 spectrum). The IAP2 rating varied on the topics we discussed ranging from inform, involve, consult, and involve.

We considered our approach to engagement as akin to 'thinking out aloud' with stakeholders in the room. We were presenting our thinking as we were developing our draft proposal. The stakeholder roundtables were facilitated by APA's regulatory team responsible for preparing the VTS access arrangement proposal. APA subject matter experts presented on asset management framework, expenditure drivers and key programs and projects, SoCI program,

Under COVID-normal, we conducted the roundtables online via MS Teams.

Roundtable 1 - Setting the scene (28 October 2020)

Issues discussed

- About APA and what do we do?
- Victorian Transmission System and some issues for the upcoming period
- Regulatory landscape for VTS
- Proposed engagement plan.

What we heard and our response

What we heard and first thought response



Topic	Issues	Ways to address
Access arrangements, national gas rules	<ul style="list-style-type: none"> • Further explanation required about how the access arrangement works. 	We will provide further information as we progress
Market carriage model	<ul style="list-style-type: none"> • Further explanation required about the market carriage model and how it operates • What are the implications of rule change to replace AMDQ certificate arrangements with AEMO administered entry and exit certificates. 	Roger Shaw will be presenting on this topic today
Capital expenditure	<ul style="list-style-type: none"> • What happens if there a need for an extension and expansion? • Security of supply is important but who pays for it? • How does it work under the rules (rules 79 and 80)? • What happens if new capex gets stranded – who pays for it? • What is the Western Outer Ring Main project (WORM)? How is it progressing? 	These are complex issues. We will work through these issues including any potential application under rule 80 (advance determination for future capex) with you in future engagement
Tariff structures	<ul style="list-style-type: none"> • Suggest APA talk to the AER about proposal to restructure tariffs • How are tariffs structured now? • Existing VTS tariff structure is complex and could be simplified but that the simplification process should not result in large Tariff D consumers cross-subsidising tariff V consumer • Is there interest/ scope in co-ordinating tariffs with AEMO's new certificate arrangements? 	We are preparing an issues paper on tariff structures. Let us know what concerns you have about tariff structures. We will incorporate these into the issues paper.
Proposed engagement plan	<ul style="list-style-type: none"> • Noted that proposed approach is at the lower end of the International Association for Public Participation – IAP2 scale (inform, consult, involve, collaborate, empower) • Suggestions that we look at recent examples of best practice • Would APA release early draft proposal document for consultation – like other businesses? • Suggest that the proposed webpage be located on the APA webpage. 	Proposing to build in an early consultation proposal for consultation. Aiming for release of the early consultation proposal by early October. We will also prepare issues papers to work through issues.

Roundtable 2 - Reference tariffs & DWGM (25 November 2020)

Issues discussed

- Recap of last week and the feedback we received (R1)
- Declared wholesale market, exist and entry capacity certificates – Roger Shaw (AEMO)
- Reference service draft proposal
- Engagement plan.

What we heard and our response

What we heard at Roundtable 2



Topic	Issues raised by stakeholders	Comment/ response
Capex	<ul style="list-style-type: none"> • Discussion about the different Floating Storage and Regassification Unit (FSRU) options in Victoria and Port Kembla in NSW. • Seems to be hurdles that cause uncertainty for proponents of FSRUs. • Why can't the FSRU proponents pay for the additional capex required to extend the pipelines to get the gas to market. • Does rule 80 replicate the contingent projects (in the National Electricity Rules). 	<p>Future capital requirements for VTS is complex. We are preparing a short issues paper on capex for review and comment by the group.</p>
Declared Wholesale Gas Market – entry and exit certificates	<ul style="list-style-type: none"> • What is the difference between the exit and entry certificates and the current AMDQ arrangements? 	<p>Roger Shaw addressed these issues during the roundtable. The entry and exit certificates will be auctioned every six months. Capacity certificates are for entry or exit within a zone and AEMO is required to determine the capacity certificates zones and publish these in a register. Note further information available at https://www.aemc.gov.au/sites/default/files/2020-03/GRC0051%20Improvement%20to%20AMDQ%20regime%20final%20determination%2012%20March%202022%20info%20sheet%2028final%29.pdf</p>
	<ul style="list-style-type: none"> • What's to stop a shipper with deep pockets from hoarding all the capacity and preventing smaller shippers from getting certificates. 	<p>Roger Shaw explained that because the mechanism is a market based one, the thing that will stop hoarding is price. Because you are continually required to buy it. Each month will generally have six auctions. If you miss out the first time, you should be able to buy the next time round.</p>

What we heard at Roundtable 2



Topic	Issues raised by stakeholders	Comment/ response
Tariff structures – cost reflectivity	<ul style="list-style-type: none"> • The VTS tariffs are complex but they are cost reflective. Acknowledge that there are competing matters to balance such as locational pricing, load factors etc • Tariffs aren't cost reflective with respect to load factors. There is cross-subsidising of smaller customers using during winter - because of the allocation of prices based on 10 days of maximum load capacity. 	<p>To be discussed in the tariff structure issues paper.</p>
Tariff structures - simplicity	<ul style="list-style-type: none"> • More explanation is needed of the tariff structures which read like hieroglyphics. More supportive information is required. Explain tariffs in simple terms. How does it work? Who bears the risk? How much do customers pay? 	<p>We will take this into consideration in our presentations.</p>
Tariff structures	<ul style="list-style-type: none"> • Discussion about scope for price changes and within period changes and side constraints. • Large customers do not want significant changes to Tariff D. 	<p>These matters will be considered as part of the Tariff issues paper.</p>
Engagement plan	<ul style="list-style-type: none"> • Suggest that at each roundtable we let people know where it is on the IAP2 engagement spectrum (Inform, consult, involve, collaborate, empower) • There was a request for an early version of the draft proposal to be available for consultation. 	<p>From now on, at the start of each roundtable we will indicate where on the IAP2 spectrum we sit.</p> <p>We have incorporated a draft consultation proposal into our engagement process.</p>

Roundtable 3 - Asset management framework (10 February 2021)

Issues discussed

- Recap of discussion so far
- Asset management at APA
- VTS asset management –strategic issues.

What we heard and our response

What we heard at Roundtable 3 and our response



Topic	Issues raised by stakeholders	Comment/ response
Dates for access	In Victoria, the regulatory dates for electricity have shifted from calendar to financial years. Is there a proposal to do the same for regulated gas businesses?	We have confirmed with the Victorian Government that there is no intention to move the transmission access arrangement dates from calendar to financial years.
Capex asset management	Hydrogen. As part of asset management, has APA been taking into consideration the potential impact of hydrogen on its pipelines	Following R3, in late February, APA has announced a hydrogen pilot project to enable the proposed conversion of 43-kilometres of the Parmelia Gas Pipeline in Western Australia. APA is targeting the testing and research to be completed around late CY2022. Further information https://www.apa.com.au/news/media-statements/2021/apa-set-to-unlock-australias-first-hydrogen-ready-transmission-pipeline/
	Net Zero. To what extent does APA's asset management approach take into consideration net zero emissions policies? Will APA seek to accelerate depreciation of assets?	In February, APA announced its ambition to achieve net zero operations emissions by 2050. This sends a clear message about APA's commitment to playing its part towards decarbonisation. See https://www.apa.com.au/news/media-statements/2021/apa-group-continues-progress-to-a-sustainable-future-with-ambition-for-net-zero-by-2050/ On the issue of accelerated depreciation we note that to date the AER has only allowed accelerated depreciation in limited circumstances.
	Asset management. To what extent does APA's asset management (maintenance) approach operate based on 'run to failure' or condition assessment approach?	Run-to-failure is not appropriate for transmission. We comply with range of regulatory requirements. APA's approach involves top-down strategic input and bottom-up business planning. We describe it as a pragmatic risk and opportunity based approach to maximise whole-of-life asset value.

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What we heard at Roundtable 3



Topic	Issues raised by stakeholders	Comment/ response
FSRUs	The business case for FSRUs is that they are 'flexible' and can move between locations. What happens if APA builds assets to accommodate an FSRU and then after, say, five years the FSRU leaves? Can the 'developer' / FSRU be charged for the assets?	Under the market carriage model we do not charge for connection / expansion of assets to individual users. This is because there is no firm access - therefore no incentive for users to pay a 'capital contribution'.
AGL Crib Point/ VIVA Geelong	What is the deadline for decision on these projects?	There are lots of moving parts - including the planning process, and the Port Kembla FSRU project. There are many parts that are subject to decisions outside of APA.
Western Outer Ring Main (WORM)	<ul style="list-style-type: none"> • What is the deadline for the decision on the WORM? • If under a rule 79 test for 'conforming expenditure', if the AER doesn't approve the expenditure could APA charge a contribution for building the asset? • What is the timing if you need to get a pre-approval for a potentially bigger 'fat' WORM? • When will the WORM be operational? • Why do you need to complete the WORM prior to FSRUs coming online? • Concern was raised about the potential for stranded assets - WORM and other potential expansions. • Could you roughly estimate the capex difference and the tariff difference between the small and large WORM. Those numbers would be good to have at a later session - and on the basis that the FSRU remains / and withdraw after 3-5 years. 	<p>The plan is for the WORM to be operational by September 2022.</p> <p>APA has given further consideration to the timing, costing and practicality of augmenting the capacity of original plan for the WORM. Our current position is that it is not prudent nor practical to increase the size of the WORM. This decision does not preclude consideration of other options to augment the VTS, eg. Compression.</p> <p>This will be followed by a workshop (proposed for 28 April) to understand the strategic drivers for investment in the VTS.</p>

Are there any questions or comments?

Roundtable 4 - Revenue building block (16 March 2021)

Issues discussed

- What we heard in Roundtable 3 and our response
- Engagement activities—key dates and IAP2 spectrum
- Building block –approach to calculating total regulatory revenue
- VTS tariffs.

What we heard and our response

What we heard at Roundtable 4 and our response



Topic	Issues raised by stakeholders	Comment/ response
Information on tariff structure	There were many questions about the rationale for the current tariff structures.	We will provide a explanation of the tariff structures in the Issues Paper.
Cost reflectivity	Why are injection tariffs based on cost-reflective -peak day structure but withdrawal tariffs are based on location and not set on peak day pricing.	Injection tariffs are based on recovering the cost of injection assets as they cannot be directly associated with a withdrawal point while withdrawal tariffs can be localised to delivery regions/areas.
Injection tariff	What is the intent of 10-day winter MDQ pricing methodology and what policy objectives (e.g. cost reflectivity, user pays, equity) does it meet? Given the large proportion of uncontrollable load, is the price signal relevant? What are the alternative approaches with other pipelines and overseas?	Injection tariffs are based on recovering the cost of injection assets from the users who contribute to the 10 highest peak days. Further consideration will be given these issues.
Tariff V delivery charges	Retail gas prices for residential and small business customers are listed by distribution zones so the VTS TUOS charges are aggregated either on the basis of distribution zones or on a postage stamp basis by retailers. Is there an opportunity to align the VTS zones with distribution zones, to reduce the number of TUOS zones or to aggregate on a postage stamp basis, considering that TOUS charges make up only 2-3% of a customer's bill?	Further consideration will be given these issues.

What we heard at Roundtable 4 and our response



Topic	Issues raised by stakeholders	Comment/ response
Tariff D delivery tariff	How significant are the 25 zones in providing pricing signals?	The zones reflect the cost of the assets.
Culcairn tariffs	What happens if say at Culcairn you are actually netting off an injection on your withdrawals (i.e. no physical flow). As stands this still gets charged the ~\$0.80/GJ?	As per the AA, billing occurs on the direction of the nomination/ allocations of flows. Even though a netting could occur, shippers have been scheduled in the market in both directions and as such transport services have occurred as a function of the two flow directions.
Cross-subsidies	Feels like the current structure is not cost reflective for load profiles. Users with the same day in and day out profile are cross subsidising smaller customers during winter.	Note that for the most part the Tariff D are lower than Tariff V. This reflects that Tariff V users have a worse load profile than the Tariff D - in general.
Cost-reflectivity/ postage stamp pricing	Tariffs should be cost-reflective (in response to complexity issues). It is up to the retailer to pass on the pricing. Not in favour of moving to postage stamp pricing.	Noted.
Weighing up proposals for tariff structure changes	Comment that any changes to tariff structures will take several regulatory periods to be realised. Question whether the benefits outweigh the costs.	Weighing up the costs and benefits is an important principle to be used in considering any changes to tariff structures.

Roundtable 5 - Capital program (14 April 2021)

Issues discussed

- What we heard in Roundtable 4 and our response
- 2021 Victorian Gas Planning Report –Overview and discussion
- A first look at the Capital program for VTS.

What we heard and our response

What we heard at Roundtable 5 and our response



Topic	Issues raised by stakeholders	Comment/ response
APA capex - term for NPV/ Asset lives	What term does APA use to assess benefits in NPV analysis? Issue linked to asset lives being assumed.	We are not proposing any expansion at this stage. Therefore we have not considered the appropriate term for such analysis.
APA Stay in business (SIB) capex	How are the SIB options developed?	Adam explained that we look at managing risks as part of our routine asset management planning. In some cases there are no alternative options.
Hydrogen	There is lots of discussion about how to integrate hydrogen - including the need to reline steel mains. How would that be treated for VTS / regulated assets.	Daniel commented that 2000km out of 2200km of the VTS steel pipelines are already lined. The issue is for VTS that the welds/ joints in the pipelines are not lined. The technology is not readily available to deal with this. We're not there yet with the welding issue.
Hydrogen	David forwarded an article about Hydrogen in the EU. Following on from my question today, here is a link to an article that discusses Europe's decision to convert its NG pipelines to transport hydrogen https://www.reuters.com/article/idUSKBN2C01TV	Thanks David.
Project prioritisation	Questions raised about the low levels of capital expenditure to date. There was an attempt to reconcile the numbers.	We noted that there will be variations to the cost of the WORM.
Angelsea	Why was Angelsea deferred?	AusNet decided to not proceed with this project - so APA didn't need to invest.
CESS	Is the VTS subject to the Capital Expenditure Sharing Scheme (CESS)	No.
CESS	So, without a CESS, APA earns a return on the underspend - which customers pay for. With a CESS, customers would get 70% of this underspend back.	SY explained that it is only the Rate of Return on the underspend that is retained during the AA period. Capital underspend is not added to the asset base at the start of the next period. Overall, there are swings and roundabouts - if we overspend in the current AA period - we don't earn a return until the next AA period.

What we heard at Roundtable 5 and our response



Topic	Issues raised by stakeholders	Comment/ response
VGPR - Dandenong LNG Storage	APA presented that AEMO has identified low Dandenong LNG inventory as a threat to system security and is seeking a market response. Question was raised as to why would an industrial customer pay for inventory when they was no certainty that they would have access to it if there was a safety and security issues and AEMO needed the gas. (and they will be curtailed ahead of others).	Refer to 2021 AEMO Gas Winter Outlook information. From APA's perspective under the National Gas Rules, APA is required to operate the Dandenong LNG Storage Facility in accordance with scheduling instructions issued by AEMO. In situations where AEMO considers it necessary to intervene in the market to subside a system security threat, AEMO can issue market directions or inject gas from AEMO's 'LNG reserve'. LNG reserve is defined as storage capacity to which AEMO is entitled under its storage agreement. At this stage AEMO does not have a storage agreement with APA at Dandenong.
VGPR - Supply options	What are AEMO's views on supply options west of Melbourne?	Question for AEMO.
VGPR - South West Pipeline	Did AEMO take into account recently announced Beach gas? South West Pipeline is under constraint. If Beach gas is developed there will be further pressure on SWP.	Question for AEMO.
VGPR - South West Pipeline	Is APA doing work on the South West Pipeline?	APA is looking at a number of different proposals but at this stage there is no augmentation anticipated for the 2023-27 access arrangement. APA can only undertake an expansion of the pipeline if there is firm information that the expansion is required – in this respect we are also beholden on others to reach FID on any projects they may have on the drawing board.
VGPR - South West Pipeline	What is the role of entry capacity certificates in deciding how much capacity would be required in SWP.	In a phone discussion with Scott - discussed the role of Entry Capacity Certificates, and how shippers might use them to nominate either from Iona or an FSRU, and what the implications of that market behaviour would be on our expansion needs – so we need to accommodate full flows from either Geelong OR Iona, or full flow from both simultaneously.

Roundtable 6 - AEMO Victorian Gas Planning Report & Demand forecasts (19 May 2021)

Issues discussed

- What we heard in Roundtable 5 and our response
- 2021 Victorian Gas Planning Report
- Demand forecasts for VTS.

What we heard and our response

What we heard at Roundtable 6 and our response

Topic	Issue	Response
Forecasts	Are AEMO's forecasts conservative if they don't include new Beach supplies. If the Esso refinery closes, will there be more gas available (in the VTS). What is the impact if the refinery closes? So the forecasts are conservative if they exclude the new Beach supplies.	APA is considering engaging a consultant to review the supply and demand forecasts in light of changes after the AEMO 2021 VGPR was published.
Review AEMO forecasts	Suggested that APA consult with stakeholder group on the Terms of Reference.	Great suggestion. Draft TOR for the review have been sent the Stakeholder group for comment.
Capacity certificates	Is there a break glass mechanism so that APA/AER can approve augmentations (i.e SWP expansion) within the access arrangement period if needed for system security?	Jessie noted that AEMO Final documents and tracked procedures have been published https://aemo.com.au/consultations/current-and-closed-consultations/implementation-of-2020-dwgm-enhancement-rule-changes AEMO will consult as per Procedures on how the LNG injections will be considered for SWP capacity certificates.
Hourly vs daily demand	Does AEMO look at hourly demand for gas also rather than Daily? Gas demand is moving ever more towards electricity peak demands particularly as renewable increase, so looking at capacity on a daily could be misleading. (ie may not met MDQ but will meet equivalent MHQ).	AEMO looks at daily demand at this stage.

6

What we heard at Roundtable 6 and our response

Topic	Issue	Response
South West Pipeline	[regarding LNG injections backing off Iona CPP injections] ...What is the quantum of back off effect to Iona CPP with LNG import?	Jessie noted that investigations are underway.
South West Pipeline	[response by participant] The rate at which gas would be injected into the VTS would be driven by the market demand and not by any "need" for the FSRU to quit its load.	Ok.
Western Outer Ring Main (WORM)	What is the benefit of the WORM? looking at the graphs is it 66 TJ withdrawal and 15TJ injection?	Note that the purpose of the WORM is to provide security of supply.
Net zero emissions	Still trying to understand impact of a net zero emissions policy on the forecast.	Jessie noted this is a question for AEMO forecasting team.
Accelerated depreciation	In the AER final decision on EVO, AER approved accelerated depreciation. Is APA considering this?	One of the reason for commissioning the review of supply and demand forecasts is to help inform APA in developing a position on this issue.

Roundtable 7 - Capital program update & first look at operating expenditure (16 June 2021)

Issues discussed

- Engagement timeline
- Reference services –AER decision
- Feedback from Roundtable 6
- Capital program issues paper
- Update on capital program -replacement capex, WORM
- Review of demand & supply forecasts
- Operating expenditure & Efficiency carryover mechanism.

Discussion continued in the Capital Program Issues Workshop.

Capital Program Issues Workshop (29 July 2021)

Issues discussed

- What is APA's objective on capital expenditure?
- Drivers influencing APA's capital planning for VTS
- Let's hear from you...
- What does it all mean?
- Draw together the implications for VTS access arrangement proposal.

Recap of Workshop

Implications for the VTS Access Arrangement (recap from workshop)

Assessing the need for SWP capacity development

- **Victorian gas supply dynamics**
 - Longford production declining
 - Golden Beach – Culcairn injection – Port Kembla LNG – APA East Coast Grid expansion
- **Potential gas supply developments west of Melbourne**
 - Iona underground storage expansion
 - VIVA FSRU – Geelong
 - Vopak FSRU - Avalon
- **SWP as a constraint**
 - AEMO, Vic and Federal government commentary
 - Iona current deliverability v. SWP capacity
- **Increasing capacity on the SWP**
 - How much capacity is required? When? For how long?
 - What capex is required to develop that capacity?
 - Cost to develop capacity

Underwriting SWP capacity development capex

- **The DWGM and bilateral contracting**
- **The VTS Access Arrangement and forecast capex**
 - NGR Rule 79
 - “No regrets” capex
- **NGR Rule 80 application**
 - 3 parts - Timing – Triggers?
 - Will require APA Board approval
 - Capex pass-through application
 - AER and AEMC stated views
- **Interaction with Victoria decarbonisation policy**
 - Regulatory asset life
 - A new asset class
 - Asset stranding risk – capital redundancy provisions
 - Access Arrangement Fixed Principles

What we heard at Capital Issues Workshop – key themes

What we heard	Our response
Government policy spectrum	
<ul style="list-style-type: none"> • What is the definition of 'no regrets'. • How is investing in long lived assets no regrets? • One definition - I am going to regret paying for that investment for the long period after it is not required. 	<ul style="list-style-type: none"> • Having considered the concerns we consider in the current complex energy market, the most efficient and lowest cost long-term infrastructure solution is based on the efficient expansion and utilisation of existing infrastructure. • We will embed this principles into investment decisions to minimise costs and help with energy affordability for customers.
South West Zone Study	
<ul style="list-style-type: none"> • Lochard supported the expansion of South West Pipeline • Lochard informed reaching Final Investment Decision (FID) on expanding Iona storage to 570 TJ (from 530 TJ). 	<ul style="list-style-type: none"> • We are presenting an update on the South West Zone Study

What we heard at Capital Issues Workshop – key themes

What we heard	Our response
Government policy spectrum	
<ul style="list-style-type: none"> • Question on why Victorian Government is going down the route of gas substitution • Question whether electrification will deal with energy/ emissions needs. 	<ul style="list-style-type: none"> • APA supports the transition to net zero emission • Gas infrastructure plays a critical role in helping maintain system security and will help unlock low-cost renewable generation capacity. • Decarbonisation of the Victorian economy should be considered as a whole.
<ul style="list-style-type: none"> • Gavin Dufty presented on support for development of Victorian gas substitution plan but important to explore renewable opportunities and energy efficiency measures... • And that consideration should be given to the need for, timing of and, appropriate path for accelerated depreciation of the current gas assets – to ensure we don't burden future generations. 	<ul style="list-style-type: none"> • Today, we will present analysis of the potential impact of accelerated depreciation on tariffs

What we heard at Capital Issues Workshop – key themes

What we heard	Our response
Victorian Demand & Supply Study	
<p>Feedback on Oakley Greenwood (OG) presentation</p> <ul style="list-style-type: none"> • Need to address impact on demand and consumption of Victorian Government policies (eg incentives to switch from gas to electricity). • Capital intensive response may delay transition (electrification) but not when it comes to heating. • Will OG be talking to large users as part of the study? 	<ul style="list-style-type: none"> • They study is using publicly available information. The scope did not include talking directly to customers. • Oakley Greenwood will be presenting draft position today.
Future fuels – proposed VTS Hydrogen Study	
<ul style="list-style-type: none"> • Mixed views – from 'Is hydrogen the answer ?' to acknowledging needs for a study. • No support expressed for customers to pay for the study but question were asked - What sort of money are we talking about? • View that government should ensure or assist with re-purposing the infrastructure than just let it be mothballed, therefore consumers do not wear the cost - the study or increased tariffs.. 	<ul style="list-style-type: none"> • Would you be interested in participating in a separate hydrogen workshop.

Roundtable 8 - Capital issues continued (18 August 2021)

Issues discussed

- Recap and feedback on workshop discussion
- What we heard at Capital Issues Workshop & Our response to issues raised
- Demand & supply study - Update from Oakley Greenwood
- South West Zone Study
- Analysis of accelerated depreciation on tariffs.

What we heard and our response

Follow up from Roundtable 8

What we heard	Our response
Demand & Supply Study	
From 2028 why is 100% gas flowing from North to South?	<ul style="list-style-type: none"> • AEMO is forecasting declining production in southern states.
Iona Storage capacity is being increased to 570TJ. Will this help to alleviate supply issues.	<ul style="list-style-type: none"> • Yes for peak demand but not adequate for seasonal storage. Storage still needs to get gas supply from somewhere.
Storage is not a public good and whether it is available to cover a shortfall is dependent on who controls extraction rights on that occasion.	<ul style="list-style-type: none"> • Yes agree. These are commercial arrangements. APA does not have visibility of these arrangements with Iona.
How does wellhead gas cost play into these scenarios on a delivered cost basis into Victoria?	<ul style="list-style-type: none"> • In the analysis for SWP 570TJ – because it is for security of supply, the cost of gas does not get considered. (In the longer term, the market will decide).

Oakley Greenwood will be presenting findings today.

Follow up from Roundtable 8

What we heard	Our response
South West Pipeline	
Do we need SWP capacity increase? Key theme emerging is whether its appropriate to invest using long lived assets for what may be a short term supply issue.	<ul style="list-style-type: none"> • At the 29 July 21 capital workshop, Lochard Energy announced that it had reached FID on Iona storage expansions to deliver 570TJ/day. While its still under consideration, our position is to propose investment to meet committed project of Iona 570TJ capacity to support security of supply (under Rule 79). • APA will need assurance that the assets will not be subject to redundancy provisions and that the asset lives for depreciation are shortened. • APA will be proposing a fixed principle so that redundancy provisions do not apply to SWP investment.

What we heard and our response

Follow up from Roundtable 8

What we heard	Our response
South West Pipeline	
<p>If the SWP investment is not made, there is a risk of gas prices reaching Value of Lost Load (VOLL) of \$800/GJ. A few days at VOLL would cover the cost of the SWP expansion.</p> <p>Its not only Lochard, there is also Otway and Port Campbell.</p>	<ul style="list-style-type: none"> SWP capacity investment is being proposed for security of supply reasons.
<p>If SWP proposed capital expenditure is approved, would it be an increase in injection tariffs.</p>	<ul style="list-style-type: none"> Yes. As we discussed at R4 suppliers pay injection tariffs and retailers pay withdrawal tariffs.
<p>Range of questions about Rule 80 pre-approval.</p>	<ul style="list-style-type: none"> Our latest thinking. We propose to lodge a three-part Rule 80 application with the trigger contingent on proposed projects meeting FID. (2 x LNG import terminals; Further Iona expansion beyond current 570TJ).

Follow up from Roundtable 8

What we heard	Our response
Acceleration depreciation impacts on tariffs	
<p>On the question of accelerating assets - say in 2035, will APA be happy operating for no return. Example given - currently, negotiating with a pipeline whose assets are fully depreciated - there is no reward in it for them - no profit - therefore they are shutting it down.</p>	<ul style="list-style-type: none"> We do not propose to depreciate to zero until 2050. Even so, if things change there is flexibility to change the depreciation profile.
<p>You are shifting costs between users over time- and those users change - so it as a reallocation of wealth. Also - compressor unit costs are not entirely sunk/stranded as opposed to the discussion which assumes they are.</p>	<ul style="list-style-type: none"> Intergenerational fairness has been raised before. It is a principle that is consistent with our latest thinking to commence accelerating depreciation earlier rather than later. Scott will be presenting further consideration of asset lives and depreciation.

Information session. Importance exploring options to repurpose VTS for hydrogen (26 August 2021)

Issues discussed

- Why it is important to explore options to repurpose the VTS for hydrogen
- Why it is important to start the process today
- If the topic is of interest offered the meet or hold further hydrogen session.

What we heard and our response

During this workshop, stakeholders posed a range of questions and raised several points including:

- A broad desire and need for public education campaigns about hydrogen and safety
- Acknowledgement that the transition from town gas (which was a mixture of hydrogen and carbon monoxide) to existing natural gas specifications required users to update their appliance burner configurations; and that this transition from natural gas to potential hydrogen blends will require similar appliance upgrades
- Suggestion for APA to align the scope of the technical assessment with distribution networks who are investigating the introduction of 10% blend of hydrogen
- Concern about the economics of hydrogen and the likelihood of achieving the Government's target of \$2/kg
- Emphasis that there needs to be optimisation of costs between gas and electricity, noting that hydrogen causes sector coupling of both
- A question as to whether APA would consider producing hydrogen in future
- General interest in other hydrogen projects and programs that APA is pursuing.

Further discussion of stakeholder views are presented:

- VTS – A look at plans for the VTS – Overview of 2023-2027 access arrangement proposal – December 2021 – Public, and
- VTS – VTS Capital expenditure Business Case Number 200 Evaluating and mitigating hydrogen safety and integrity risks on the VTS – December – Public.

Roundtable 9 - Demand & Supply Final Report. Depreciation (15 September 2021)

Issues discussed

- Recap and feedback on Roundtable 8
 - What we heard
 - Our response and follow-up
 - Update on stay-in-business capital expenditure forecasts
- Demand & supply study
 - Final Draft Report from Oakley Greenwood
- Decarbonisation & depreciation
- Engagement timeline update.

Roundtable 10 - First look at regulatory positions (6 October 2021)

Issues discussed

- Key assumptions for VTS proposal
 - Demand and supply & SWP
 - Security of Critical Infrastructure obligations
- Expenditure programs (Replacement, Expansion for security reasons, Technology portfolio, Operating costs)
- Hydrogen safety and integrity assessment
- First Look at revenue and tariff scenarios & tariff options.

Roundtable 11 – First Look at regulatory positions – Q&A and discussion (25 October 2021)

Issues discussed

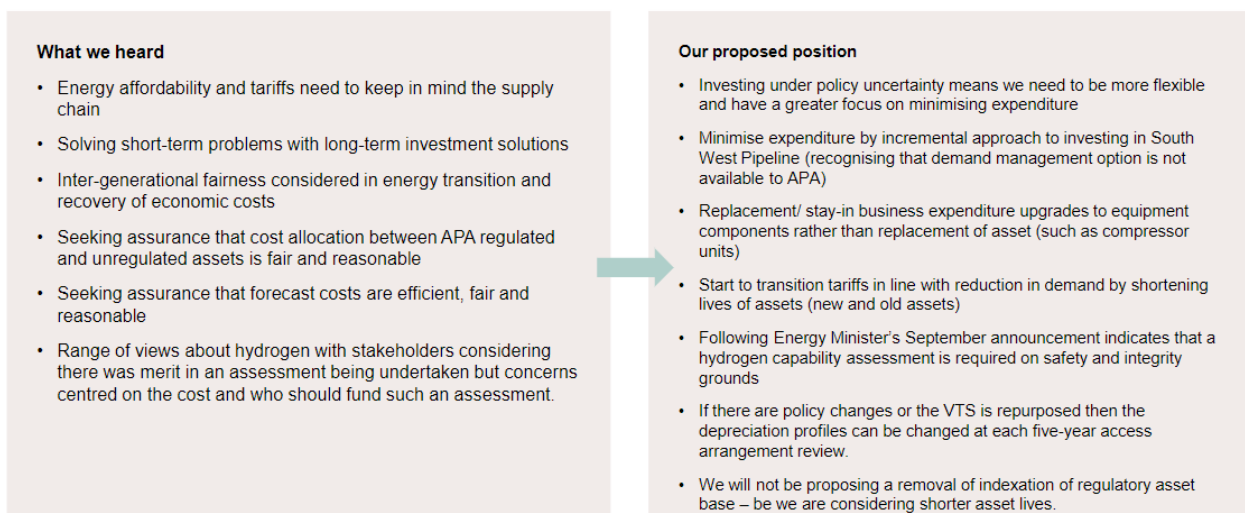
- Update on our thinking
- What we heard from stakeholders and how we have taken them into consideration
- Recap of key assumptions & revenue building block components & questions for stakeholders
- Recap on revenue & tariff impacts & questions for stakeholders.

The First Look consultation document was published on 15 October 2021. At the same time, we sent the Oakley Greenwood Issues Affecting Demand and Supply for Gas on the Victorian Transmission System. Final Report

Roundtable 11 involved going through the draft proposal in the First Look and providing opportunity for feedback and discussion and the findings of Oakley Greenwood's report.

What we heard and our response

Replay what we heard from stakeholders and how we have taken them into consideration



No.	Questions for stakeholders
2	Do you have any comments on the summary of what we heard and how we have considered your feedback? In particular, should we give more or less emphasis to key themes that have emerged?

Presentation of tariff scenario analysis. Scenario received a level of acceptance from the stakeholder engagement group.

Forecast VTS tariff scenario testing

Some insights from the scenario testing:

- The impact of capping asset lives at 25 years is about 5¢/GJ
- The impact of stopping indexation of the capital base is about 14.5¢/GJ
- The impact of undertaking the SWP_570 expansion is about 0.4¢/GJ
- The impact of undertaking the VTS hydrogen capability assessment is about 1.8¢/GJ.

Table 3 VTS scenario analysis of tariff impacts

Scenario	Pipeline asset life (years)	Index asset base	SWP570 security expand	Hydrogen assess.	Composite tariff	Change from base case	Change from base case (%)
Base case	55	Yes	Yes	Yes	0.5976		-
Scenario 1 - shorter lives	25	Yes	Yes	Yes	0.6493	0.0517	8.7%
Scenario 2 - no indexation	55	No	Yes	Yes	0.7423	0.1447	24.2%
Scenario 3 - Without SWP570	55	Yes	No	Yes	0.5940	-0.0036	-0.6%
Scenario 4 - Without Hydrogen	55	Yes	Yes	No	0.5791	-0.0185	-3.1%

No. Questions for stakeholders

3 Do you have any comments about tariff scenario analysis?

Roundtable 12 –Our proposal and stakeholder influence (22 November 2021)

Issues discussed

- Recap of VTS engagement program
- Our proposed positions & stakeholder influence
- Feedback on engagement (poll survey).

What we heard and our response

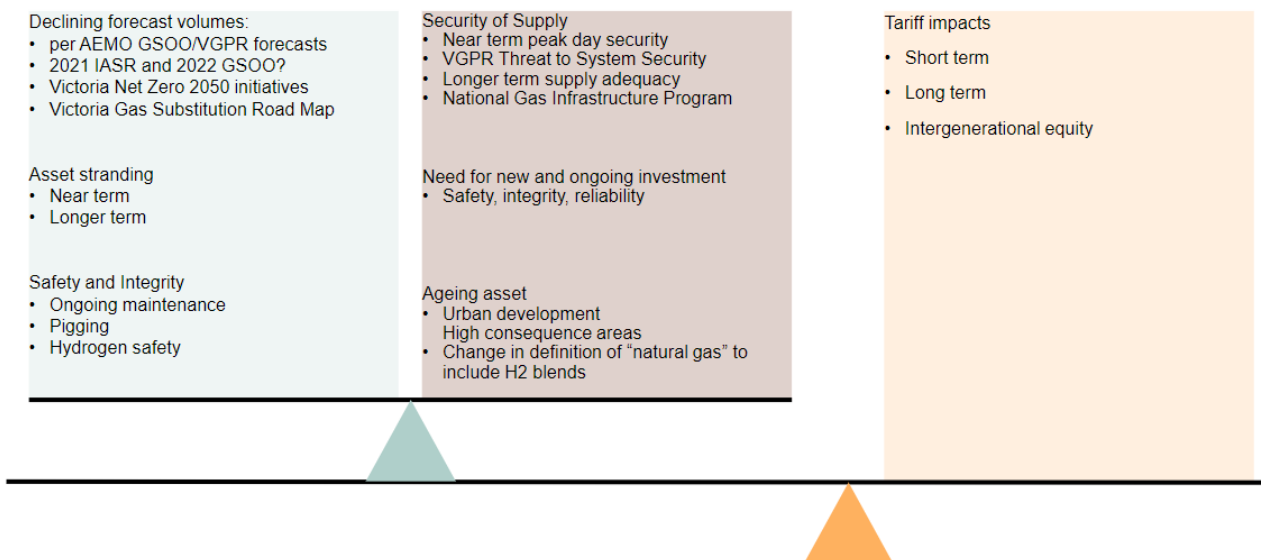
The VTS access arrangement revision is characterised by complexity in policy National Gas Infrastructure Plan, AEMO drivers, and Victorian policy on electrification, decarbonisation, future gas demand and supply uncertainty. None of these issues are easy

Recognising the range of views held by stakeholders (which in some cases are opposing), we didn't set out to get agreement from stakeholders rather we wanted to understand everyone's point of view. And to the extent possible reconcile opinions and positions, and incorporate them as much as possible into our proposal.

The complexity and our balancing of issues is depicted in slice 6 of the presentation.

The access arrangement proposal balance

Our access arrangement proposal has needed to balance conflicting objectives:



Summary of outcomes

Discussion topics, what we heard from stakeholders and our consideration and response is summarised in the following table. More detailed discussion and consideration is provided in the Proposal Overview.

Discussion topic	What we heard from stakeholders	How we responded
Stakeholder engagement		
<p>In October 2020 we released a draft stakeholder engagement plan proposing timeline, topics, format and principles.</p> <p>We presented our proposed engagement approach and sought feedback from stakeholders.</p>	<p>Stakeholders asked us to provide an indication of where on the IAP2 Spectrum of Public Participation² we were for each roundtable.</p> <p>Stakeholders suggested that we prepare an early consultation document to seek early comment from the stakeholder group prior to submitting our proposal to the AER. Some stakeholders requested that we consider ways to make providing feedback easier without need for formal submissions.</p>	<p>We have sought to be flexible and accessible to make engagement as easy as possible. We have sought to align with principles in the (draft) Engagement Plan (November 2020).</p> <p>We sought to play back to the stakeholder group, what we heard at each previous roundtable and what our response was. Our engagement ranged from inform, consult and inform on the IAP2 spectrum.</p> <p>We prepared a First Look consultation document in response to the request for a consultation document. Our positions have been shaped by stakeholder engagement.</p>
Energy policy spectrum		
<p>We discussed the key drivers for investment decisions including the gas policy environment, demand and supply forecasts, regulatory requirements, market direction on future fuels and renewables and meeting needs of customers.</p> <p>Meeting these drivers needs to be balanced against making sure services are provided at the lowest sustainable cost and are affordable for customers.</p>	<p>Some concerns were raised about the gas substitution plans in Victoria while others supported them. The support was qualified that it was important to explore renewable opportunities and energy efficiency measures.</p> <p>Stakeholders considered APA to be in unique position and could have a positive influence to lower emissions energy.</p>	<p>In the current complex energy market, APA maintains that the lowest cost long-term infrastructure solution is based on efficient expansion and utilisation of existing infrastructure.</p> <p>We have applied an incremental approach into investment decisions to minimise costs and help with energy affordability for customers as the energy market transitions.</p> <p>This approach has been embedded into our consideration of South West Pipeline expansion taking on board stakeholder feedback.</p>
Energy affordability		
<p>We presented preliminary impacts on tariffs of proposed measures to bring forward recovery of investment in VTS.</p>	<p>We heard concerns that while VTS transmission tariff impact may be small, distribution businesses are facing the same issues. Therefore, across the gas supply chain tariff impacts on customers may be significant.</p>	<p>We understand that energy, and in particular gas, affordability is a priority across the economy from business through to residential customers.</p> <p>We are preparing business cases and justifications to demonstrate that the capital expenditure program is prudent, efficient and has a benefit for customers.</p>
Intergenerational fairness		
<p>APA discussed how its proposed approach helps with energy transition to decarbonisation and recovery of investment (through accelerated depreciation & removal of asset base indexation).</p>	<p>There was discussion for the need to address intergenerational issues. We heard that consideration should be given to the need for, timing of and appropriate path for accelerated depreciation of the current gas</p>	<p>APA supports transition to lower carbon economy, and we have a Net Zero 2050 ambition. Transition needs to be orderly to meet energy needs of consumers and businesses without placing undue burden on those not able to transition.</p>

Discussion topic	What we heard from stakeholders	How we responded
	<p>assets – to ensure we do not burden future generations. An alternative view was to not load up today's customers when future consumers may benefit from the VTS.</p>	<p>Policy uncertainty has brought into sharp focus greater need to give closer scrutiny to investment decisions to not potentially burden future generations as well as minimise investment risk for APA. We are proposing measures to facilitate orderly transition and to not burden future generations.</p>
Investment drivers		
<p>We discussed the key drivers for investment decisions including the gas policy environment, demand and supply forecasts, regulatory requirements, market direction on future fuels and renewables and meeting needs of customers. Meeting these drivers needs to be balanced against making sure services are provided at the lowest sustainable cost and are affordable for customers.</p>	<p>There was support for investment to meet security of supply but there was concern about whether long-lived assets were being proposed for short-term problems. This came up in discussions about proposals for the South West Pipeline.</p>	<p>The contradictory policy settings create a very uncertain environment for investing in gas in Victoria. Taking on board stakeholder concerns that supply issues are only short-term, we are considering a staged approach to investment decisions on the SWP.</p> <p>Considering the uncertain investment environment, APA is unlikely to risk security holder investment without safeguards which we discuss in more detail in later sections of this paper.</p>
Demand and supply		
<p>APA engaged Oakley Greenwood to explore the key issues affecting supply and demand in more detail and take on board stakeholders' thoughts on these issues. APA consulted with the stakeholder engagement group and the terms of reference for the study. We discuss the Oakley Greenwood report in more detail in later sections of this paper. The First Look consultation document asked stakeholders for feedback on</p>	<p>Stakeholder comments on demand and supply forecasts, noted that the proposed electrification of Victorian residential heating loads could have a significant impact on future gas demand; and that storage facilities and proposed LNG import terminals could be potential sources of supply to alleviate AEMO's forecasts shortages. Concerns were raised about whether it was appropriate for APA VTS to exclude proposed Port Kembla Gas Import Terminal from supply forecasts. Some thought we should include it because AEMO had included it in its forecast. Others thought that it the status of the project was unclear and that it was a tricky situation for APA VTS.</p>	<p>Oakley Greenwood final report took on board comments from stakeholders. Oakley Greenwood has used publicly available information and placed more weight on projects that had reached Final Investment Decision.</p> <p>Collaboration on Demand and Supply Report helped shape our demand and supply assumptions. The key issue for us is that we have taken a position that we will only consider projects that have reached FID.</p> <p>Our forecasts do not include PKGT resulting in a security of supply issue unless there is investment to increase capacity on the SWP to meet Lochard Iona's storage facility expansion to 570TJ. If there is a change in circumstances in the next few months, we may consider updating our forecasts.</p>
Efficient costs, allocation of costs between regulated and unregulated		
<p>APA has a diverse portfolio of gas transmission pipelines on mainland Australia as well as electricity transmission and renewable energy assets.</p>	<p>Stakeholders sought to understand how APA allocated costs across its regulated and unregulated assets. The issue was to ensure that APA's allocation method was done on a fair and reasonable basis.</p>	<p>APA's approach to cost allocation is set out the Cost Allocation Methodology (CAM) document prepared for regulatory reporting purposes.</p> <p>The CAM has been developed with reference to the AER's guideline for electricity distribution businesses as set out in "Electricity distribution</p>

Discussion topic	What we heard from stakeholders	How we responded
		network service providers, cost allocation guidelines" publish in June 2008. Further information is set out in section 4.3.
Decarbonisation and depreciation		
<p>APA considers that the Victorian Government policy is hastening the transition away from gas, more so than what would occur under market forces. Under the 'regulatory compact', regulated businesses are entitled to recover their investment. APA proposed measures to smooth tariffs in the transition to renewables including accelerating the depreciation of assets by shortening asset lives and removing AER's indexation of the regulatory asset base (subject to technical compliance with the Rules). APA proposed position is to 'start early and start small' while load is still high enough to bear small tariff increases.</p>	<p>We heard that consideration should be given to intergenerational issues. Questions were raised about whether regulated businesses were more entitled than non-regulated businesses to recover their investment. An alternative view was that future fuels such as hydrogen or biogas may potentially result in the economic life of the VTS being extended beyond APA's proposed 25-year asset life.</p>	<p>APA considers that the rate of return set by the AER for regulated assets does not cover the risk being faced by APA in Victoria. We maintain that we should be provided with the opportunity to recover the efficient investment made in the VTS. APA's position is that the feasibility of VTS gas pipelines being used for alternatives to natural gas is not known. Nor is the potential cost of repurposing VTS gas pipelines. We do know however that the Victorian Government has a policy to substitute gas use with electricity. If there are policy changes or the VTS is repurposed then the depreciation profiles can be changed at each five-year access arrangement review.</p> <p>We have proposed a maximum cap on asset lives of 30 years (Rather than 25 years) in response to concerns about affordability.</p>
Future fuels – proposed VTS Hydrogen assessment		
<p>In September Energy Ministers agreed on an expedited process to amend the National Gas Law, National Energy Retail Law and subordinate instruments so hydrogen blends, biomethane and other renewable methane gas blends are brought within the national energy regulatory framework.</p>	<p>In discussions prior to the Energy Ministers' announcement, some stakeholders considered there was merit in an assessment being undertaken. Concerns centred on the cost and who should fund such an assessment. More generally there were concerns about costs to customers for changing to hydrogen compatible appliances.</p>	<p>Following the Energy Ministers' announcement, APA's view is that the September announcement indicates that a hydrogen capability assessment is required on safety and integrity grounds.</p>
Tariff structures		
<p>At the start of stakeholder engagement, we flagged whether there was interest from stakeholders in undertaking a review of tariff structures.</p>	<p>Questions were raised about what pricing principles were being proposed, how are costs currently allocated and what incentives /behaviours are we seeking to encourage? There were contrary views about whether tariffs were cost reflective. There was interest in reviewing tariff structures, but some stakeholders raised concerns that any changes to tariff structures would take several regulatory periods to be realised. Thereby, questioning whether the benefits outweighed the costs.</p>	<p>We consider that there may be benefit in undertaking a review of tariff structures at a future point in time. The scale of this task was beyond the time available for this proposal. We will keep stakeholders informed of future consideration of tariff structures.</p>

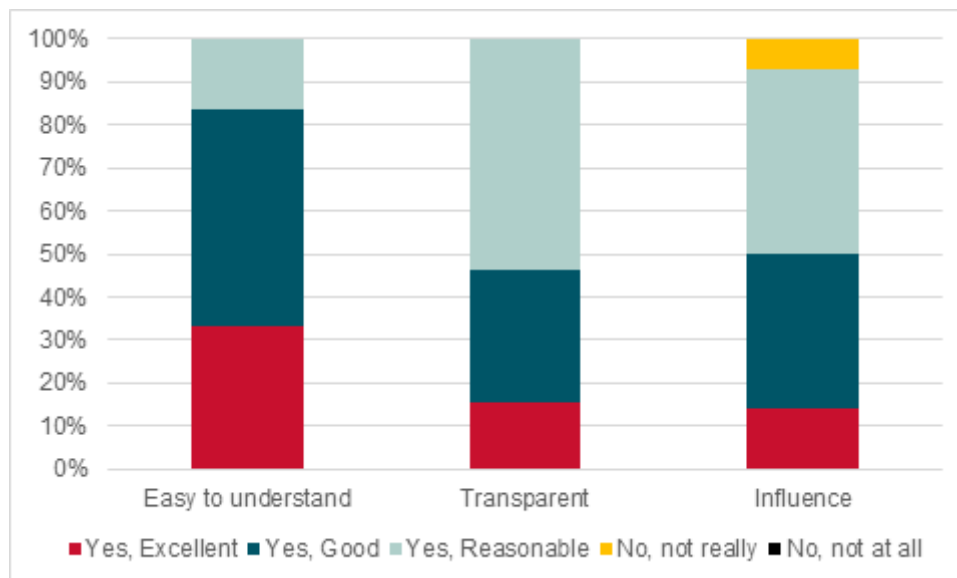
How did we do?

At Roundtable 12, the last roundtable (before submitting our proposal), we conducted an online poll and asked stakeholders:

1. Was the information (slides, presentations, papers) for the VTS stakeholder engagement easy to understand?
2. Was information (slides, presentations, papers) for the VTS stakeholder engagement transparent?
3. Do you feel that you had influence? Did we take on board your feedback?

All of the respondents to the poll considered that our stakeholder information was 'easy to understand', and 'transparent'. And 93% considered that they had some level of influence.

Table 1 Feedback on APA VTS stakeholder engagement



We conducted a word cloud to ask:

4. In a few words, how would you describe the VTS stakeholder engagement?
5. Do you have suggestions for ways we could better engage?

Words to describe VTS stakeholder engagement were positive and encouraging including collaborative, issues rich, informative & helpful, as well as, work in progress.

Suggestions for improvements included be guided by stakeholders, smaller groups, send out material sooner and continue the engagement through the access arrangement period.

The results are depicted below

Word cloud results 'how would you describe the VTS stakeholder engagement?'



Word cloud results 'suggestions for ways we could better engage?'

