Victorian Transmission System Stakeholder Engagement Group

2023-27 access arrangement.

Roundtable 5 – Overview of 2021Victorian Gas Planning Report; and first look at capital program for VTS

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presented by: Adam Newbury, Scott Young, Nives Matosin

14 April 2021

Acknowledgement of Traditional Owners

We would like to begin by acknowledging the Traditional Owners as the custodians of country throughout Australia and their continuing connection to land, waters and community.

We pay our respect to Traditional Owners, their cultures, and to their elders past and present.

Discussion points

1	Welcome, house rules, purpose of today
2	What we heard in Roundtable 4 and our response
3	2021 Victorian Gas Planning Report – Overview and discussion
4	A first look at the Capital program for VTS
5	Wrap up

Introductions and house rules

- We ask that discussions during the roundtable are respectful.
- This is intended be an open discussion between the engagement group and APA.
- We welcome you to raise any issues or questions about the access arrangement.
- We will keep notes of discussions.
- We are not intending to attribute any comments or questions to you or your organisation, unless requested.

Purpose of today's roundtable

Purpose of Roundtable 5 (R5) is to:

- Provide quick overview of 2021 Victorian Gas Planning Report
  - Note that AEMO asked to reschedule their presentation to Roundtable 6 in May
  - As such, we have amended the engagement timeline
- We are interested in getting your early thoughts about the VGPR
- We will continue this discussion on VGPR in Roundtable 6 in May (19 May date to be confirmed)
  - Provide to us questions and issues you would like AEMO to address at the next roundtable
- Adam Newbury will provide a first (preliminary) look at the capital program for VTS.

- R5 sits within Inform & Consult on the IAP2 spectrum.

Updated engagement timeline

VTS stakeholder engagement key activities and dates				
Phase	**Date**	**Activity**	**Topics**	**IAP2 spectrum**
Phase 2 - Getting to the detail - revenue requirements, tariffs and access arrangements				
	16/03/2021	Roundtable 4	Introduction to regulatory building block and VTS tariff structures	Inform/ Consult
Change	~~14/04/2021~~	~~Roundtable 5~~	~~AEMO Victorian Gas Planning Report summary. Demand forecasts and utilisation.~~	~~Inform/ Consult~~
Change	~~14/04/2021~~	~~Issues Paper~~	~~Issues impacting capital program, depreciation~~	~~Involve~~
Change	~~29/04/2021~~	~~Workshop~~	~~Further discussion about strategic issues affecting capital program~~	~~Involve~~
	14/04/2021	Roundtable 5	Brief overview of AEMO Victorian Gas Planning Report. A first look at the stay-in-business capital program	Inform/ Consult
	30/04/2021	Issues Paper	Capital program	Involve
TBC	19/05/2021	Roundtable 6	AEMO presentation on VGPR. Demand forecasts.	Involve
	16/06/2021	Roundtable 7	Further draft of capital program.	Involve
			First look at operating expenditure forecasts, effiiency mechanism and other revenue components.	Involve
			Making changes to the Access Arrangement - expansion requirements and other elements	Involve
	TBC	Workshop	Capital program	Involve
	14/07/2021	Roundtable 8	Total revenue, revenue allocation and tariff structures	Involve
	14/07/2021	Information/ Issues Paper	VTS tariff structures	Inform/ Involve
	18/08/2021	Roundtable 9	Continue discussion on cost allocations and tariff structures..	Involve
			Making changes to the Access Arrangement	Involve
	22/09/2021	Roundtable 10	What we've heard so far, our response. Further opportunity for input.	Involve
Phase 3 - Putting the plans together				
	6/10/2021	Consultation	APA release Consultation draft proposal for comment	Involve
	13/10/2021	Roundtable 11	Early consultation proposal - questions and answers session	Involve
	17/11/2021	Roundtable 12	Our draft proposal and how you shaped our thinking.	Involve

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.

The tariff structure issues raised by stakeholders will be included in the forthcoming Issues Paper.

Are there any questions or comments?

2021 Victorian Gas Planning Report – Overview and discussion

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2021 Victorian Gas Planning Report (& other developments)

- **AEMO released the 2021 Victorian Gas Planning Report on 31 March**
  - (previous report was released in March 2019 and an update in 2020)
- **VGPR provides information about the supply demand balance over the next five years (2021-25, outlook period) in Victoria, and the Victorian Declared Transmission System (DTS)**
- **VGPR complements AEMO's Gas Statement of Opportunities which assesses the wider gas supply adequacy in eastern and south-eastern Australia (released at the same time)**
- **AEMO planning reports are a key source of information for APA VTS planning.**

2021 Victorian Gas Planning Report (& other developments)

AEMO key findings - Declining Victorian gas production

- AEMO's 2020 VGPR Update forecast a gas supply shortfall from winter 2024
- Several legacy Gippsland gas fields with significantly declining production
- Victorian gas production is forecast to decline by 43%, from 360 petajoules per year (PJ/y) in 2021 to 205 PJ/y in 2025.

AEMO key findings - System resilience and security

- The declining Victorian production capacity during the outlook period is also expected to reduce system resilience
- AEMO has identified low Dandenong LNG inventory as a threat to system security and is seeking a market response.

2021 Victorian Gas Planning Report (& other developments)

AEMO key findings - Projects to address declining production

- **AEMO's 2021 VGPR says the forecast 2024 winter gas supply shortfalls are expected to be addressed by Australian Industrial Energy construction Port Kembla (NSW) liquified natural gas (LNG) import terminal & Jemena's modifying the Eastern Gas Pipeline (EGP) to enable reverse flow from Port Kembla into the DTS.**
- **Other potential projects**
  - Golden Beach field and Kipper gas field
  - Victorian LNG import terminals - Viva project in Geelong, and Vopak project at Avalon, both to the west of Melbourne
    - *Note that in March 2021, the Victorian Government rejected the proposed AGL Crib Point project to the east of Melbourne on environmental grounds.*
  - South West Pipeline expansion to address a capacity constraint
  - Increased supply capacity from outside Victoria - possible projects include
  - Additional compression at Port Kembla Gas Terminal; expansions of existing pipelines from Queensland; and a new pipeline from Queensland
  - Increased interest in hydrogen and biogas projects in Australia in recent years which could provide an alternate source of supply.

Your views

What are your initial thoughts on the 2021 VGPR?

Do you have questions you would like AEMO to address at the next roundtable?

A first look at VTS capital program

National Gas Rules on conforming capital expenditure

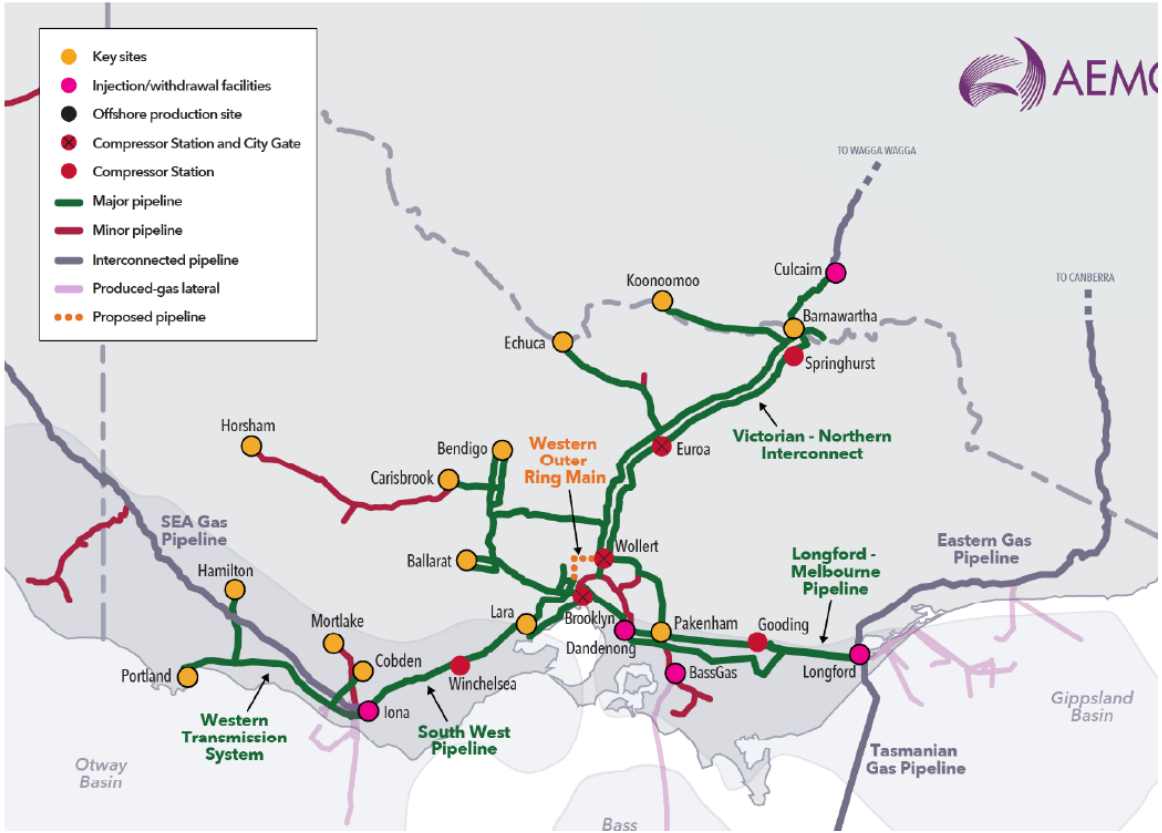
- In our submissions we need to demonstrate that our capital expenditure proposals meet the criteria of **conforming capital expenditure** in the National Gas Rules. (Rule 79)

- Conforming capital expenditure is capital expenditure that meets the following criteria:

    - the capital expenditure must be such as would be incurred by a **prudent service provider acting efficiently**, in accordance with **accepted good industry practice,** to achieve the **lowest sustainable cost** of providing services; and
    - the capital expenditure must be **justifiable** on a number of grounds stated in the Rules including
        - the overall economic value of the expenditure is positive; or
        - the present value of revenue to be generated as a result of the expenditure exceeds the present value of the capital expenditure; **or**
    - the capital expenditure is necessary:
        - to maintain and improve the **safety** of services; or
        - to maintain the **integrity** of services; or
        - to comply with a **regulatory obligation** or requirement; or
        - **maintain capacity to meet levels of demand** for services existing at the time the capital expenditure is incurred (as distinct from an expansion of pipeline capacity).

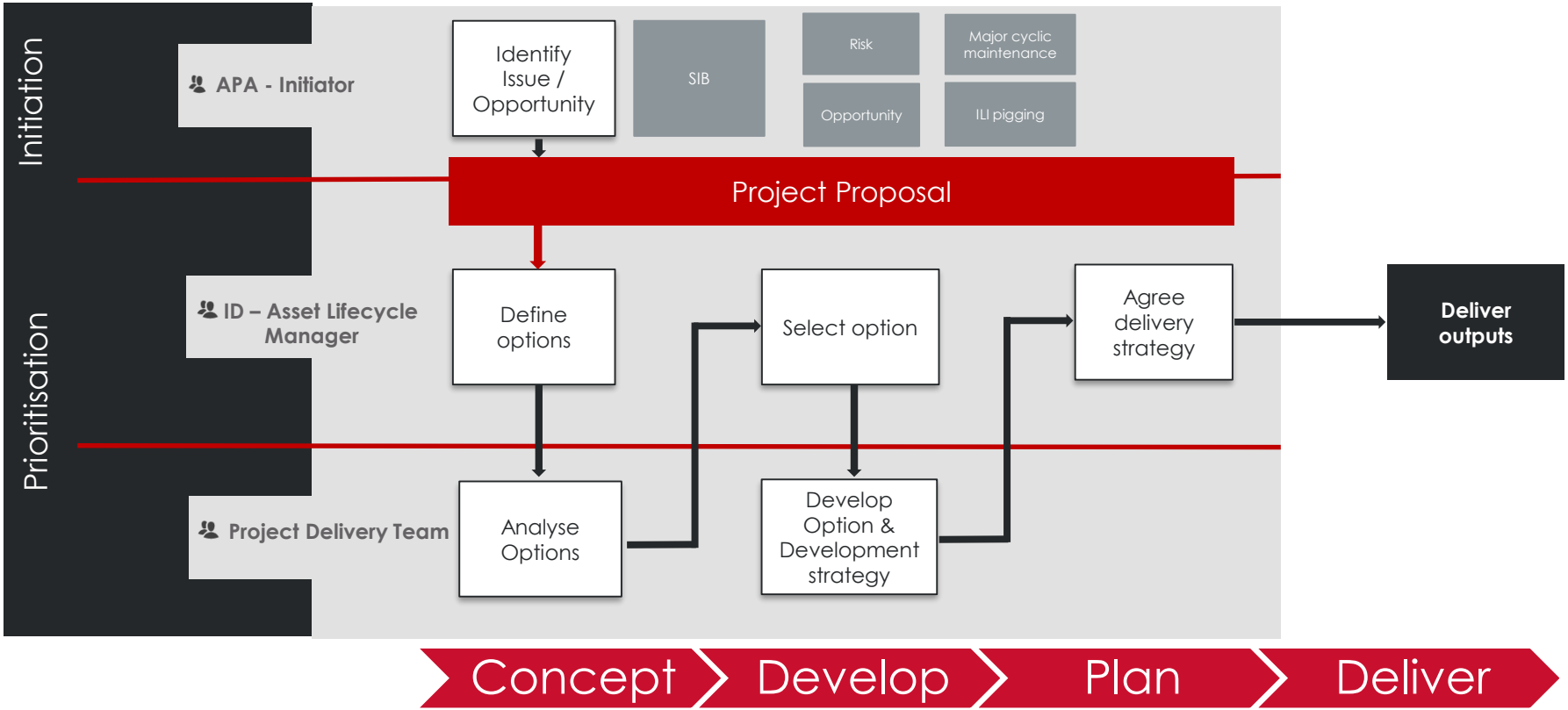
VTS over the years

- **Age profile.** On average VTS is about 36 years old (middle aged)
- **1969.** Longford-Melbourne Pipeline Commissioned
- **2006.** VTS acquired by APA
- **2018-2019**. Southwest pipeline expansion, Warragul & WORM Projects Approved.
- **Late 2022**. WORM scheduled to be completed.
- **AA6. 2023-27** subject of this engagement.



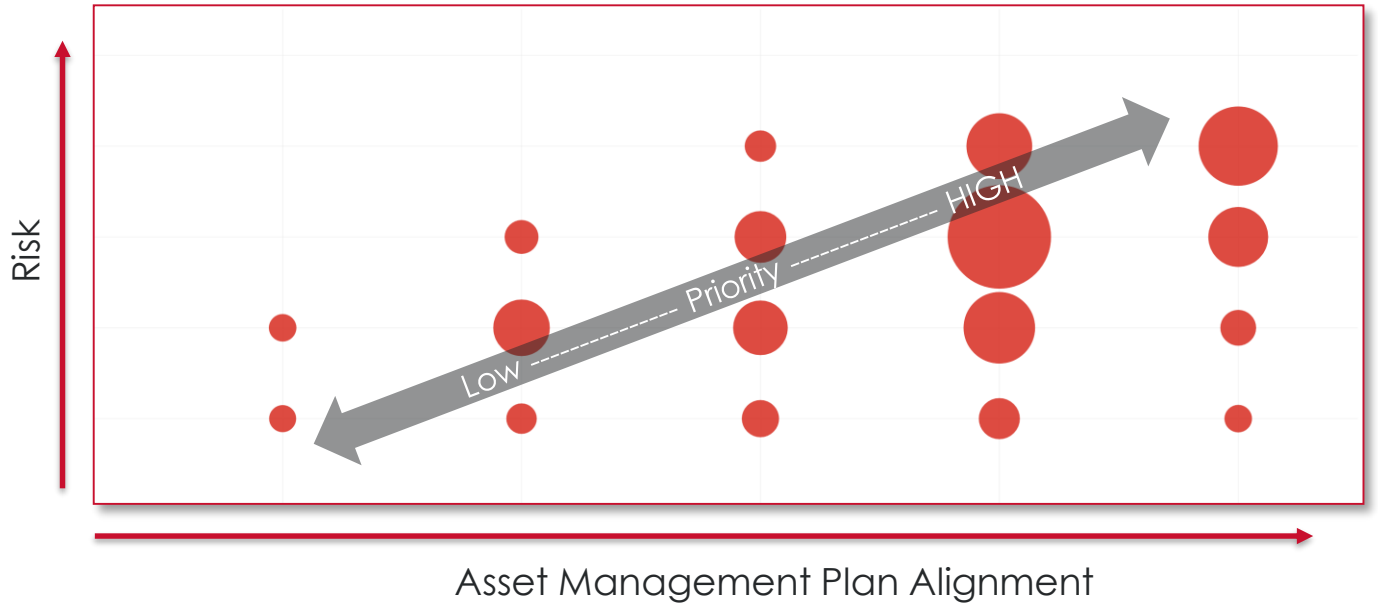
Source: AEMO 2021 Victorian Gas Planning Report
Note – green pipelines are VTS.

Asset management planning - CAPEX



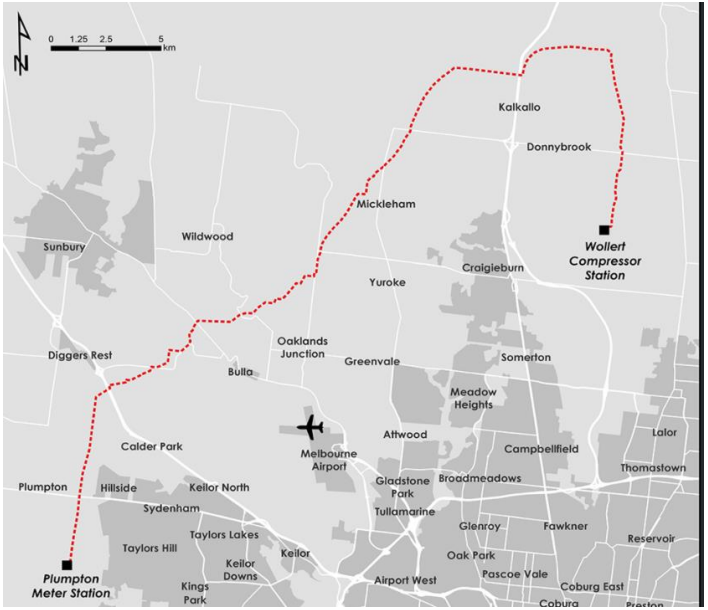
Asset management planning - CAPEX

- Our process produces a live, continually updating list of projects and improvements to be executed on the asset.
- We ensure highest priority projects are completed first, but all other projects are reviewed on an ongoing basis to ensure any underlying risks are being suitable managed to ensure ongoing safe operation of the asset.



VTS capital program – AA2018-22 forecast vs actual

- **Overall:**
  - **Actual expenditure in AA2018-22 is tracking close to the forecast**
  - **Capital expenditure on the WORM will form the bulk of the capital expenditure to end of 2022.**



The WORM – 51 km high pressure, buried gas transmission pipeline to provide a new connection between existing pipelines at Plumpton in Melbourne's west and Wollert in the north.

VTS capital program – AA18-22 forecast vs actual

2018-2022 Access Arrangement forecast compared with 2018-2020 actuals											Progress Summary			
Asset class	AA18	Act18	AA19	Act19	AA20	Act20	AA21	Act21	AA22	Act22	AA	Act	Delta	%
Buildings	0.65	0.00	0.96	0.00	0.96	0.00	0.96		0.35		3.87	0.00	-3.87	0%
City Gates & Field Regs	0.00	0.05	2.31	0.11	2.35	1.00	0.67		0.24		5.57	1.16	-4.42	21%
Compressors	9.65	1.77	13.32	1.00	12.81	1.88	6.04		6.46		48.28	4.65	-43.63	10%
Gas Quality	0.99	0.00	0.00	0.00	0.00	0.00	0.00		0.00		0.99	0.00	-0.99	0%
Odorant Plants	0.08	0.00	0.00	0.00	0.00	0.00	0.00		0.00		0.08	0.00	-0.08	0%
Other	6.98	2.80	5.75	9.42	3.06	5.71	6.99		6.45		29.23	17.92	-11.31	61%
Pipelines	41.30	1.69	49.86	9.05	50.41	3.54	0.17		2.07		143.81	14.28	-129.53	10%
Total	59.66	6.30	72.20	19.59	69.58	12.12	14.82	0.00	15.57	0.00	231.84	38.01	-193.83	16%
Delta		53.36		52.62		57.46		14.82		15.57	(AA forecast – Actuals)			

- **Pipelines** **WORM** 50km x 20" pipeline — pending environmental effects study (EES) results $125.1m — $95.6m pending
- **Compressors** **WORM** C50 compressor installation — $25.8m pending
- **City gates and field regulators** **WORM** Wollert pressure regulation station installation — $3.7m pending
- **Pipelines** Anglesea — $26.4m deferred
- **Other** Pigging and unpiggables program underway — $23.3m pending
- **Buildings** Dandenong office upgrades — not yet reflected in actuals — $9.5m pending
- **Compressors** Brooklyn compressor station upgrades subject to demand post worm — $5.6m pending
- **Other** Satellite upgrade being delivered as national project — $4.8m pending
- **Compressors** Several turbine overhauls being prepared — $3.9m pending
- **Gas quality** Culcairn injection gas quality equipment — $1m pending

Dandenong	9.5
WORM	125.1
Anglesea	26.4
Remaining	32.8

1.7 years remain to progress 18-22 capital program.

VTS Stay-in-business capital program – AA2023-27 forecast

Preliminary stay-in-business AA2023-27 expenditure forecast is consistent with current period

Key programs and projects for 2023-27

- Liquid capture upgrades
- Mainline valve upgrades
- Gas quality upgrades
- Inline inspections and unpiggables
- Safety critical valve inventory
- Availability critical compressor inventory

2023-2027 Access Arrangement forecast (preliminary)						
Asset class	2023	2024	2025	2026	2027	Total
Buildings						0.00
City Gates & Field Regs	0.76	0.15	0.15	0.00	0.00	1.06
Compressors	4.81	4.00	6.92	7.57	8.21	31.51
Gas Quality	0.02	0.98	1.51	1.00	1.10	4.61
Odorant Plants	0.28		0.08			0.36
Other	2.80	1.16	0.95	0.75	0.75	6.41
Pipelines	21.56	11.10	2.25	2.25	2.25	39.41
Total	30.23	17.39	11.86	11.57	12.31	83.36

- No new growth capex forecasted over the AA23-27 period.
- Approximately $80m of the AA18-22 period was non-growth which is similar to the AA23-27 forecast.

VTS capital program – AA2023-27 forecast

Do you have any comments or questions about the VTS stay-in-business capital program?

Wrap up

- **Summary of key outcomes from today**
- **Next roundtables**
  - R6 pencilled for 19 May - but date is to be confirmed
    - The next roundtable in April will include a presentation from AEMO on 2021 Victorian Gas Planning Report
  - Workshop on capital program will be held in June – if people are interested.
- **Forward any further comments or questions to Scott and Nives**

Thank you for participating,

See you in May….

To ask any questions or provide feedback on the APA's VTS access arrangement or stakeholder engagement plans, to request an invite to an engagement session, or to arrange a private consultation, please contact:

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Or visit the VTS stakeholder engagement webpage:

https://www.apa.com.au/about-apa/our-projects/victoria-transmission-system-access-arrangement/

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