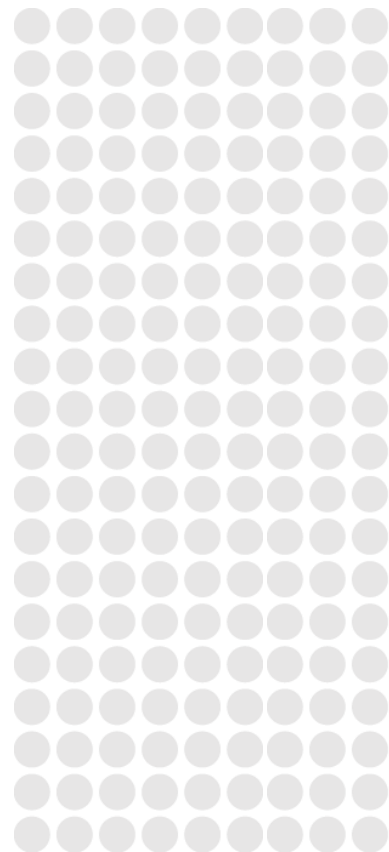




December 2020

Victorian Transmission System

reference service proposal



energy. connected.

Contents

1	Introduction	2
1.1	The Victorian Transmission System and the Declared Wholesale Gas Market	2
1.2	Reference Service Proposal	3
2	Covered pipeline, service provider and requirement for reference service proposal	5
2.1	Pipeline and service provider	5
3	The Victorian Transmission System	6
3.1	Pipeline description	6
3.2	Website	7
4	Services that can reasonably be provided using the Victorian Transmission System	8
5	Reference service proposal assessment	10
6	Engagement with pipeline users and gas consumers	11
6.1	Feedback from stakeholders	12
A	Rule requirements for reference service proposal	13

1 Introduction

This document sets out the reference service proposal for the Victorian Transmission System (**VTS**), approval of which is to precede submission of a full access arrangement proposal for the pipeline on 1 December 2021.

The proposal has been prepared by the service provider, APA VTS (Operations) Pty Ltd (**APA VTS**), and submitted to the Australian Energy Regulator (**AER**) for approval, in accordance with rule 47A of the National Gas Rules (**NGR**).

1.1 The Victorian Transmission System and the Declared Wholesale Gas Market

On 26 June 2009, Peter Batchelor, then Victorian Minister for Energy and Resources declared (in summary):¹

- pursuant to section 39(b) of the *National Gas (Victoria) Act 2008*, the Victorian Transmission System to be a declared transmission system; and
- pursuant to section 43 of the *National Gas (Victoria) Act 2008*, the wholesale gas market operated in Victoria by AEMO, to be a declared wholesale gas market.

These declarations activated the market carriage model in Victoria, under Part 6, Division 2 of the *National Gas Law (NGL)* (s91B *et seq*). Under this Division:

- AEMO's declared system functions include "to control the operation and security of the declared transmission system" (s91BA(1)(b));
- the service provider for the declared transmission system (APA VTS) must have an agreement (a *service envelope agreement*) with AEMO for the control, operation, safety, security and reliability of the declared transmission system (s91BE(1));
- "Under the service envelope agreement, the service provider makes the declared transmission system available to AEMO (and, in doing so, provides a pipeline service)" (s91BE(2)).

¹ Victoria Government Gazette 2009s222 30 June 2009, pp 51 and 53.

With these declarations, VTS became the Declared Transmission System (**DTS**). While these terms are often used interchangeably, the VTS is the pipeline system covered by the NGL and NGR, whereas the DTS is the pipeline system as operated by AEMO under NGL s91BA(1)(b).

NGL Part 6 Division 2 also creates the Declared Wholesale Gas Market (**DWGM**) (s91BI *et seq*), in which AEMO may, in accordance with the Rules, make Wholesale Market Procedures (s91BL). Under s91BM(1), these Wholesale Market Procedures are a form of statutory instrument directed at the regulation of a declared wholesale gas market.

NGR Rule 209 requires market participants to submit injection and withdrawal bids, and NGR Rule 206(1) requires AEMO to “schedule injections of gas into and withdrawals of gas from the declared transmission system in accordance with bids” according to the gas scheduling algorithm and procedures it must make under Rule 206(4).²

The combined result of these provisions is that gas transmission on the DTS is effectively “bundled” with the successful bids in the DWGM. In contrast to a contract carriage system, there is neither need nor opportunity for shippers to reserve capacity on the VTS.

Interested participants are encouraged to read AEMO's [Guide to Victoria's Declared Wholesale Gas Market](#).

1.2 Reference Service Proposal

Consistent with its role as the DTS service provider, APA VTS proposes a single reference service for the VTS:

- APA VTS makes the DTS available to the Australian Energy Market Operator Limited (**AEMO**) under s91BE(2) of the *National Gas Law* (**NGL**) to operate in accordance with the Service Envelope Agreement under NGL s91BA(b).

In accordance with the operation of the DWGM, APA VTS will levy charges for the use of the DTS under a single service, the Tariffed Transmission Service.

The NGR requirement to develop a reference service proposal does not distinguish between the market carriage and contract carriage models. The

² See AEMO's [Wholesale Market Gas Scheduling Procedures \(Victoria\) v3.0](#) 30 March 2020.



remainder of this document addresses the Rule requirements, acknowledging that some of them may not be applicable due to the operation of the market carriage model.

2 Covered pipeline, service provider and requirement for reference service proposal

2.1 Pipeline and service provider

The VTS is a covered pipeline under the access regime of the NGL and NGR.

A service provider is a person who owns, controls or operates a covered pipeline.³ As APA VTS owns the VTS, APA VTS is the service provider for the VTS for the purposes of the access regime of the NGL and NGR.

Rule 47A of the NGR, which came into effect on 1 April 2019, requires a full regulation pipeline (a covered pipeline that is not a light regulation pipeline) service provider to submit to the AER a reference service proposal prior to the full access arrangement proposal. The reference service proposal must be submitted no later than 12 months prior to the review submission date in the current access arrangement (NGR, rule 47A(3)).

The VTS is a full regulation pipeline, and the review submission date in the current Access Arrangement is 1 December 2021.

³ National Gas Law, s. 8(1)

3 The Victorian Transmission System

3.1 Pipeline description

The VTS comprises over 2,000km of high pressure gas transmission pipelines throughout Victoria. The VTS supplies gas to the Melbourne metropolitan area and to a number of regional centres including Corio (near Geelong), Ballarat, Bendigo, Wodonga, Koonoomoo and Echuca. The Laverton North, Somerton, Valley Power (Loy Yang B), Jeeralang and Newport gas-fired power stations are all supplied from the VTS.

The main VTS pipelines and compression facilities include:

- Longford to Melbourne Pipeline (Longford-Dandenong-Wollert) with compression at Gooding;
- South West Pipeline (Port Campbell-Geelong-Brooklyn) with compression at Winchelsea and Brooklyn;
- Victorian Northern Interconnect (Wollert-Wodonga-Culcairn) with compression at Wollert, Euroa and Springhurst; and
- Western Transmission System (WTS) (Iona-Portland) with compression at Iona.

Gas transmitted through the VTS is supplied primarily by Esso/BHPB and injected into the VTS at the Longford injection point. Other gas supplies are sourced from the BassGas injection point at Pakenham and from the Iona injection points at Port Campbell. Gas is also supplied to the system through the Interconnect pipeline from NSW. There are 34 Withdrawal Zones and Points on the VTS, with some of these points being grouped together as “close proximity points”.

The geographic location and route of the VTS are shown in Figure 1.

4 Services that can reasonably be provided using the Victorian Transmission System

Rule 47A(1)(b) requires:

47A Reference services

- (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:
 - (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 characteristics in subrule (2);
- (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.

As discussed above, the Ministerial declarations under the NGL declared the VTS to be the DTS. While these terms are often used interchangeably, the VTS can be considered to be the pipeline system, whereas the DTS is the pipeline system as operated by AEMO.

In terms of the services that could be offered by the VTS, these would normally be limited only by the physical characteristic of the pipeline system. However, as AEMO operates the DTS, including dispatch of compressors or actuation of valves, APA VTS cannot control the types or priority of services offered.

There is therefore no scope for APA VTS to provide a storage or park & loan service; there is no concept of features such as forward haul or backhaul. Due to the operation of the DWGM, there is no scope for APA VTS to offer any services such as trading, capacity trading or redirection.



The capacity trading and day-ahead auction of reserved but uncontracted services under NGR parts 24 and 25 respectively do not operate on the DTS⁴ due to the operation of the DWGM.

Under the market carriage structure, the only service able to be offered by APA VTS is the Tariffed Transmission Service. This is not a service *per se*, but the mechanism under which APA VTS charges for its services according to the Transmission Payment Deed required under Rule 327.

⁴ See Rules 610(2)(b), 630, 647(2) definition of "auction facility", and 648(1).

5 Reference service proposal assessment

NGR rule 47A(15) requires that an assessment of each of the services that can reasonably be provided on the VTS is made against the reference service factors.

The reference service factors are:

- a. actual and forecast demand for the pipeline service and the number of prospective users of the service;
- b. the extent to which the pipeline service is substitutable with another pipeline service to be specified as a reference service;
- c. the feasibility of allocating costs to the pipeline service;
- 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;
 - ii. a reference tariff serves as a benchmark for the price of pipeline services that are not reference services; and
 - iii. reference service terms and conditions serve as a benchmark for the terms and conditions of pipeline services that are not reference services;
- 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.

In the case of the VTS, these factors do not influence the reference service that is required to be provided under NGL s91BE(2): the provision of the system to AEMO to operate in accordance with the Service Envelope Agreement.

APA VTS has therefore not undertaken a more detailed assessment of each of the services that can reasonably be provided on the VTS, against the reference service factors of NGR rule 47A(15).

6 Engagement with pipeline users and gas consumers

APA VTS has established a Stakeholder Engagement Group to discuss matters relevant to the APA VTS access arrangement. This group is comprised of consumer and business representative, retailers and industrial consumers. The AER and AEMO also attend. APA VTS has been pleased with the attendance and engagement of this group.

This proposal was provided to attendees of that forum in advance of a discussion held on 27 November 2020.

In this forum, APA VTS discussed the nature of the DWGM and the role of the VTS in the market carriage model. The role of this reference service proposal was also discussed in the context of the DWGM and AEMO's operation of the VTS.

APA VTS explained the immediate purpose of engagement — development of the required reference service proposal for the VTS — and also explained that this was the start of a more extensive regulatory review.

Stakeholders were advised that, once reference services had been specified and approved by the AER, APA VTS would prepare, and submit to the regulator for approval, an access arrangement revision proposal for the VTS. This proposal would set out, in addition to the approved reference services, information on the facilities needed to provide those services, contract terms and conditions for the services, and prices — known as reference tariffs — for the reference services.

The access arrangement revision proposal is to be submitted to the AER on 1 December 2021, and regulatory approval of the revision proposal was expected to be completed in time for the revised access arrangement to become effective on 1 January 2023.

The reference service proposal was the first in a series of opportunities for stakeholders to engage in this more extensive regulatory review, both with the service provider (APA VTS) and with the AER.

APA VTS has seen the identification of stakeholders for the purpose of developing the reference service proposal as an opportunity to identify a potential stakeholder group to be consulted in later stages of the revision of the VTS Access Arrangement.

6.1 Feedback from stakeholders

The draft reference service proposal was circulated among the participants of the VTS Stakeholder Engagement Group on 18 November 2020, and presented to that group at the roundtable discussion on 25 November.

APA explained the limitations on the reference service proposal to the Stakeholder Engagement Group as a consequence of the National Gas Law and Rules relating to the market carriage model. Clarification was provided to the Stakeholder Engagement about the separation of the reference service (for which the AER will not approve a reference tariff) and the tariffed transmission service (the charging mechanism under which APA VTS earns revenue for the use of the system), for which the AER is expected to approve reference tariffs.

This causes considerable attention to be focused on the nature of the tariffed transmission service, and the tariff structure applicable to that service. The Stakeholder Engagement Group was informed that APA intended to workshop these matters at future stakeholder engagement sessions.

In this context the Stakeholder Engagement Group did not raise concerns with the reference service proposal as drafted.

A Rule requirements for reference service proposal

The reference service proposal that APA VTS must submit in accordance with rule 47A is to:

- (a) Identify the VTS, and include a reference to a website where a description of the pipeline can be inspected⁵.
- (b) Set out a list of all the pipeline services that APA VTS can reasonably provide on the VTS, and a description of those pipeline services fitting the characteristics in subrule 47A(2)⁶.
- (c) Identify, from the services in this list, at least one pipeline service that APA VTS proposes to specify as a reference service meeting the reference service factors, and provide relevant supporting information⁷.

The characteristics referred to in subrule 47A(2) are:

- (a) Type of service.
- (b) Priority of service relative to other pipeline services of the same type.
- (c) Receipt and delivery points.

The reference service factors that APA VTS should consider when specifying a reference service are set out in NGR, rule 47A(15). They are:

- (a) Actual and forecast demand for the pipeline service, and the number of prospective users of the service.
- (b) The extent to which the service is substitutable with another pipeline service to be specified as a reference service.
- (c) The feasibility of allocating costs to the service.
- (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:

⁵ NGR, rule 47A(1)(a)

⁶ NGR, rule 47A(1)(b)

⁷ NGR, rule 47A(1)(c)



- (i) Reference services serve as a comparison for the assessment of other pipeline services by a user or prospective user when negotiating access to those other services.
 - (ii) A reference tariff serves as a price benchmark for other pipeline services.
 - (iii) Reference service terms and conditions serve as a template for the terms and conditions of other pipeline services.
- (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.

If the service provider has engaged with pipeline users and gas consumers in developing a reference service proposal, the proposal should describe any feedback received from those users about which pipeline services should be specified as reference services (NGR, rule 47A(1)(d)).