



FINAL DECISION

APA Victorian Transmission System

Gas Transmission Determination

2023 to 2027

Reference Services

May 2021

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Note

This AER final decision applies to the APA VTS (Operations) Pty Ltd (APA VTS) reference service proposal for the 2023–27 gas access arrangement period commencing 1 July 2023 to 30 June 2027.

Under the National Gas Rules (NGR), gas network service providers are required to submit their reference service proposals to the AER twelve (12) months in advance of the submission date for their access arrangement revisions proposal.

The NGR require us to complete our assessment of a reference service proposal no later than six (6) months in advance of the due date for submission of the relevant access arrangement revisions proposal.

APA VTS's access arrangement submission date is 1 December 2021. APA VTS submitted its reference service proposal in 3 December 2020. We are required to conclude our assessment of the reference service proposal no later than 1 June 2021.

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Shortened forms

Shortened form	Extended form
AEMC	Australian Energy Market Commission
AER	Australian Energy Regulator
APA VTS	APA VTS (Operations) Pty Ltd
NGL	National Gas Law
NGO	National Gas Objective
NGR	National Gas Rules, Rules
r.	Rule
VTS	Victorian Transmission System

1 Overview

The Australian Energy Regulator (AER) works to make all Australian energy consumers better off, now and in the future. We regulate energy networks in all jurisdictions except Western Australia. We set the amount of revenue that network businesses can recover from users for using these networks.

The National Gas Law and National Gas Rules (NGL and NGR) provide the regulatory framework governing gas transmission and distribution networks. Our work under this framework is guided by the National Gas Objective (NGO):¹

to promote efficient investment in, and efficient operation and use of, natural gas services for the long term interests of consumers of natural gas with respect to price, quality, safety, reliability and security of supply of natural gas

APA VTS will levy charges for the use of the Victorian Transmission System (VTS) under a single service, the Tariffed Transmission Service, by making the VTS available to the Australian Energy Market Operator Limited (AEMO). This being under section 91BE(2) of the NGL to operate in accordance with the Service Envelope Agreement under NGL section 91BE(1).

Consistent with the NGR, on 3 December 2020 APA VTS submitted its reference service proposal for the 2023-27 APA VTS access arrangement period. We assessed the proposal against the requirements set out in the NGR.

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

Our final decision is to approve APA VTS's reference service proposal² of a single service, the Tariffed Transmission Service, which is made available to the AEMO.

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

² NGR r. 47A(10).

2 Background

This section discusses the reference service requirement in the NGR and describes APA VTS's reference service proposal of the single Tariffed Transmission Service.

2.1 APA VTS's Tariffed Transmission Service

The APA VTS supplies the Melbourne metropolitan area, most regional areas of Victoria and Albury/Murray Valley regions in New South Wales. Gas can also be transported via the VTS to NSW and South Australia via interconnecting pipelines.

APA VTS's proposal describes the pipeline in more detail³ and includes the following information:

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".

There are currently two different models used to allocate and manage pipeline capacity in eastern Australia. These are the market carriage model and the contract carriage model. The main difference being that shippers under a contract carriage model can reserve firm capacity on the pipeline through bilateral contracts, while shippers under the market carriage model cannot.

³ APA, Victorian Transmission System, *Reference Service Proposal*, December 2020, pp. 6-7.

The VTS operates under market carriage model and the gas transmission is effectively “bundled” with the successful bids in the Declared Wholesale Gas Market (DWGM). In contrast to a contract carriage system, there is neither need nor opportunity for shippers to reserve capacity on the VTS.

This is explained in more detail by the Australian Energy Market Commission (AEMC)⁴:

The Victorian Transmission System (VTS) (sometimes referred to as the Declared Transmission System (DTS)) operates under market carriage model. This carriage model provides for open access to the VTS and uses the outcomes from the operation of the Declared Wholesale Gas Market (DWGM) to schedule injections and withdrawals from the VTS. The system operator of the VTS is AEMO rather than the pipeline operator, APA. APA makes the VTS available to AEMO under a Service Envelope Agreement and provides a single reference service: the Tariff Transmission Service. As system operator, AEMO is responsible for scheduling injections and withdrawals and the day-to-day operation of the pipeline.

In contrast to the contract carriage model, which is in place on all other pipelines in Australia and relies on bilateral contracts between the pipeline operator and shippers to allocate capacity, users of the market carriage model cannot reserve capacity on the VTS and cannot therefore trade capacity on a secondary basis. Their access to capacity is instead determined through the DWGM scheduling process.

Another point of distinction between the VTS and other transmission pipelines in eastern Australia is that it is essentially a meshed network, consisting of a large number of injection points and withdrawal points. The services offered by the VTS therefore include both injection and withdrawal services, each of which attracts different charges. Different charges are also applied to domestic (Tariff D) and large business (Tariff V) customers.

2.2 Background

In March 2019 the AEMC made a final determination to implement a range of improvements to regulation of covered transmission and distribution gas pipelines across Australia.^{5 6}

⁴ AEMC, Stage 1, Final Report East Coast Wholesale Gas Market and Pipeline Frameworks Review, 23 July 2015, Appendix F.

⁵ Covered pipelines are those pipelines that are regulated under Parts 8 to 12 of the National Gas Rules by the Australian Energy Regulator or the Economic Regulation Authority of Western Australia.

⁶ AEMC, *Regulation of covered pipelines*, March 2019.

Within this package of reforms the AEMC introduced a new approach to determine which pipeline services should be specified as reference services for a full regulation pipeline's access arrangement. This included:⁷

- a new process requiring identification of reference services at the start of an access arrangement assessment process
- new criteria for determining appropriate reference services.

2.2.1 New process

In terms of process, gas network service providers (NSPs) are now required to submit a separate reference service proposal to the AER for assessment. Previously, a reference service proposal was an element of a broader access arrangement revisions proposal.

NSPs must now submit their reference service proposals to the AER twelve (12) months in advance of the submission date for their access arrangement revisions proposal.

The amended NGR require us to complete our assessment of a reference service proposal no later than six (6) months in advance of the due date for submission of the relevant access arrangement revisions proposal.

APA VTS's access arrangement submission date is 1 December 2021.⁸ This means VTS was required to submit its reference service proposal to the AER in 3 December 2020. We are required to conclude our assessment no later than 1 June 2021.

2.2.2 Criteria

In preparing its reference service proposal and in undertaking our assessment the NGR require APA VTS and ourselves to have regard to the reference service factors.⁹

¹⁰

- the actual and likely demand for the pipeline's services and the number of prospective users
- the extent to which the pipeline service is substitutable with another service
- the feasibility of allocating costs to the pipeline service
- the usefulness of specifying the pipeline service as a reference service in supporting negotiations and dispute resolution for other pipeline services

⁷ NGR, r. 47A.

⁸ Access arrangement revisions for the 2023-27 access arrangement period.

⁹ NGR, r. 47A(1)(c); 47A(13)(a); 47A(14).

¹⁰ NGR, r. 47A(15).

- likely regulatory costs for all parties in specifying the pipeline service as a reference service.

Relevant elements of rule 47A are listed in our detailed compliance assessment in section 4 of this decision paper.

3 APA VTS's reference service proposal

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

3.1 APA VTS's stakeholder consultation

APA VTS submitted that it undertook stakeholder consultation by¹¹:

- establishing a Stakeholder Engagement Group comprising consumer and business representative, retailers and industrial consumers with the AER and AEMO attending meetings.
- providing the proposal to attendees prior to discussing it in a meeting held on 27 November 2020
- explaining that 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 VTS and the AER.

APA VTS submitted that it advised the Stakeholder Engagement Group that there are limitations on the reference service proposal because of the NGL and NGR relating to the market carriage model. Clarification was provided about the separation of the reference service and the tariffed transmission service (the charging mechanism under which APA VTS earns revenue for the use of the system). As described by APA VTS this caused considerable attention to be focused on the nature of the tariffed transmission service, and the tariff structure applicable to that service.

However, APA VTS provided that the Stakeholder Engagement Group did not raise concerns with the reference service proposal as drafted. APA VTS advised that it intended to workshop the other matters at future stakeholder engagement sessions.

3.2 VTS's reference service proposal

APA VTS proposes to offer only one reference service, the Tariffed Transmission Service. This is because:

- under the market carriage structure, this is the only service APA VTS is able to offer
- although not typically thought of as a service, it is the mechanism under which APA VTS charges for its services according to the Transmission Payment Deed.

¹¹ Victorian Transmission System, *Reference service proposal*, December 2020, p. 11.

APA VTS submitted that as AEMO operates the VTS, including dispatch of compressors or actuation of valves, and that APA VTS cannot control the types or priority of services offered. Therefore, the only services that could be offered by the VTS, would be limited to the physical characteristic of the pipeline system. This also means that there is no scope for APA VTS to provide a storage or park & loan service, haul/backhaul or trading, capacity trading or redirection.

As APA VTS explained in its proposal¹², in 2009 it was declared that AEMO's system functions included the control of the operation and security of the declared transmission system. VTS is the declared transmission system and the service provider for the declared transmission system is APA VTS. In accordance with this, 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.

Even though AEMO controls and operates the VTS, it is not a service provider under section 8(2) of the NGL. Since AEMO is only a user of the pipeline under the NGL definition, shippers access the reference service through AEMO in accordance with the NGL and NGR.

The only relationship between APA VTS and shippers is through the Transmission Payment Deed. Under the terms of a Transmission Payment Deed, shippers agree to pay transmission tariffs directly to APA as owner of the VTS. Tariffs for use of the VTS are known as Transmission Use of System charges.

¹² Victorian Transmission System, *Reference service proposal*, December 2020, p. 2.

4 AER assessment

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

4.1 AER stakeholder consultation

We published APA VTS's reference service proposal on the AER website in December 2020. We called for written submissions by no later than 15 January 2021.

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

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

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

4.2 AER assessment of APA VTS's reference service proposal

To assess APA VTS's reference service proposal we considered the extent to which it conforms to each regulatory requirement set out in the rule 47A of the NGR. Our detailed assessment is set out in Table 4-1.

Table 4-1 Summary of NGR rule 47A reference service requirements

NGR r. 47A requirement	AER compliance assessment
(1) A service provider in respect of a full regulation pipeline must, whenever required to do so under subrule (3), submit to the AER a reference service proposal in respect of a forthcoming full access arrangement proposal that:	
(a) identifies the pipeline and includes a reference to a website at which a description of the pipeline can be inspected;	Compliant. See section 3 of APA VTS's Reference service proposal.
(b) sets out a list of all the pipeline services that the service provider can reasonably provide on the pipeline and a description of those pipeline services having regard to the characteristics in subrule (2);	Compliant. See section 4 of APA VTS's Reference service proposal.

<p>(c) from the list referred to in subrule (1)(b), identifies at least one of those pipeline services that the service provider proposes to specify as reference services having regard to the reference service factors including any supporting information required by the AER; and</p>	<p>Compliant. See section 4 of APA VTS's Reference service proposal.</p>
<p>(d) if the service provider has engaged with pipeline users and end users in developing its reference service proposal, describes any feedback received from those users about which pipeline services should be specified as reference services.</p>	<p>Compliant. See section 6 of APA VTS's Reference service proposal.</p>
<p>(2) A pipeline service is to be treated as distinct from another pipeline service having regard to the characteristics of different pipeline services, including:</p>	
<p>(a) the service type (for example, forward haul, backhaul, connection, park and loan);</p>	<p>APA VTS's reference service proposal explains that in terms of the services that could be offered by the VTS, these are limited to the physical characteristic of the pipeline system.</p>
<p>(b) the priority of the service relative to other pipeline services of the same type; and</p>	
<p>(c) the receipt and delivery points.</p>	<p>APA VTS cannot control the types or priority of services offered as AEMO operates the DTS. See section 4.</p>
<p>(14) In deciding whether or not a pipeline service should be specified as a reference service, the AER must have regard to the reference service factors.</p>	<p>We have had regard to the reference service factors in assessing APA VTS's reference service proposal.</p>
<p>(15) The reference service factors are:</p>	
<p>(a) actual and forecast demand for the pipeline service and the number of prospective users of the service;</p>	<p>Not applicable because the service is required to be provided under section 91BE(2) of the NGL: the provision of the system to AEMO to operate in accordance with the Service Envelope Agreement. See section 5 of APA VTS's reference service proposal.</p>
<p>(b) the extent to which the pipeline service is substitutable with another pipeline service to be specified as a reference service;</p>	<p>Not applicable – as above.</p>
<p>(c) the feasibility of allocating costs to the pipeline service;</p>	<p>Not applicable – as above.</p>

<p>(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:</p>	<p>Not applicable – as above.</p>
<p>(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;</p>	<p>Not applicable – as above.</p>
<p>(ii) a reference tariff serves as a benchmark for the price of pipeline services that are not reference services; and</p>	<p>Not applicable – as above.</p>
<p>(iii) reference service terms and conditions serve as a benchmark for the terms and conditions of pipeline services that are not reference services;</p>	<p>Not applicable – as above.</p>
<p>(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.</p>	<p>Not applicable – as above.</p>