

## ***Reference service***

### ***1. Rationale for proposing only one reference service (firm forward haulage with one zone only) and for limiting the reference tariff to “existing capacity”.***

#### **One Reference Service**

Section 3.2 of the Code requires that

*The Services Policy must comply with the following principles:*

- (a) *The Access Arrangement must include a description of one or more Services that the Service Provider will make available to Users or Prospective Users, including:*
  - (i) *one or more Services that are likely to be sought by a significant part of the market; and*
  - (ii) *any Service or Services which in the Relevant Regulator's opinion should be included in the Services Policy.*

At 31 January 2006 when the Access Arrangement was lodged, five of the six major shippers on the RBP have firm forward haul services<sup>1</sup>. From March 2005 to February 2006, the total quantity of gas transported on an interruptible basis was approximately [Confidential] % of total volumes transported during that period. Accordingly, APTPPL considers that the only service likely to be sought by a significant part of the market is a firm forward service.

In addition APTPPL notes that the existing Access Arrangement, which reflected the Access Principles established under the previous regulatory regime, offered a single zone firm forward haul service previously.

In light of the above, APTPPL considers that offering a firm forward service is reasonable.

#### **Reference Service Applying to Existing Capacity**

The Code requires that an Access Arrangement be established for a Covered Pipeline – not the pipeline as it may subsequently be extended or expanded. The Access Arrangement applies to the Covered Pipeline, being the pipeline and associated facilities as at 31 January 2006. For clarity in the Access Arrangement documentation, APTPPL adopted the term “Existing Capacity”.

It is consistent with the operation of the Code that an Access Arrangement does not apply to extensions and expansions unless the Expansions/Extensions Policy in the Access Arrangements so provides<sup>2</sup>. While the use of the term “Existing Capacity” is

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<sup>1</sup> [Confidential]

<sup>2</sup> For example, section 3.16 clearly contemplates a number of possible approaches to establishing tariffs for extensions or expansions.

perhaps novel to the RBP Access Arrangement, the concept embodied in the use of that term – that the Reference Services is available for existing but not possible future capacity – is consistent with many Access Arrangements. The position reflected in the RBP Access Arrangement is consistent with that applicable under all Access Arrangements except those where the extensions/expansions policy expressly provides that services provided by the extension/expansion will be provided at the Reference Tariff.

While APTPPL is considering expansion of the RBP, the timing, capacity size and capital cost of the capacity expansion are not known. APTPPL therefore decided not to include forecast capital expenditure and volumes in respect of such possible expansion in the calculation of Total Revenue.

A Reference Tariff applying only to the capacity available under the Covered Pipeline as it currently exists is reasonable and is consistent with the Code.

#### **Additional ACCC Question of 24 March**

- *How many requests has APTPPL obtained from users or potential users seeking access to services other than firm forward haul and from whom?*
- *What services were requested?*

APTPPL currently provides one interruptible only service, one backhaul service and one storage service.

[Confidential]

Since 2004 there have been three requests for firm backhaul service.

[Confidential]

There has been one request for interruptible forward haul service..

[Confidential]

- *Have backhaul services been sought by users? Have you estimated the likely demand for this service and if so, how significant are expected volumes relative to total volume?*

As outlined above backhaul services are currently provided to one user and enquiries have been made by three prospective users.

Any material increased demand for backhaul services is likely to be linked to the ability of Surat Basin coal bed methane producers to contract with end users in Ballera, Mt Isa or Southern Australia. Any such major contracts would require the proving up of further coal bed methane reserves and the construction of a pipeline link between the Queensland pipelines and the South Eastern Australian pipelines. If the planned PNG pipeline proceeds it is expected there would not be a strong demand for this service in the long term.

2. *Clarification of the defined term "Existing Capacity" is sought with regards to delivery of services up to what level of capacity in TJ/day? The Commission has been advised the RBP capacity is 180 TJ/day, the nominal capacity is 178 TJ/day. If it refers to different capacities at different date(s) please specify.*

### **"Nominal Capacity"**

The term "nominal capacity" was a requirement of the Queensland legislation and was reflected in the Access Principles and in the pipeline licence. It is based upon theoretical assumptions with respect to the receipt and delivery profile of the system, and was set by the Queensland Government.

The contracted capacity of the RBP reflects actual contracts, including receipt/delivery profiles and the nature of the services provided under those contracts. Current contracted capacity exceeds the nominal capacity stated in the pipeline licence as some of the deliveries (eg for the Braemar Power Project) are delivered at Condamine, therefore consuming less pipeline capacity than a comparable load delivered to the Brisbane metropolitan area.

### **Services available for Existing Capacity**

Pipeline capacity is not a fixed amount and is dependent on variables such as:

- *location of load at delivery points and receipt points along the pipeline from time to time, and load profiles at receipt points and delivery points.* As volumes to be received or delivered at a particular Delivery Point or Receipt Points change, or as new Delivery Points or Receipt Points are constructed, the dynamics of the total pipeline system change. The effect on overall system capacity of a delivery to a point closer to the Receipt Point is less than that of a delivery to the extremities of a system.
- *gas composition:* differing heating values of gas will result in the pipeline being able to deliver a greater or lesser amount (for example, where gas has a high heating value, the pipeline can deliver a greater quantity of gas than would be the case where the gas has a low heating value).

The contracted level of MDQ on the RBP in 2006 is 196.2TJ/day. The reason for the discrepancy between the nominal capacity and this contracted capacity is the location

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of the load: the Braemar Power Station withdraws gas downstream of the Peat Lateral interconnection at Arubial but upstream of the Condamine compressor station.

**3. Information on the high and low linepack levels of “existing capacity”.**

Typically Mondays have the highest linepack level with Fridays or Saturdays having the lowest linepack level.

In calendar year 2005 the highest linepack was [Confidential] TJ (Monday 29 August) and the lowest linepack was [Confidential] TJ (Saturday 2 April).

A schedule of linepack during calendar year 2005 is included at Attachment 1.

**4. Venton Associates ORC capacities (provided by Stuart Ronan on 28 February) were 203 TJ/day when linepack is low and 236 TJ/day when linepack is high. In light of this, rationale for selecting 203 TJ/day for the financial model.**

Venton and Associates optimised pipeline design is designed for forecast future gas loads delivered through the RBP. At the beginning of operation this notional pipeline would be able to deliver 203 TJ/day when linepack is low and 236 TJ/day when linepack is high. These volumes would change following the addition of compression as outlined in the ORC report.

The forecast volumes used in the financial model are as follows:

Year	2006-7	2007-8	2008-9	2009-10	2010-11
MDQ reservation TJ/Day	196.2	199.1	199.8	200.5	202.9

These forecasts reflect current contracted MDQs. These volumes have no direct correlation to the initial capacity of Venton and Associates optimised pipeline design, except that the optimised pipeline designed by Venton and Associates had to be capable of receiving/delivering at least these quantities.

## ***Revenue and Tariffs***

5. ***A listing of the actual tariffs payable under each haulage contract in operation since 1980 and an explanation of the methodology by which these tariffs were calculated. This should include an explanation of how costs and revenues have been apportioned between the tariffs paid by different users, together with the supporting rationale.***

APTPPL has provided the Commission with a copy of all current contracts and all known historical contracts held by APTPPL. These contracts contain relevant pricing and price escalation clauses.

APTPPL does not have detailed information as to the manner in which tariffs have been derived for all agreements in operation since 1980, nor how revenues may have been allocated.

APTPPL notes that the Commission is to advise if further information is required following review of the contracts delivered on 9 and 10 March.

### **Additional ACCC Questions of 24 March**

***Please provide information on how:***

- ***costs have been apportioned between the tariffs (transmission charges, compressor charges and looping charges) paid by different users, and***
- ***underlying allocation of costs, have been determined, together with the supporting rationale.***
- ***Please make specific references to contracts in your reply. In responding you might comment on the attached spreadsheet we have prepared from hauling contracts provided by you which identifies looping and compression charges paid by 3 users.***

GTAs negotiated by APT since its float in 2000 generally contain a capacity charge and a throughput charge consistent with the majority of pipeline GTAs in Australia. They do not contain “compression” or “looping” charges or similar.

The contracts in which compression charges and looping charges are specified were entered into prior to the float of APT in 2000. APTPPL has not identified any detailed records of how these tariffs were developed or how cost allocation was undertaken. Many of these tariffs were established when CSR Oil & Gas was the pipeline owner (ie they were established prior to 1988).

In response to the Commission's email of 4 April 2006, APTPPL comments as follows:

**Incitec- Pivot and predecessors:**

- [Confidential]
- [Confidential]
- [Confidential]

APTPPL has not identified any detailed records of how these tariffs were developed or how cost allocation was undertaken, beyond the content of the contract.

**Energex / Allgas:**

- [Confidential]

APTPPL has not identified any detailed records of how these tariffs were developed or how cost allocation was undertaken, beyond the content of the contract.

APTPPL does not hold a signed copy of this contract.

**Origin Energy and predecessors:**

- [Confidential]

APT has not identified any detailed records of how these tariffs were developed or how cost allocation was undertaken, beyond the content of the contract.

APTPPL does not hold a signed copy of this contract.

- [Confidential]

[Confidential] At the time this agreement was developed, tariffs were set by the approved Access Principles administered by the Queensland Government. These principles are attached at Attachment 9.

**6. Revenue received in past years, by year and category, from the following charges: Overrun, Balancing, Daily Variance, Receipt and Delivery Points, since these charges were instituted.**

Data on charges relating to overruns, balancing, variance and receipt and delivery points from 2000 to the present is provided at Attachment 6.

APTPPL notes that in previous Access Arrangements such as the Moomba Sydney Pipeline Access Arrangement revenue from charges relating to overruns, balancing, variance etc has not been explicitly considered in calculating tariffs.

**Additional ACCC Questions of 24 March**

*Please provide data for period from 2000 by 31 March 2006. We shall then assess whether data for prior years are required.*

An interim schedule was provided on 31 March. A final schedule is attached at Attachment 6.

***7. Rationale and evidence for the two part reference tariff adopted (95% capacity charge and 5% throughput charge).***

The Code (section 8.1) requires efficiency in the level and structure of the Reference Tariff. APTPPL interprets this to mean that fixed charges, such as capacity charges, should generally reflect fixed costs and variable charges, such as throughput charges, should generally reflect variable costs.

It is also generally the case that users of pipeline transportation services are familiar with a tariff structure of capacity charges and throughput charges, rather than a single capacity charge or throughput charge.

The proposed allocation of revenue between Capacity Charge and Throughput Charge is 95% (Capacity Charge) and 5% (Throughput Charge). This reflects that almost all of the costs of providing Services are fixed and do not vary with the quantity of gas transported.

The major costs of providing Services on the RBP, as shown in the financial model provided to the Commission in February 2006, are:

- **capital financing costs** (including capital base, rate of return)
  - these costs are driven by the asset value and rate of return and are effectively fixed. The main determinants of asset value are pipeline distance and pipeline diameter, which are fixed and do not vary with throughput.
- **stay in business capital costs**
  - these costs are driven by various factors. Some of these costs, such as compressor overhauls and maintenance costs, are partially driven by throughput.
- **non-capital costs including operation and maintenance costs**
  - these costs comprise a fixed operations and maintenance contract and an allocation of corporate costs. Some costs may be partially influenced by throughput, for example pipeline spares or legal costs (if the throughput requires a contract variation), but the quantum of these costs do not vary significantly with changes in throughput.

The intention of the 95:5 tariff structure is intended to reflect that the majority of costs on the RBP are fixed, while still recognising that a small amount of costs are at least partially determined by throughput.

A similar allocation was accepted by the ACCC on the Moomba-Sydney Pipeline, where tariffs are structured in the ratio 96: 4.

***8. Rationale for selection of 'postage stamp' pricing for the forthcoming AA Period.***

The Reference Service is a firm forward haul service with a "postage stamp" capacity charge and "postage stamp" commodity charge.

The RBP is currently operating at close to its full capacity, and the Reference Tariff under the Access Arrangement, once approved, is not expected to apply to shippers during the Access Arrangement Period. In light of this, APTPL considers it reasonable to have continued with the current pricing structure of the RBP – being postage stamp tariffs.

As a general matter, distance based or zonal tariffs may encourage shippers to ship relatively quantities of gas small distances through a pipeline. This will utilise capacity that could have otherwise been used by other shippers to ship gas the full distance of the pipeline. Particularly where a pipeline is fully contracted or close to capacity, the opportunity cost of this one shipper shipping gas a short distance is that another shipper is prevented from shipping the gas a longer distance. The postage stamp tariff attempts to minimise this opportunity cost.



## ***Purchase Prices***

### ***9. Purchase price of 15% interest in RBP from Interstate RBP Pty Limited in 2001 and associated details.***

The purchase price of the 15% interest in the RBP from Interstate RBP Pty Limited in 2001 was [Confidential].

A copy of the Sale Contract is attached as Attachment 2.

### ***10. Value ascribed to the RBP and AGL Petroleum Pipelines Ltd at the time of transfer of the asset to Australian Pipeline Trust in 2000 and associated details.***

No value was specifically ascribed to the RBP or APTPPL at the time of the transfer of assets to the Australian Pipeline Trust.

In particular, the float of Australian Pipeline Trust was effected by the sale of shares in APT Pipelines Limited, which is the ultimate holding company of a number of subsidiaries, including APTPPL. There was no separate transaction in respect of APTPPL at or around the time of the float.

APTPPL notes that the Commission declined to give weight to the implied value of the Moomba Sydney Pipeline in the float of APT<sup>3</sup>.

## **Additional ACCC Questions of 24 March**

***We note that no separate transaction occurred in the transfer of the RBP to APT. What notional value of the RBP was assumed in the assessment of the value of the portfolio of assets transferred?***

In light of the Commission's Final Decision on the Moomba Sydney Pipeline Access Arrangement, APTPPL seeks to understand why any such value may be considered to be relevant to the RBP Access Arrangement.

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<sup>3</sup> ACCC, Final Decision on Moomba Sydney Pipeline Access Arrangement, October 2003. pp 48-50.

## *Capital Costs and Asset Values*

### *11. Actual capital costs of Peat and Scotia lateral and year incurred.*

The capital cost of the Peat Lateral (including Scotia Lateral) was \$23,429,997 as follows:

[Confidential]

[Confidential]

[Confidential]

**Total** **23,429,997**

This expenditure was incurred in the financial years 2000-2001 and 2002-03.

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The above figures are in dollars of the day.

### **Additional ACCC Questions of 24 March**

*We note the timing of expenditure is yet to be provided.*

Timing of expenditure provided as above on 24 March.

**12. Total capital cost of each section of looping constructed, date of commissioning and expenditure incurred by year.**

The table below shows capital expenditure on looping projects incurred in relevant years.

<b>Looping</b>	<b>Date of Commissioning (Calendar year)</b>	<b>Capital Expenditure \$ of the day</b>
<b>Looping 1</b>	1988	
1987-88		3,908,412.00
1988-89		53,108.00
1989-90		5,057.00
<b>Total</b>		<b>3,966,577.00</b>
<b>Looping 2</b>	1990	
1989-90		5,369,504.00
1990-91		33,802.00
1991-92		15,817.00
1992-93		-60
<b>Total</b>		<b>5,419,063.00</b>
<b>Looping 3</b>	1998	
1991-92		6,330.00
1997-98		10,882,324.00
<b>Total</b>		<b>10,888,654.00</b>
<b>Looping 4</b>	2000	
2000-01		16,260,498.03
<b>Total</b>		<b>16,260,498.03</b>
<b>Looping 5</b>	2001	
2002-03		53,002,701.60
2003-04		573,732.73
2004-05		43,301.50
<b>Total</b>		<b>53,619,735.83</b>
<b>Looping 6</b>	2002	
2002-03		8,490,732.27
2003-04		808,645.62
2004-05		245,313.04
<b>Total</b>		<b>9,544,690.93</b>

**Additional ACCC Questions of 24 March**

*We note the data as outlined in your proposed table is yet to be provided.*

Data provided as above on 24 March.

**13. Total capital cost of each compressor station constructed, date of commissioning and expenditure incurred by year.**

The table below shows capital expenditure on compressors incurred in relevant years.

<b>Compressor</b>	<b>Date of Commissioning (Calendar year)</b>	<b>Capital Expenditure \$ of the day</b>
<b>Dalby Compressor</b>	1981	
1981-1982		108,902.00
1993-1994		2,295.47
1995-1996		1,275.00
1997-1998		410,439.00
1999-2000		13,543.78
2002-2003		63,814.42
2003-2004		2,590.95
2004-2005		392,116.76
<b>Total</b>		<b>994,977.38</b>
<b>Kogan Compressor</b>	1981	
1981-1982		107,587.00
1994-1995		994.65
1997-1998		301,590.00
2002-2003		2,600.00
2003-2004		1,041.46
<b>Total</b>		<b>413,813.11</b>
<b>Oakey Compressor</b>	1983	
1982-1983		170,167.00
1993-1994		1,271.53
1996-1997		301,590.00
1997-1998		1,465.24
2002-2003		71,386.65
2003-2004		394.09
<b>Total</b>		<b>546,274.51</b>
<b>Condamine Compressor</b>	1984	
1983-1984		2,143.00
1984-1985		383,107.00
1985-1986		22,977.00
1986-1987		170.00
1993-1994		952.00
1996-1997		301,591.00
1997-1998		1,471.00
2003-2004		3,153.04
<b>Total</b>		<b>715,564.04</b>
<b>Yuleba Compressor</b>	1985	
1985-1986		534,677.00
1987-1988		- 1,051.00

1996-1997		45,262.71
1997-1998		300,999.00
1999-2000		14,612.47
2004-2005		200.28
<b>Total</b>		<b>894,700.46</b>
<b>Gatton Compressor</b>	1986	
1986-1987		654,346.00
1987-1988		- 4,599.00
1994-1995		994.65
1997-1998		412,889.00
<b>Total</b>		<b>1,063,630.65</b>
<b>Compressor Unspecified (Note)</b>		
1992-1993		2,309.77
1993-1994		36,274.24
1994-1995		740.88
1996-1997		46,909.88
1997-1998		3,742.29
1998-1999		455,651.00
1999-2000		21,896.34
2001-2002		8,226.37
2002-2003		12,899.50
2003-2004		19,209.54
<b>Total</b>		<b>607,859.81</b>

Note - "compressor unspecified" includes either capital expenditure on unspecified compressors, capital expenditure on all compressors (eg general upgrades) and capital expenditure on the spare compressor.

#### **Additional ACCC Questions of 24 March**

*We note the data as outlined in your proposed table is yet to be provided.*

Data provided as above on 24 March.

**14. With regard to Table 1 of the AAI, the original capacity of the pipeline and the capacity following each capacity expansion outlined.**

<b>Calendar year</b>	<b>Expansion</b>	<b>Capacity TJ/Day</b>
1969	Pipeline construction completed	33
1982	Dalby Compressor	47
1982	Kogan Compressor	47
1983	Oakey Compressor	51
1984	Condamine Compressor	57

1985	Yuleba Compressor	61
1986	Gatton Compressor	66
1988	Looping 1	72
1989	Looping 2	78
1998	Looping 3	101
2000	Looping 4	119
2001	Looping 5	170
2002	Looping 6	180

Note - see the discussion above concerning determination of capacity.

Looping 3 sections were completed over time. The final sections of looping 3 coincided with looping 4 and 5.

#### **Additional ACCC Questions of 24 March**

- *In an earlier (2005) presentation, the capacity of the original pipeline was listed as 40 TJ/day. Please clarify whether the 40 or 33 TJ/day is applicable in this instance.*

The presentation made to the ACCC on 15 September 2005 was a general discussion of the development of the pipeline since 1969. In this context the original capacity was described as approximately 40 TJ day.

- *We recognise that capacity information is necessarily based on assumptions. Are the assumptions associated with the capacities presented in the table consistent?*

The numbers from 1969 to 1990 are based on the table attached at Attachment 10. APTPPL does not know the basis for the calculation of capacities stated in the table.

The values for subsequent years reflect capacities stated in the licence and / or the access principles.

- *We infer from this response that 'Looping 4' was completed at the time of acquisition of the final 15% of the RBP. Is that correct?*

Looping 4 was in service but was still within its defects liability period.

- *The statement that the final sections of 'Looping 3' coincided with Looping 4 and 5 is not reflected in the timing of expenditures as shown in the interim response to question 12. Please reconcile the timing in the two tables.*

The timing of capital expenditure for Loopings 3, 4, 5 and 6 as recorded in the asset register is shown in the response to Question 12 above. The early stages of planning for Loopings 4 and 5 occurred at or around the time of the completion of Looping 3.

**15. Annual capital costs of the years 2000-01, 2001-02, 2002-03, 2003-04 and 2004-05 itemised as in Table 4 of the AAI.**

<b>Capital Expenditure</b>	<b>2000-01</b>	<b>2001-02</b>	<b>2002-03</b>	<b>2003-04</b>	<b>2004-05</b>
Pigging (see note below)	na	na	na	0	0
Coating defect assessment	na	0	0	0	0
Excavation and inspection	na	0	0	91,300	0
Compressor overhauls	na	71,494	63,814	0	245,734
Minor and SIB capital	na	145,112	261,901	153,647	158,277
Access Arrangement costs	na	na	na	0	0
IT system upgrade	0	0	0	0	0
<b>Total</b>	<b>158,336</b>	<b>216,606</b>	<b>325,7145</b>	<b>244,947</b>	<b>404,011</b>

**Additional ACCC Questions of 24 March**

*We note the data as outlined in table is yet to be provided.*

Capital Expenditure data is not collected or organised in the manner shown in Table 4 of the Access Arrangement Information. The layout of the information in Table 4 of the Access Arrangement Information is based on future workplans rather than current accounting practice.

The information in the table above has been derived by taking total capital expenditure as recorded in the asset register in the relevant years, deducting expansion capital (ie capital associated with looping, Peat Lateral construction and the purchase of 15% of the RBP) and then allocating this between categories based on Agility work program data from the relevant years.

This has resulted in some anomalies, for example

- pigging was undertaken in 2002 (as per the answer to question 30) but the cost does not appear in either the asset register or work program data;
- pigging was undertaken at the end of 2004-5 (as per the answer to questions 24 and 30) and while the cost appears in Agility work program data it does not appear in the asset register for 2004-5 (due to accounting timing issues). As the pigging will be recognised in 2005-6, no amount is included for pigging in the above table. The cost of the pigging is as per the answer to question 24);

- coating defect assessment and excavation and inspection may not necessarily be identified as such in the accounts or work program data.

**16. With regard to the Table 3 of the AAI (p8), for each revaluation, the date of the valuation, the asset or assets revalued, the value of each of these assets before and the revaluation, and the basis on which the revaluation is depreciated. Values to be in the nominal dollars.**

The revaluations are as follows

- 28 March 1980 “Transmission Plant” revalued by \$250,316.
- 28 September 1988 “Transmission Plant” revalued by \$8 574,509.
- 28 September 1988 “Pipeline” revalued by \$11,207,396.
- 30 June 1996 “Adjustment” (no asset specified) by \$14,846,490.

It is not apparent from the asset register exactly what assets were covered by the revaluation accordingly it is not possible to identify the value of the specific asset before revaluation.

As noted in the AAI these revaluations were not used in developing an actual cost measure for the covered pipeline.

Since 13 June 2000 APTPPL has depreciated the revaluations on a throughput basis. The basis on which previous owners of APTPPL and/or the RBP have depreciated the revaluations is not known.

#### **Additional ACCC Questions of 24 March**

- ***The 1996 annual return to the ASC shows no revaluation or adjustment to asset values. The figure of \$14 846 000 is in the accounts as accumulated depreciation. A revaluation of \$14 846 490 appears to be inconsistent with these annual return figures. Please reconcile. What is the basis for the adjustment?***

This question was partially addressed on the APTPPL response of 24 March 2006 that stated.

*It is not apparent from the asset register exactly what assets were covered by the revaluation*

A positive adjustment of \$14,846,000 at 30 June 1996 is shown in the asset register. The asset register shows that this adjustment has been fully depreciated as at 2005.

In addressing DAC in the Access Arrangement Information, APTPPL deducted several asset adjustments from the asset values in the asset register. One of these adjustments was the 1996 adjustment. APTPPL does not know the basis for the



adjustment in the asset register - it is for this reason that the adjustment has been excluded from the calculation of DAC.

APTPPL has not been able to reconcile the asset register adjustment with the annual return figures

- ***Please define 'Transmission Plant'. Does it mean pipeline, compressors or associated equipment owned by APTPPL?***

The designation "Transmission Plant" is as it appears in the asset register. There is no additional information as to what specific asset this revaluation applies to.

As noted previously APTPPL has not included this revaluation in its calculation of DAC.

***We note the basis of depreciation for each revaluation is yet to be provided.***

This question was partially addressed on the APTPPL response of 24 March 2006 that stated

*Since 13 June 2000 APTPPL has depreciated the revaluations on a throughput basis.*

The bases on which previous owners of the RBP have depreciated the revaluations are not known by APTPPL with certainty. APTPPL understands that, in general, an age basis was used to depreciate assets prior to 13 June 2000. A throughput basis has been used to depreciate assets since 13 June 2000.

The table below provides additional information in relation to the depreciation of the revaluations:

	Original Book Value \$ of the day	Book value at 30 June 2005 \$ of the day	Book value at 28 February 2006 \$ of the day
28 March 1980 "Transmission Plant"	250,316	119,442	115,483
28 September 1988 "Transmission Plant"	8 574,509	4,090,761	3,955,840
28 September 1988 "Pipeline"	11,207,396	5,398,987	5,222,638
30 June 1996 "Adjustment" (no asset specified)	14,846,490	0	0

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**17. An explanation of how each stage of capacity expansion listed in Table 1 of the AAI (p2) was funded, including the quantum of any capital contributions by users.**

No capacity expansion has been funded through capital contributions by customers.

**Additional ACCC Questions of 24 March**

- *Please provide a schedule of revenue received by customer, year and category of revenue since 1981 e.g. in the*

[Confidential]

Attachment 8 provides a schedule of revenues received by customer, year and category since July 2000. This alteration in date is in accordance with the Commission's email of 3 April 2006.

*APTPPL's response of 19 March (page 12) states "No capacity expansion has been funded through capital contributions by customers." ACCC notes that haulage contracts with some users include payments for 'Capital Contributions'. We mean the term capital contributions to describe compensatory payments to the service provider either in the form of a lump sum up-front payment or an on-going payment.*

- *Were these 'capital contributions' negotiated with users on a bilateral or multilateral basis?*
- *What type and quality of information was provided to users to assist them in their negotiations relating to the funding of augmentations?*
- *How were the costs of augmentation allocated among users?*

Users have not funded expansions of the RBP. Users have paid tariffs for provision of services, including services provided by the expansions. While revenue from tariffs may have supported expansion of the pipeline, it is an incorrect characterisation to suggest that Users have funded, in the sense of financing, the expansion. APTPPL understands that the term "capital contribution" would more commonly be used where Users have treated payments as "capital" in their books.

In general contracts with tariffs such as "compression charges" or "looping charges" were established when CSR Oil & Gas was the pipeline owner (ie they were established prior to 1988).

APTPPL has not identified any detailed records of how such tariffs were negotiated, the information provided to users or how cost allocation was undertaken.

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***18. An explanation of how APTPPL expects to fund future capacity expansions during the forthcoming AA Period.***

APTPL does not intend to seek capital contributions from users. Any future capacity expansion will be funded in the manner which APTPL determines at the time of making the decision to expand, either through raising debt or through utilisation of existing corporate facilities.

**Additional ACCC Questions of 24 March**

***APTPL's proposed revised Access Arrangement Expansions Policy states: "Where an expansion is Covered, access to Services provided using that Capacity will be offered as a Negotiated Service at a negotiated tariff." And: "Generally, APTPL would expect to continue to expand the Capacity of the Pipeline to meet requirements for additional Capacity where: .....A User commits to the use of the expanded capacity at a tariff negotiated between APTPL and the User; ....."***

- ***ACCC seeks an explanation of APTPL's proposed framework regarding the negotiation of tariffs for the use of expanded capacity.***

APTPL will negotiate in good faith with prospective shippers to expand the RBP capacity to meet the requirements of those users. Negotiation will be in line with the currently applicable RBP Access Agreement.

Items to be negotiated are contract terms and conditions, including tariffs. Negotiated tariffs may differ from Reference Tariffs as additional capital and non-capital costs relating to the capacity expansion are incurred

When Gas Transportation Agreements are executed and become unconditional, APTPL will commence the construction of the required capacity.

- ***How does APTPL intend to achieve cost recovery and a return on investment?***

APTPL will negotiate prospective shippers for any increase in capacity. These contracts can only be agreed to by the APTPL Board if they allowed recovery of costs including the costs of capital.

Negotiated tariffs established in any Gas Transportation Agreement will be designed to cover the capital cost of the expansion, the estimated operating costs of the expansion and APT's required rate of return.

- ***What factors will guide APTPPL decision making on the method for achieving cost recovery and a return on investment?***

APTPL's decision making on the method for achieving cost recovery, including cost of capital, will be the outcome of negotiations with users and will include consideration of matters such as:

- counterparty issues;
- costs including forecast capital costs and cost of capital;
- issues in the broader commercial and regulatory environment including the current review of gas regulation currently taking place; and
- load profile and other requirements of the prospective user.

Cost recovery and return will most likely be by way of a negotiated capacity charge, which will provide APT with the majority of the revenue required for cost recovery and return plus a negotiated throughput charge, which will provide the remainder of the required revenue.

- ***How does APTPPL propose, or what principles does it intend to apply, to allocate the cost of augmentations among users?***

The costs (both capital and operating) will be borne by the user(s) who require the expanded capacity via the negotiated tariffs in their Gas Transportation Agreement's. If there are multiple parties contracting for expanded capacity, the costs will be proportioned based on their respective use of that expansion (such as being pro-rated based on MDQ).

- ***What issues will determine how APTPPL will intend to decide 'funding arrangements' with a user/users making a request for an augmentation.***

The users will pay the negotiated tariff specified in Gas Transportation Agreement over the term of their Agreement.

APTPL will not seek additional funding from users.

- ***What issues would impact on APTPPL's decision as to whether negotiations relating to capacity expansions are conducted multilaterally or bilaterally with users?***

Typically users require bilateral negotiations due to the fact that their projects are confidential. Further many users are in competition with other users on the pipeline. In addition, each user typically has particular requirements (eg MDQ, MHQ, load profile, term etc); this lends itself to separate bilateral negotiations.

- ***What information does APTPPL intend to provide users to facilitate informed negotiations?***

On a capacity expansion APTPPL will take capital expenditure risk, construction risk, operating expenditure risk and throughput risk. The costs of the expansion and the risks will be reflected in the tariff offered.

APTPPL will provide prospective users with information including

- terms for gas transportation so prospective users can clearly understand the obligations of both parties (particularly obligations concerning receipt and delivery of the gas); and
- charging methodology and basis.

Generally users are able to develop their own estimates of the likely capital cost of the expansion.

Users are also able to take advantage of the arbitration provisions in the Code.

***To what extent, if any, does APTPPL intend to use surcharges and/or capital contributions to achieve cost recovery and a return on investment.***

Typically APTPPL would not envisage a tariff structure including a surcharge or other contribution, with the possible exception of site specific receipt point or delivery point facilities (eg customer meter stations and associated pipework).

APT will not seek additional surcharges or capital contributions from users above the negotiated capacity/throughput charges.

***We consider the Access Arrangement implies that APTPPL is likely to seek a 'roll-in' of costs associated with capacity expansions where the tariff derived from the user(s) is adequate to recover those costs without a surcharge or other contribution. Would you please confirm that this understanding of this matter is correct?***

APTPPL has not included any costs for capital expansion in the Access Arrangement Reference Tariff.

As per section 7.2 of the Access Arrangement any future capacity expansion may be covered and a negotiated service, including a negotiated tariff, will be provided on the covered capacity expansion. The negotiated tariffs may differ from the Reference Tariff as different capital and operating costs relating to the capacity expansion are incurred.

Whether capital costs of any capacity expansion are added to the capital base will be determined as part of the consideration of the next Access Arrangement, in or around 2011.

***ORC and DORC***

***19. An itemised breakdown of the estimated capital and operating costs of the “intermediate” and Peat/Scotia compressor stations referred to in the report by Venton and Associated Pty Ltd.***

An itemised breakdown of the intermediate compressor station is provided below:

<b>Item</b>	<b>Oct 2005 \$</b>
Vegetation Clearing	16,000
Earthworks to Pad and Access Road	490,000
Hardstanding and Landscaping	188,000
Concrete Foundations and Drainage	735,000
Supply 2 No. Taurus T60/70 Compressor units	18,780,000
Supply Gas Coolers	830,000
Supply Fuel Gas Skid	795,000
Supply Control Equipment	455,000
Supply Instrument Air Supply	155,000
Inlet Filter Skid	285,000
Mechanical Installation	1,185,000
Inlet and Outlet Isolation Valves	184,000
Bypass Valve	78,000
Vents	71,000
Building Enclosure	540,000
Control room, Maintenance and parts room	385,000
Crib and Ablution Facilities	50,000
Water and Wastewater Treatment	65,000
Oil Storage Room	14,000
Structural Steelwork	330,000
Piping and Valves	5,675,000
Electrical Mains Connection	135,000
Station Electrics, MCC and Cables	3,340,000
Power Supply Backup (Gas Driven Unit)	1,125,000
Instrumentation and SCADA	1,790,000
Spares	200,000
Training and As-Builts	100,000
Commissioning	150,000
<b>Total</b>	<b>38,146,000</b>

There is no comparable breakdown for the Peat Scotia Compressor Station as it was costed using a \$ per KW rule.

***20. An estimate of the cost of rehabilitating the existing pipeline and indicative work schedule until the assumed date of abandonment (for the purposes of more accurately calculating NPV of DORC).***

Information will be provided in relation to the reasonableness of APTPPL's assumptions as to asset-life in determining for NPV-DORC.

If the request is directed to obtaining information as to the manner in which the original pipeline can be retained in service until the expiry of average weighted life, APTPPL submits that this may misconceive the approach adopted in the modelling of NPV-Dorc.

APTPPL chose to address the expected shorter life of the original pipe through the use of an average weighted life. On this basis, while the notional date for replacement of the service capability of the original pipe is deferred (which understates costs), the replacement of service capability of the later sections of pipeline is brought forward (which overstates costs). Approaching the NPV-Dorc valuation in this way was considered to be a reasonable proxy for the approach of HNE might take when considering the differing remaining asset lives.

Alternative approaches to the use of an average life include:

- (a) extension of the life of the original section to match the life of the later assets, in which case consideration of "rehabilitation" costs of the original section is relevant; and
- (b) replacement of the service capability of the original section in 2029.

In each case, it is necessary to identify the forecast costs, and the impact on the determination of NPV-Dorc of those costs and the change in asset life arising from the different approach. In particular, the weighted average asset life adopted by APTPPL will change, with commensurate impact on the date on which the replacement pipeline costs are incurred.

APTPPL is currently undertaking work on these issues and will provide information to the Commission when the work is finalised.

The DN 300 pipeline downstream of Bellbird Park does not need to be replaced within the life of the current pipeline as this section of pipeline is double wrapped. Accordingly, the further information provided by APTPPL will reflect the fact that this section of the original pipe has an 80 year economic life.

***Operations and Maintenance***

***21. A breakdown of payments to Agility Management for Operations and Maintenance by year since 2000-01 and category of work eg; Pipeline mechanical maintenance (and split between compression and 'other').***

Relevant payments are shown below. Under the PMA Agility was paid a fixed fee for "specified services" as defined in the PMA and no breakdown of this fee is included in the PMA. In addition Agility was also paid for "additional services" which were outside the scope of "specified services". The total amounts paid to Agility for operations and maintenance were as follows:

<b>Payments to Agility Management \$ of the day</b>	<b>2000-01</b>	<b>2001-02</b>	<b>2002-03</b>	<b>2003-04</b>	<b>2004-05</b>
PMA Payments	[Confidential]				
Additional services					
<b>Total Payments to Agility</b>					

[Confidential]

<b>Payments to Agility Management for Additional Services \$ of the day</b>	<b>2000-01</b>	<b>2001-02</b>	<b>2002-03</b>	<b>2003-04</b>	<b>2004-05</b>
Incitec Meter Station Valve	[Confidential]				
Dalby Shed					
Peat Lateral subsidence					
Welding Procedure Development					
Compressor station pipeline modification					
Compressor station Fuel Gas Piping Modifications					
Hazardous area rectification					
Relocation of Anode Bed					
Pipelines Split Sleeve Weld					
Plain Creek Washout repairs					
Compressor station exhaust system Oakey & Dalby					
IPS Digups					
CS Fuel Gas Modifications					
Peat / RBP / Scotia O&M					
Scotia Meter					
APT Commercial fees					
Looping 4 5 6					
Sandy Creek Offtake Station					
Brightview Offtake Station					
<b>Total</b>					



Other than for "additional services" charges from Agility are not broken down into categories of work.

**Additional ACCC Questions of 24 March**

*We note this information is yet to be provided.*

Provided above on 24 March. Additional information is provided below.

Payments to Agility were not explicitly assigned to a category of work. The categorisation outlined in section 3.6.2 of the AAI is intended as an outline of the type of work Agility undertakes.

The table below provides APTPPL's estimate of the separation of costs between the categories outlined in section 3.6.2 of the AAI. APTPPL believe this estimate is a reasonable proxy of categorisation for previous years.

<b>Category</b>	<b>%</b>
Planned and corrective maintenance on pipework	35%
Planned and corrective maintenance on compressors	5%
Planned and corrective easement patrol and easement management	15%
Planned and corrective cathodic protection	5%
Pipeline monitoring and control (ie control centre functions including telemetry)	15%
Asset maintenance planning and scheduling	5%
Asset performance testing and validation	5%
Accounting for day-to-day operations	10%
Regulatory compliance - technical regulatory, asset records, licences, AS 2885, environmental regulations.	10%

Numbers do not add due to rounding.

**22. Quantities of system use gas by year since 2000 for Compressor Fuel, UAG and Other Uses.**

Data on system use gas from July 2000 to the present is provided at Attachment 7.

[Confidential]

There are no material quantities of UAG on the RBP.

**Additional ACCC Questions of 24 March**

*We note this information is yet to be provided.*

An interim schedule was provided on 31 March. A final schedule is attached at Attachment 7. This has been updated from the interim schedule to include additional years.

**23. A more detailed breakdown of costs in Table 10 [Confidential], a breakdown of “APT other Corporate costs’ and insurance, licence fees, rates and other government charges is sought.**

**a. Provide these costs for the other pipelines in your portfolio?**

A breakdown of other corporate costs (not including labour) for the RBP are shown below

	<b>2006-7</b> July 2006 \$
Queensland Office Costs	[Confidential]
External Legal Costs	
Other Corporate Costs	
<b>Total</b>	2,082,000

The table at question 29 below shows these costs further broken down and shown relative to total corporate costs.

Further details on non-labour costs and escalation are also shown in the table in Attachment 3 and in the models provided on 24 March 2006.

A breakdown of insurance, licence and other fees for the RBP is shown below

	<b>2006-7</b> July 2006 \$
Insurance	334,000
Licence Fees	44,000
Government Charges	19,000
<b>Total</b>	397,000

Further details are shown in Attachment 3 and in the models provided on 24 March 2006.

The insurance figure above is based on a stand alone quote for insurance for the RBP.

**Additional ACCC Questions of 24 March**

- ***Please advise who provided the insurance quote and when.***

APT obtains insurance advisory services from AGL's insurance and risk management function. The quote was obtained from AGL on 30 December 2005, and reflects advice provided to AGL by Aon.

A copy of the advice from AGL insurance is attached at Attachment 11.

- ***Have any other recent quotes been provided for the RBP? If so, what were they?***

No other recent quotes have been provided for the RBP.

- ***Have any other recent quotes been provided for other APT pipelines? If so, what were they?***

No other recent quotes have been provided for other APT pipelines on a stand-alone basis.

- ***Please provide a breakdown of the 'Other Corporate Costs' item of \$1,769,000.***

Provided on 24 March in the table at question 29, the table in Attachment 3 and in the models provided.

- 24. Was 2004-05 a representative year with regard to operation of the RBP? Were there any unusual operational factors to be taken into account in that year with may have impacted on the costs of operation?***

There was no work undertaken which would mean that 2004-5 was not a "representative year" for the operation of the RBP.

There was one compressor overhaul which is normal. Additionally, pigging was undertaken on the DN 400 in 2004-5 (May and June) and in 2005-6 (July).

#### **Additional ACCC Questions of 24 March**

- ***Please advise the costs in 2004-05 and 2005-06 of the pigging run on the DN 400 pipeline.***

The budget for this pigging was \$ 688,960. The actual cost incurred to date is \$556,000.

- ***What was the cost and broad scope of the compressor overhaul?***

The RBP has six of the compressor stations with single Solar Saturn gas turbines driving centrifugal compressors.

Turbine overhauls are required at intermediate periods of generally between 30,000 and 50,000 hours, where turbine blades and wear parts such as seals and shafts are reworked or replaced. Turbine overhauls are intended to correct degradation of the hot-end components and recover performance losses from that degradation.

The cost of the 2004-5 compressor overhaul was \$245,734. The cost of the 2005-6 compressor overhaul was \$254,600. These costs include labour, materials and external costs (such as freight).

***25. Details of the overall asset management strategy for the pipeline and how individual investment decisions fit within the strategy. (This would include, for example, scheduled frequency of CP surveys, mainline valves etc.)***

A copy of relevant sections of the Safety and Operating Plan (SAOP), describing the operating approach and work undertaken in operating and maintaining the RBP, are attached:

- Section 6: scheduled planning
- Section 8: records management
- Appendix 1A: legislative framework
- Appendix 1B: SAOP requirements
- Appendix 2A: approvals
- Appendix 3A and 3B: route map, schematic
- Appendix 4: summary risk assessment
- Appendix 5A: operating parameters
- Appendix 5C: preventative maintenance planned through GASS

This is provided in Attachment 4.

***26. A schedule of compressor overhauls by station and year (past and future)***

At regular intervals, approximately once a year, the compressor with the most hours of service is taken off site and overhauled. A recently overhauled compressor is exchanged for the compressor which has been taken off site.

A spare compressor is held as part of the spare parts inventory for the RBP.

As compressors are rotated between compressor sites identifying the actual compressor unit with any one site is misleading; the compressor units are identified by serial number.

Recent and planned compressor overhauls as scheduled in December 2005 are shown below.

In preparing the Access Arrangement APTPPL assumed that five compressors would be overhauled over the five year Access Arrangement Period. Given the uncertainty relating to timing it was assumed one compressor would be overhauled each year.

<b>Compressor (Serial Number)</b>	<b>Year of Overhaul</b>
<b>Undertaken</b>	

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SN - G910081	2001-2
SN - G910061	2002-3
SN - 30508	2004-5
SN - 0395S21	2005-6
<b>Planned</b>	
SN - 0569S21	2006-7
SN - 10226	2006-7
SN - 0395S21	2007-8
SN - 0978S21	2009-10
SN - 30508	2010-11

### **Additional ACCC Questions of 24 March**

*We note this information is yet to be provided. Please provide information as far back as, and including, the last major overhaul on each unit.*

Provided above on 24 March.

*What is the normal interval for major overhauls (e.g. 30,000 equivalent operating hours)?*

The normal interval for overhauls is between 30,000 and 50,000 hours.

**27. Details of the proposed IT system upgrade and basis for allocation of costs to RBP.**

APT is installing a new IT system for its entire business including:

- Servers
- WAN
- Software packages
- Routers
- Desktops/laptops.

The new IT system is estimated to cost \$750,000. The RBP has been allocated a share of this cost on the same basis as the allocation of corporate costs (ie Approximately 14 %).

Thus the RBP's share of the cost of the IT system is \$104,000.

### **Additional ACCC Questions of 24 March**

*Please provide a copy of the submission which led to Board approval for this IT upgrade.*

[Confidential]

The IT costing in the Access Arrangement was based on an internal estimate in November 2005. It is now understood that the overall cost of the IT upgrade may be higher than the estimate of \$750,000 which underpinned the amount included in the Access Arrangement.

**28. Details of staff labour allocated to RBP as corporate costs during the AA Period 2006-07 to 2010-11 and the basis of allocation.**

Labour costs in the APT 2005-6 corporate budget are [Confidential]. These costs were allocated across categories of staff and then escalated forward over the Access Arrangement Period.

In allocating labour costs to the RBP, APTPPL distinguished between categories of APT staff, in order to reasonably reflect the degree to which different staff are involved with the RBP.

- Queensland staff (2 employees): 75% of costs allocated to the RBP.
- Corporate staff (commercial and regulatory) (3 employees): 30% of costs allocated to the RBP due to the higher expected commercial and regulatory requirements of the RBP when compared to other APT pipelines over the next five years.
- Corporate staff (eg. Chief Executive Officer, Chief Financial Officer, Company Secretary, engineering staff, office support) (12 employees): Approximately 14% of costs allocated to RBP. [Confidential]
- Staff who do not deal with the RBP (eg. staff in Western Australia): no amount allocated to the RBP.

A breakdown of this allocation is shown below.

	<b>Total in 2005-6 2005-6 \$ (000)</b>	<b>Allocated to RBP in 2005-6 2005-6 \$ (000)</b>
Qld office	[Confidential]	[Confidential]
CEO and Company Secretary		
Finance and Commercial		
Legal and Regulatory		
Administration and Strategic Planning		
Marketing		
Engineering		
<b>Total</b>	[Confidential]	<b>783.51</b>

Further details on non-labour costs and escalation from 2006-7 to 2010-11 are shown in Attachment 3 and in the models provided on 24 March 2006.

**Additional ACCC Questions of 24 March**

*Please provide allocated cost values by the sub-headings listed for each year of the Access Arrangement Period.*

Provided above on 24 March.

**29. Details of non-labour costs allocated to RBP as corporate costs during the AA Period 2006-07 to 2010-11 and the basis of allocation.**

Non-labour corporate costs were based on the APT 2005-06 budget. This included \$[Confidential] million for non-labour costs. These costs were allocated across categories and then escalated forward over the Access Arrangement period.

These costs were allocated to the RBP in line with the approach taken to allocation of labour costs:

- Queensland office costs: 75% allocated to the RBP.
- Internal legal and regulatory costs: 30% allocated to the RBP.
- Other corporate costs include board and directors costs, corporate legal, taxation advice, audit etc: Approximately 14% allocated to the RBP.

External legal costs were based on actual 2004-5 legal costs for the RBP escalated by CPI. Allocated legal costs were then backed out of the corporate budget.

Non-labour costs were as follows

	<b>Total in 2005-6 2005-6 \$ (000)</b>	<b>Allocated to RBP in 2005-6 2005-6 \$ (000)</b>
<b>Non Labour Costs by Department</b>	[Confidential]	
CEO, Company Secretary and Directors		
Finance and Commercial		
Legal and Regulatory		
Administration and Strategic Planning		
Marketing		
Engineering		
<b>Sub Total Corporate Costs</b>		
Queensland Office Costs		
Legal Costs specific to RBP		
Agility - Management Fee [Confidential]		

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<b>Total</b>	[Confidential]	<b>2,031.70</b>
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Further details on non-labour costs and escalation from 2006-7 to 2010-11 are shown in Attachment 3 and in the models provided on 24 March 2006.

**Additional ACCC Questions of 24 March**

*Please provide allocated cost values by the sub-headings listed for each year of the Access Arrangement Period.*

Provided above on 24 March.

**30. A description of which sections of the pipeline are to be pigged in 2006-07 and 2009-10 and of which sections have been pigged over the last 10 years by year.**

The full length of the DN 250 is scheduled to be pigged from Wallumbilla to Bellbird Park in 2006-7. This section was last pigged in 1997.

The DN 300 (ie the metropolitan section of the RBP) is scheduled to be pigged in 2009-10. This section was last pigged in 2002.

The Peat Lateral is also scheduled to be pigged in 2009-10. This pipeline has not previously been pigged.

The DN 400 was last pigged in 2004-5. Pigging of this section is not scheduled for the Access Arrangement Period.



Historical pigging activity is shown below

Pipeline	Year of Survey	Survey Provider	Survey type
RBP (DN250)	1989	Tuboscope	Low resolution metal loss – MFL
RBP Metro (DN300)	1993	Vetco	Low resolution metal loss – MFL
RBP (DN250)	1997	Tuboscope-Vetco	High resolution metal loss – MFL
RBP Metro (DN300)	2002	Rosen Australia	High resolution metal loss – MFL
RBP (DN400)	2005	Rosen Australia	High resolution metal loss – MFL

**31. A breakdown by category of ‘minor and stay in business’ capital expenditure (in Table 4) for each year of the AA Period 2006-07 to 2010-11.**

Minor and stay in business capital expenditure consists of the following items. These items are not necessarily incurred in all years of the Access Arrangement.

- Hazardous Area Rectification
- Metro Pipeline Electrical Hazard Reduction
- Station Fire Suppression Systems
- Compressor Swaps
- Design Life Review
- CP Upgrade
- Slabbing of Pipeline
- Redbank Meter Station Modifications
- Hot Tap & Stopples Equipment
- SCADA - server/monitor upgrades
- SCADA - National Project
- Easements
- Compressor Station Exhaust System
- Vehicle/equipment replacement
- Pipeline Gas Management System
- Integrity investigation
- Install New Fuel Gas Supply Heaters on Compressors
- Replacement of Minor Tools & Equipment
- Other Minor Projects.

A more detailed breakdown is provided in Attachment 5 and in the models provided on 24 March 2006.

***32. A breakdown for the costs incurred in preparing the Access Arrangement for the AA Period 2006-07 to 2010-11.***

The costs of the preparation of Access Arrangement included in the financial model are \$500,000. This estimate is intended to cover consultants' fees (ORC, volume, NPV-Dorc etc), legal fees and costs of retrieving and reviewing historical information.

Costs incurred to date include:

Legal fees	[Confidential]
Engineering Consultant fees	[Confidential]
Economic and Commercial Consultant fees	[Confidential]
Other	[Confidential]
<b>Total</b>	<b>\$196,862.07</b>

**Additional ACCC Questions of 24 March**

***Please provide a cost breakdown by budget item e.g. at least for consultants' fees, legal fees and information retrieval.***

There is no explicit budget breakdown for these costs. The forecast amount was an estimate based on previous matters.

The actual costs incurred to date were provided on 24 March.

***33. Details of additional security expenditure (actual and forecast) as discussed in section 3.6.4.1 of the AAI and justification for expenditure.***

APTPPL is currently reviewing security on the RBP and is forecasting increased spending on security including:

- Attendance at planning sessions, government forums etc
- Perimeter security alarms on compressors and major meter stations
- Entry alarms on compressors and major meter stations
- CCTV on compressors and major meter stations
- Increased security patrols; and
- Increased programs to increase awareness of security.

The need to install double fencing at compressors and major meter stations is also being considered.

This additional work is being undertaken in light of a generally increased focus on security for essential infrastructure. It is not possible to accurately identify what the costs of responding to additional government requirements may be. However, APTPPL does not anticipate substantial additional work will be required and therefore took the approach of including an annual allowance of \$100,000.

### **Additional ACCC Questions of 24 March**

*Please provide more detailed justification of the estimate such as a breakdown of the estimates for the items included*

There was no explicit cost build up prepared for the estimated security costs.

Measures which are anticipated as possibly being required are:

- Attendance at planning sessions, government forums, assessment of risks etc (Note APT is represented on various government planning groups and is represented at workshops on disaster planning directly related to the threat of terrorism. These activities would be increased).
- Increased security patrols
- Development and implementation of programs to increase awareness of security for both staff and relevant external parties
- Perimeter security alarms on compressors and major meter stations. Note some RBP sites currently have perimeter security, these alarms would be upgraded.
- Entry alarms on compressors and major meter stations. Note that door security on some RBP sites is currently electronically monitored, this security would be upgraded.
- CCTV on compressors and major meter stations.
- Additional fencing

APTPPL believes that the amount included in the Access Arrangement Information is a reasonable estimate of likely increased ongoing security costs.

### ***34. Details and justification of forecast costs of self-insurance during the AA Period 2006-07 to 2010-11.***

APTPPL has included an allowance to recognise self-insurance of low likelihood, high impact asymmetric risks.

Instances of situations resulting in self-insured risk include computer crime, computer breakdown, crisis management, legal actions, extortion, and death or disability of key personnel.

The forecast allowance for self-insurance costs is \$80,000 per annum. This amount is escalated at CPI.

The basis for inclusion of these amounts is the precedent of previous recent regulatory decisions, particularly:

- GasNet: Australian Competition Tribunal allowed for asymmetric risks of \$172,000 per annum.
- DBNGP: ERA allowed \$200,000 per annum for the costs of self insured risk.

The amount of \$80,000 proposed by APTPPL is consistent with the GasNet figure as a percentage of non-capital expenditure.

### **Additional ACCC Questions of 24 March**

*Please confirm that none of the risks listed in your response are covered by insurance policies.*

APTPPL will provide separately a summary of its current insurances.

*Please provide more detailed justification of the estimate. We draw your attention to the information the ACCC requires when considering self insurance estimates in the context of electricity transmission regulation. These can be found on page 69-70 of Statement of principles for the regulation of electricity transmission revenues – background paper (8 December 2004).<sup>4</sup> Similar requirements are appropriate in the context of gas transmission regulation.*

APTPPL assumes the questions refer to the following criteria

- *a board resolution to self-insure (i.e. a copy of the signed minutes recording resolution made by the board).*
  - *confirmation that the TNSP is in a position to undertake self-insurance for those events.*
  - *self-insurance details setting out the specific risks which the TNSP has resolved to self-insure.*
  - *a report from an appropriately qualified actuary or risk specialist verifying the calculation of risks and corresponding insurance premiums*
  - *ensuring that the cost of self-insurance is recorded as an operating expense in the audited and published income statement, and thereby deducted from the calculation of attributable profits*
  - *ensuring that a self-insurance reserve (funded by self-insurance premiums charged in the income statement) is established in the audited and published balance sheet*
  - *ensuring that when a claim against self-insurance is made, that an appropriate deduction to the self-insurance reserve is recorded.*
-

APTPPL notes that while self-insured risks were discussed in the pre lodgement meeting held by APTPPL and the Commission the minutes do not note that this documentation on self-insured risk would be sought by the Commission.

Previous regulatory decisions under the Gas Code have provided regulatory precedent relating to self-insured risk. These decisions include the 2005 Decision of the ERA in relation to the Dampier Bunbury Pipeline.

APTPPL has developed this Access Arrangement in accordance with the Gas Code, and understands that information of this sort has not previously been required by regulators under the Gas Code. APTPPL is unsure of the relevance of documentation requirements under electricity transmission regulations to the assessment of an Access Arrangement under the Gas Code, or to the manner in which the owners of gas pipelines may manage such risks.

### ***Benchmarking Costs***

#### ***35. Actual data and sources of data for Charts 1 and 2 of AAI.***

Charts 1 and 2 in the AAI show benchmarking data for various pipelines. The sources of these data are outlined below.

##### **(a) GasNet Australia/Vencorp**

GasNet Australia operates the gas transmission system in Victoria. However, the management of capacity, etc is undertaken by VENCORP. In order to develop comparable benchmarking measures, the VENCORP non-capital costs have been added to those of GasNet in order to align to the costs of other pipelines which must manage their own capacity.

<u>Non-capital costs</u>	GasNet:	\$18.0m (net of fuel gas)
	VENCORP:	\$16.2m
	Total	\$34.2m

Note: pipeline fuel is subtracted from the opex measurement to ensure consistency with the RBP opex information.

**Source:** GasNet ACCC Revised Access Arrangement Information January 2003. Table 3.6 Components of Forecast Operating Costs 2003-2007 (Column 2005).

**Source:** VenCorp Proposed Revisions to Access Arrangement Information (28 March 2002). Table 2 Summary of VENCORP Operating Costs.

Pipeline Length = 1,932.8 km

**Source:** GasNet Access Arrangement Information January 2003. Schedule 1: Description of Pipelines

ORC = \$800.8m

**Source:** GasNet Access Arrangement Information January 2003.  
Tables 2.32 and 2.2 of GasNet Access Arrangement Information January 2003.

ORC estimated by adding ODRC (494.1) and Accumulated depreciation (306.7) from  
Tables 2.32 and 2.2 of GasNet AAI January 2003

**Benchmark measures Gasnet:**

Opex per ORC	4.27%
Opex per km	\$ 17,701.78

**(b) Moomba to Adelaide pipeline**

Non -capital Costs \$16,292

**Source:** Attachments to revised Access Arrangement January 2002  
Table 2 Information Regarding Operations and Maintenance (Column 2005).

Pipeline length 1067.48 km

**Source:** Attachments to revised Access Arrangement January 2002  
Table 2: Information Regarding Operations and Maintenance.

ORC \$674,862m

**Source:** Attachments to revised Access Arrangement January 2002  
ORC is drawn from Option A: direct replacement of the existing 558mm diameter  
pipeline and configuration.

**Benchmark measures MAPS:**

Opex per ORC	2.41%
Opex per km	\$ 15,262

**(c) Dampier Bunbury pipeline**

Non -capital Costs \$41.21m

Note: pipeline fuel gas cost is deducted from opex to ensure consistency with the  
RBP.

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**Source:** Approved Revised Access Arrangement Information December 2005  
Table 12: Non Capital Costs (\$M at end of year) (Column 2006).

Pipeline length 1,843 km

**Source** Proposed Revised Access Arrangement Information June 2005  
Tables 4 and 5

ORC 1,829.77m

**Source** Proposed Revised Access Arrangement Information June 2005  
Table 1: Asset Value By Asset Class

The asset value as at 31 December 2004 has been adopted as a proxy for DORC for the purpose of this exercise. Text from the decisions of the Economic Regulation Authority indicates that this value is not dissimilar to the ORC.

**Benchmark measures DBP:**

Opex per ORC	2.18%
Opex per km	\$ 21,677

**(d) Moomba to Sydney pipeline**

The non-capital cost and pipeline characteristic measures used relate to the MSP, not only that part of the MSP which remains covered.

Non -capital Costs \$19.03m

**Source:** ACCC, Final Decision 2 October 2003  
Table 2.7.8.2: Commission approved non capital costs (July 2003 \$ million)  
Column 2004 indexed one year at 2.5%

ACCC-approved 2004 non capital costs were indexed using the 2.5% CPI for 2003.

Pipeline length 2,024 km

**Source:** EAPL Access Arrangement Information 5 May 1999  
Section 1.2 System Description

ORC \$1,043m

Source: value agreed between EAPL and ACCC following decision of Australian Competition Tribunal

**Benchmark measures MSP:**

Opex per ORC 1.82%  
 Opex per km \$ 9,404

**(e) Goldfields Gas pipeline**

Non -capital Costs \$14.4m

**Source:** Goldfields Gas Pipeline Approved Access Arrangement Information July 2005

Table 10: Non Capital Costs (Column 2004)

Pipeline length 1,378 km

Source: to be provided

ORC \$450m

**Source:** Economic Regulation Authority, Final Decision 17 May 2005

**Benchmark measures:**

Opex per ORC 3.20%  
 Opex per km \$ 10,450

**(f) Roma to Brisbane pipeline**

Non -capital Cost = \$9,360,500 (2005-6 forecast in 2005-6\$)

Pipeline Lengths

	<b>Length (km)</b>
Mainline (Wallumbilla to Bellbird Park)	397
Mainline Metro Section (Bellbird Park to Gibson Island)	42
Peat Lateral	121
<b>Total route km</b>	<b>560</b>
Mainline Looping	406
<b>Total pipe distance:</b>	<b>966</b>

ORC = \$456,145,000

Source: Report by Venton and Associates for APTPPL January 2006

**Benchmark measures RBP:**

Opex per ORC 2.05%



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Opex per (route) km	\$	16,715
Opex per pipeline km	\$	9,691

### **Additional ACCC Questions of 24 March**

#### ***Please provide Opex as a percentage of ORC for MSP***

See above.

In addition, please find attached at Attachment 13 the consultant's report which is the source for the benchmarking measures outlined above.

#### ***36. Definitions used in generating the data for Charts 1 and 2 of AAI.***

##### **Non capital costs per km**

The ACCC has previously recognised that non-capital costs per pipeline kilometre are a valid measure for comparison.<sup>5</sup>

In using this measure the length of the pipeline needs to be considered. The RBP is a looped pipeline with two different diameters of pipe running parallel to each other. No other major pipeline in Australia has this degree of looping.

The pipeline route of the RBP is approximately 440km for the Mainline and 121km for the Lateral. This gives a total pipeline route of 561km. The total pipeline length is 965km, being the length of the original pipeline sections, the looping and the Peat Lateral.

The distance-based benchmarks have therefore been presented as being measured both over route km and pipeline km. These two measures will present a range in which it would be reasonable to expect the composite measure to fall.

##### **Non capital costs as a % of capital costs**

The ACCC has recognised non-capital costs as a ratio of Optimised Replacement Cost as being a valid measure of pipeline efficiency<sup>6</sup>:

*The Commission also assessed Epic's forecast operating costs as a percentage of the overall capital assets employed. Typically, this ranges from 2 per cent for an uncompressed pipeline to 5 per cent for a fully compressed pipeline. ([ACCC Footnote:] In the interests of comparison between pipeline systems, the ORC figure may be used as a measure of the value of the capital assets employed.)*

Accordingly, ORC has been used as the measure of capital assets employed.

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<sup>5</sup> ACCC, 2001 Final Decision Access Arrangement proposed by Epic Energy South Australia Pty Ltd for the Moomba to Adelaide Pipeline System, 12 September 2001. Page 57.

<sup>6</sup> ACCC, 2001, Final Decision, Access Arrangement proposed by Epic Energy South Australia Pty Ltd for the Moomba to Adelaide Pipeline System, 12 September 2001. Page 57.

## ***Models and Methodologies***

### ***37. The rationale for choosing a model different from the ACCC's Post Tax Revenue Model.***

As discussed in the meeting of 10 November 2005, APTPPL prefers the use of a pre-tax model.

Use of a pre-tax model is consistent with APT's approach in other Access Arrangements. APTPPL also considers use of pre-tax as preferable as it avoids the need for modelling of additional matters such as tax payments.

Several other regulators accept and use pre-tax modelling in assessing Access Arrangements under the Code including IPART, ICRC and the ERA.

### **Additional ACCC Questions of 24 March**

***We note a response to this question is yet to be provided.***

Response above provided 24 March

### ***38. Information on why the proposed pricing path is considered appropriate.***

The proposed price path is designed to provide a tariff in 2011 broadly equivalent to the average of the then current contract tariffs, and with tariffs remaining constant in real terms over the Access Arrangement Period. The use of a tariff equivalent to the average of contracted tariffs is consistent with tariffs negotiated with third parties under the open access regime previously applicable to the RBP. It also avoids or minimises price shocks for either users or APTPPL at the expiry of the Access Arrangement Period.

The fact that the proposed price path is reasonable is supported by the fact that the ICB can be recovered over the remaining economic life of the pipeline assets without price shocks.

### ***39. Rationale for deferral of return on capital beyond the revised access arrangement period (2006 to 2011).***

The Code provides that the Service Provider has the discretion as to the manner of calculating Total Revenue. In this case, APTPPL adopted the NPV approach to establishing Total Revenue in light of the price path proposed in the Access Arrangement.

As the price path results in minor under-recovery during the Access Arrangement Period, recovery of some capital is deferred.

## ***Trading and Queuing Policies***

### ***40. Explanation of how trading and queuing policies will operate in practice. Rationale and justification for the proposed policies.***

#### **Trading Policy**

The Trading Policy reflects the Code. Essentially, the degree and manner of operation of the Trading Policy will depend on the behaviour of users. APTPPL has sought to place no restrictions on the flexibility of users to trade capacity with each other, other than to recognise that a trade should not cause operational, technical or commercial disadvantage to APTPPL.

Additionally, the operation of the Trading Policy may also be affected by the outcome of the current Ministerial Council for Energy Process investigating wholesale gas market development.

#### **Queuing Policy**

APTPPL is currently operating a queue on the RBP in accordance with the Code and the current Access Arrangement. Details on the queue were provided to the Commission via email on 30 November 2005.

Following finalisation of the Access Arrangement the queue will operate in accordance with the Queuing Policy in the proposed Access Arrangement. As with the Trading Policy, the operation of the Queuing Policy will depend on the behaviour of users, particularly the timing and nature of requests for service.

APTPPL is happy to meet with the ACCC if there is a particular issue on which clarification is sought.

#### **Additional ACCC Questions of 24 March**

##### ***How many requests for trades have been received since the existing policy was adopted?***

There have been no requests for trades since the establishment of the RBP Access Arrangement.

##### ***If there have not been many trades conducted to date, what factors does APTPPL consider may have contributed to the situation?***

The lack of trades may be reflective of

- users generally wanting to use their capacity rather than trade it; and / or
- some users being competitors of each other - this may influence their willingness to trade capacity.

The Code 5.8 requires the following of a user

*...where a User does not expect to utilise fully its Contracted Capacity and where the unutilised Contracted Capacity is a Marketable Parcel then the User:*

- (a) must promptly provide to any person who requests it information about the quantity, type and timing of the unutilised Contracted Capacity and may make publicly available the proposed terms and conditions (which may include price) for the sale of the unutilised Contracted Capacity; and*
- (b) may notify the Service Provider of the unutilised Contracted Capacity, including the quantity, type and timing of the unutilised Contracted Capacity and the proposed terms and conditions (which may include price) for the sale of the unutilised Contracted Capacity.*

APTPPL notes that it is a matter for Users, not the Service Provider under the Access Arrangement, to comply with this provision. APTPPL does not believe that the terms of its existing or proposed Access Arrangement have prevented the trading of capacity by Users.

***How do users become aware of opportunities to conduct capacity trading?***

APTPPL does not know what mechanisms may be, or could be, put in place for Users to become aware of such opportunities, and does not understand the relevance of the question to consideration of the proposed Access Arrangement.

***What additional measures does APTPPL consider might facilitate capacity trading?***

The Ministerial Council for Energy is currently undertaking a policy process relating to the further development of a wholesale gas trading policy. Public documents related to this are available from the MCE website.

APTPPL does not understand the relevance of the question to the consideration of the proposed Access Arrangement.

***In APTPPL's view, is the current queuing policy enabling timely capacity expansions to occur?***

The key issue in establishing timely capacity expansions is obtaining the commercial commitment of prospective users, sufficient to support the expansion. The queuing policy is consistent with this.

### *Terms and Conditions*

***41. Information of the fixed quantity of linepack to be provided by APTPPL (clause 19).***

APTPL maintains approximately 60TJ of linepack in the pipeline.

**Attachment 1 - RBP Daily Linepack 2005**

**RBP Daily Linepack Calendar Year 2005**

[Confidential]

**Attachment 2 - Sale and Purchase Contract**

**Paper Copy Provided 21 March 2006**

[Confidential]

**Attachment 3 - RBP Non-Capital Costs (July 2006, \$000)**

[Confidential]



**Attachment 4 – Extracts from Safety and Operating Plan**

**Paper Copy Provided 21 March 2006**

[Confidential]

**Attachment 5 - Capital Expenditure**

The table below includes the 1% age factor. The table below is in July 2006 \$ 000

	2006-7	2007-8	2008-9	2009-10	2010-11
<b>Pigging</b>	<b>999.6</b>	-	-	<b>655.2</b>	-
<b>Coating defect assessment</b>	-	-	<b>169.6</b>	-	-
<b>Pipeline excavation and inspection</b>	<b>187.0</b>	<b>188.9</b>	<b>190.8</b>	<b>192.7</b>	<b>194.6</b>
<b>Compressor overhauls</b>	<b>311.7</b>	<b>314.8</b>	<b>318.0</b>	<b>321.2</b>	<b>324.4</b>
<b>Minor and stay in business capital</b>					
Hazardous Area Rectification	207.8	209.9	212.0	214.1	216.3
Metro Pipeline Electrical Hazard Reduction	52.0	104.9	-	-	-
Station Fire Suppression Systems	155.9	157.4	-	-	-
Compressor Swaps	31.2	31.5	31.8	32.1	32.4
Design Life Review	-	104.9	-	-	-
CP Upgrade	145.5	73.5	74.2	74.9	75.7
Slabbing of Pipeline	31.2	31.5	31.8	32.1	32.4
Redbank Meter Station Modifications	155.9	-	-	-	-
Hot Tap & Stopples Equipment	233.8	236.1	-	-	-
SCADA - server/monitor upgrades	103.9	-	-	107.1	-
Easements - renaming and registration	207.8	78.7	79.5	-	-
Gatton Compressor Station Exhaust System	124.7	-	-	-	-
Vehicle/Equipment Replacement	156.9	209.9	-	-	-
Pipeline Gas Management System	207.8	-	-	-	-
Integrity Investigation	-	-	159.0	-	-
Replacement of Minor Tools & Equipment	31.2	31.5	31.8	32.1	32.4
Minor Projects	194.3	314.8	318.0	321.2	324.4
<b>Subtotal</b>	<b>2,039.7</b>	<b>1,584.7</b>	<b>938.1</b>	<b>813.6</b>	<b>713.6</b>
<b>Access Arrangement costs</b>	<b>500.0</b>	-	-	-	-
<b>IT system</b>	<b>104.0</b>	-	-	-	-
<b>Total</b>	<b>4,142.1</b>	<b>2,088.5</b>	<b>1,616.5</b>	<b>1,982.7</b>	<b>1,232.7</b>

**Attachment 6**

[Confidential]

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**Attachment 7**

**System use gas on the RBP**

	<b>2000-1</b>	<b>2001-2</b>	<b>2002-3</b>	<b>2003-4</b>	<b>2004-5</b>	<b>Jul 2005- Dec 205</b>
<b>System use gas (GJ)</b>	724,658	419,229	209,159	149,261	427,813	314,800
<b>Total delivered gas (GJ)</b>	32,304,818	33,069,420	41,316,930	41,684,829	48,287,348	25,885,525

**Attachment 8**

[Confidential]

## **Attachment 9**

### **Access Principles**

The 1996 and 1997 Access Principles are attached.

## **Attachment 10**

### **Correspondence to the Queensland Government**

This table shows pipeline capacity at certain dates.

Note that the capital costs shown in the table below and some of the timings shown in the letter below appear to be inconsistent with responses above. APTPPL is not able to reconcile the differences.

**Attachment 11**

[Confidential]



**Attachment 12**

[Confidential]

## **Attachment 13**

### **Benchmarking Report**

The attached document is a report by IRS on pipeline non-capital cost benchmarking of natural gas pipelines in Australia.