4 November 2016

Our Reference: APLNG - COR - 0011363

Mr Warwick Anderson
General Manager
Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601

Dear Sir,

Proposed Roma to Brisbane Pipeline (RBP) Access Arrangement

Australia Pacific LNG (**APLNG**) is pleased to be able to provide this submission regarding APA's proposed Roma to Brisbane Pipeline (**RBP)** Access Arrangement (the **Arrangement**) for the period 2017 to 2022.

Background

APLNG is a coal seam gas (**CSG**) to liquefied natural gas (**LNG**) project conducted through an incorporated joint venture among ConocoPhillips, Origin Energy and Sinopec. APLNG is also a significant supplier of gas into the Queensland domestic market, currently supplying a large percentage of Queensland's needs.

Changing Market Dynamics

APLNG appreciates that developing an access arrangement during a period of unprecedented market change in the east coast gas market is difficult and this is further compounded by the dynamic proposed change to flows on the RBP. As the model for RBP transport changes, APLNG suggests that the revenue from all services offered by the RBP should be included to determine its acceptable return and not just the revenue associated with the 2 referenced services. As indicated by APA's Multi Asset Service Gas Transportation Agreement, it is increasing difficult to separate the services offered by just one of their pipelines versus the entire system.

The RBP has seen a substantial increase in westbound flow since completing the bi-directional project and, as forecasted by APA, this is likely to continue through the 5 year review period. As indicated, the demand for westbound Short Term Firm Service (**STFS**) is through trading opportunities which by their nature are short term, thus the flexibility to contract for periods up to 3 years is a welcome alternative.

However, with a proposed price of 166% of Long Term Firm Service (**LTFS**), potential customers would likely contract this service for shorter terms rather than the longer 3 year term as they will be able to constantly compare the STFS rate against AEMC's/ COAG's proposed day ahead auction for contracted un-nominated capacity as soon as the day ahead auction becomes available.

APA has proposed that, as the eastbound demand continues to decline through the 5 year term, the westbound flow will increase and therefore the total level of contracted demand on the RBP will remain flat at 200 TJ/day. APLNG would like to understand, why if demand for LTFS is dropping, the STFS customers should keep APA "whole" with an equivalent tariff/unit. Further, the STFS tariff calculations assume a load factor of 100% which is practically impossible, thus only increasing the equivalent tariff/unit for the STFS. APLNG believe that if the STFS tariff were to remain at the same or lower rate as the LTFS, this would encourage more market participants to contract westbound service. APLNG questions whether there will be adequate westbound customers that will pay the suggest STFS rate to keep the entire RBP demand flat over the 5 year period.

APLNG appreciate that there are benefits for participants to be able to contract a short term transportation service into Wallumbilla which includes reduced financial risks associated with a shorter and more flexible contracting arrangements. However, unlike the eastbound service, there are multiple other alternatives for transportation into Wallumbilla. APLNG assumes that the other alternatives would be a cheaper rate than the proposed STFS rate. Given that the potential demand growth for the RBP is westbound flow which is forecasted to account for almost half of the volume by 2022, would it make sense to have a separate (lower tariff) for the more volatile west flows which have competitive alternatives and a different tariff for the more stable eastbound flows with no alternative?

APLNG is a possible STFS customer for multi-month periods, however, we are unlikely to desire much of this service, if at all, at the 166% LTFS factor. The lower the price for westbound service, the more likely that APLNG would consider utilising this RBP service.

Regarding the RBP's proposed queuing policy, APLNG supports this change as it allocates the capacity to the customers that value it the most while providing the highest return to APA. Complying bids should include both negotiated and referenced services with no reserve tariff. Available capacity should be allocated based on the highest net present value at an agreed discount rate.

Proposed Tariff Economics

APLNG has the following questions & concerns regarding the proposed economics for the RBP Arrangement:

1. How do the RBP WACC assumptions of 8.4% for return on equity, 7.3% return on debt and 60% gearing compare to other regulated and unregulated pipelines?

2. The Market Risk Premium (MRP) of 8.1% appears high given recent AER determinations and the substantial lowering of debt yields across the last reference period. In addition, APLNG has concerns over APA's interpretation of the cost of equity method for the purposes of estimating the MRP and the subsequent departure from the AER's stated methodology in the Rate of Return Guideline (published on the AER website) which results in an upward revision of this estimate.

3. The RBP Arrangement does not contain sufficient detail on how the tariff is calculated using the stipulated 'building blocks' method (Rule 76); a consolidated summary of all the calculations and results used to derive the tariff should be provided.

4. The proposed calculation of the LTFS and STFS tariff does not subtract other revenue streams from the regulated capital base prior to the calculation of the tariff. APLNG contends that the proposed tariff should consider all other revenue streams to be earned from the RBP. Failure to include these additional revenue streams earned in the tariff calculation will have the effect of producing artificially high tariffs leading to inefficient pricing and underutilisation of the asset and provides APA with a higher rate of return on the RBP than the regulated rate of return stipulated in the Access Agreement.

5. The forecast price path of the tariff appears high (i.e. ~33% over 5 years). APLNG would like a clearer explanation of what is driving this escalation particularly given the capital base is only forecast to increase by ~12% over the Arrangement period.

6. APLNG questions how the published return on the RBP bi-directional expansion supports the calculated STFS rate.

Thank you for the opportunity to make this submission to share APLNG's views on the APA's proposed changes to the RBP Access Arrangement. If you require further information relating to our submission, please contact Deidre McEntee on (07) 3021 3303.

Yours sincerely,

Wendy D King

Wendy King
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Australia Pacific LNG Pty Ltd