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Australian Energy Regulator
Attention: Warwick Anderson
General Manager
Network Regulation

Dear Mr. Anderson,

RE - Submission on the proposed Roma to Brisbane Pipeline (RBP) Access Arrangement (AA) from APT Petroleum Pipeline Limited (APTPPL / Service Provider).

BP Australia (BP) thanks the Australian Energy Regulator (AER) for the opportunity to provide input to the debate on the suitability and completeness of the proposed access arrangement for 2012 to 2017 on the RBP. As a major industrial gas user serviced by this pipeline, BP is interested in ensuring access to this covered asset is fit for purpose, particularly against the framework of the gas Short Term Trading Market (STTM) now in operation in Brisbane.

In general, BP has a preference to strongly support market based economics, and subsequently we believe regulation of assets should only be considered when the specific market dynamics do not allow for efficient outcomes to naturally eventuate. Unfortunately, the constrained and monopolistic nature of gas transportation services into Brisbane via the RBP does require regulation to ensure economically efficient outcomes occur, and our feedback below should be read within this context.

1. Submission Structure

BP has a number of significant conceptual concerns regarding the proposed AA from APTPPL. These issues require substantial explanation, and hence they are separately addressed to other general feedback we have on the proposal. Towards the end of this submission, we elaborate on other specific miscellaneous concerns we have.

Due to time constraints, we have been unable to always provide direct references to AA documents or other sources for specific aspects of our submission. Where a point is made in BP's proposal that is contentious and hence requires a specific



reference, please contact me and this reference will be found and provided as soon as possible.

2. Reference services

Rule 101(2) of the National Gas Rules (NGR) stipulates that a reference service "...is a pipeline service that is likely to be sought by a significant part of the market."

In determining that the proposed access arrangement should only include one reference service, being the "Firm Service" (AA s2.2) APTPPL have assumed that there are no other pipeline services that a significant portion of RBP Users (the "market") would require.

BP asserts that the introduction of the STTM has fundamentally changed the nature of pipeline services required by RBP users, and that contrary to the APTPPL view, a Firm Service no longer represents the complete suite of reference services that should be included in the AA. Specifically, the ability to adjust pipeline receipt and delivery point nominations intra-day (an "Intra-day Renomination") is a pipeline service that is now required by all prudent RBP Users in order to mitigate the risk of unmanageable STTM penalties.

Whilst the criterion for assessing whether "a significant part of the market" is likely to seek a pipeline service is not clearly defined, BP believes in this instance there are some very good indicators that this is the case on the RBP for Intra-day Renominations.

- (a) All RBP Users involved in the Brisbane STTM have recently engaged with APTPPL to adjust negotiated service contracts to accommodate the STTM introduction. As part of these discussions, Intra-day Renominations was a key "new" service being conditionally offered.
- (b) Secondly, pipelines servicing other STTM markets have tended to introduce this service where it wasn't already offered.
- (c) Finally, any independent assessment of the optimal commercial products required to manage STTM risk would recommend contracting for Intra-day Renominations where it was supplied on commercially acceptable terms.

Importantly, BP believes that the take up of similar Intra-day Renomination services and utilisation within other markets is not relevant to the RBP AA discussion. BP believes that any suggestion of a lack of interest in this pipeline service in other markets relates to the unfavourable commercial terms offered, and does not reflect the long term, economically efficient outcome that will eventuate when (if?) commercial terms in these markets are made reasonable.



Critically, BP believes the introduction of an Intra-day Renomination reference service, with reasonable and logical application rules, is likely to very directly and positively contribute to the desired market development outcomes encapsulated in the National Gas Objective. An Intra-day Renomination enables participants in the STTM to reduce balancing gas costs by reflecting on-the-day changes in demand with changes in supply to the hub. Due to the pricing and cost recovery mechanism for balancing gas services in the STTM, the benefits of reduced individual deviations in the market flow to all participants via reduced total (and average) balancing gas costs. Very directly, the link between lower STTM balancing gas costs, and more efficient (and lower) wholesale market costs can be made.

This is aligned with the NGO of efficiency in regards to price, reliability and security of supply, as well as providing more accurate future investment signals by ensuring balancing gas prices are reflective of actual costs.

Furthermore, BP believes the inclusion of the new reference service, Intra-day Renominations, is not an overly complicated or burdensome impost on APTPPL. In fact, through previous discussions with APTPPL, BP has been left in no doubt that there are direct operational benefits to APTPPL of receiving updated information on gas demand, enabling APTPPL to recalibrate gas flows on the day, with direct supply security benefits.

Due to the reasons outlined above, BP is of the firm view that the AER should define and include a second reference service in the RBP AA - Intra-day Renominations. The terms and conditions pertaining to this service would need to be closely defined, and in order to commence this process, BP offers the following suggestions.

1. The new reference service is only of use if there is an *obligation* on APTPPL to provide the service where possible. Hence BP believes the only situations where the service may not be provided, should be where the provision of the service is highly likely to lead to supply security breaches on the RBP, or if the proposed new nomination volume will be impossible to physically accommodate based on total actual gas flows already on the gas day, and potential flows from the Intra-day Renomination submission time until the end of the gas day.
2. Unlike previous suggestions to include new reference services in access arrangements, there is a good basis for estimating usage of this new service, and hence likely revenue impacts for APRPPL. BP suggests that the AER could extrapolate a reasonable expected volume estimate for Intra-day Renominations, based on normal gas demand forecast error, (which generally sits between 5% to 8%) as it is this error that dictates the need for the service in the first place.
3. With regards to reference tariffs, again BP believes there is a good basis for setting this tariff, based on the existing APTPPL AA tariffs. Setting aside the STTM benefits of the Intra-day Renomination (as we believe this is



irrelevant for the purpose of calculating regulated prices) the tariff for an Intra-day renomination should sit between \$0/GJ and the existing Daily Variance Rate of 120% of the capacity tariff (see below for input on the proposed changes to the Daily Variance Rate). The Daily Variance Rate is important, as it is in effect the likely alternative pipeline cost of not utilising the Intra-day Renomination, and hence a reference tariff for intra-day Renominations above the Daily Variance Rate would prove counterproductive.

4. The service should be provided for the full gas day.
5. The applicable volume for the service should be the net change in total receipt and total delivery point nominations as this reflects the total flow impact of the Intra-day Renomination on the pipeline.

3. Proposed Queuing Policy

The proposed revisions to the queuing Policy within the RBP AA do appear at face value to improve the economic efficiency in recontracting both existing and developable capacity. BP welcomes the inclusion of the NERA Economic Consulting Report on this topic (NERA Report) as it provides an excellent independent view on the topic.

Unfortunately, BP believes a key assumption of the NERA Report has not been fully tested, leading to conclusions in the report which in all likelihood would not have been reached had the assumption been challenged (which we recognise was not NERA's brief). The report is based on the assertion given to NERA that capacity trading on the RBP is very limited.

Whilst historically this may have been true, the introduction of the gas STTM to the Brisbane area fundamentally changes the ability of an RBP User to trade capacity with other users on a daily basis. Whilst the merits of the STTM may be questioned in some respects, there is little doubt that when it comes to daily capacity trading, the STTM provides a quantum leap in liquidity!

BP believes the AER should reconsider the conclusions to the NERA report against the framework of fluid capacity trading in the STTM. We suggest this review would broadly indicate that due to the greatly increased liquidity for capacity trading provided by the STTM, the same (or better) economic efficiency outcomes would eventuate under the AA by retaining the existing queuing policy, rather than the suggested auction process.

As the AA proposal currently stands in regards to Queuing Policy, BP has some specific concerns. These are outlined point by point below (references are to the Access Arrangement document itself).



s6.2.1 (b)

BP believes the exact set of circumstances allowing APTPPL to contract Unutilised Existing Capacity of less than 2TJ's at a rate above the Reference Tariff needs to be clearly articulated. As things currently stand, the first-come-first-served basis can only really apply if the Reference Tariff is always used. Otherwise the wording should be reworked to reflect the fact that this capacity will be contracted on a first-come-first-served basis, but only as a negotiated service at the discretion of the Service Provider.

s6.2.2 (d)

If after the Open Season process, existing capacity is sufficient to meet the Prospective Users requirements, BP can see no reason why the Reference Tariffs should not apply for this existing capacity. As a result, we believe it should be stipulated that these will be the terms for contracting this capacity, unless otherwise agreed.

s6.2.4 (b)

BP is interested in understanding why APTPPL believe it is reasonable for complying bids to be irrevocable in the event that the sum of all complying bids do not exceed the unutilised existing capacity. Our concern here relates to the pricing of the subsequent contracted existing capacity, which is not clearly articulated. We have assumed pricing will be based on the auction price.

Prospective Users are forced to participate in the auction process against a background of information asymmetry, and possible large regret costs should they not be successful in accessing pipeline capacity in the auction. Leaving aside the discussion about how an auction against this backdrop can lead to "efficient" outcomes, BP believes subsequent contracting of this capacity at auction prices rather than reference tariffs is completely unacceptable and unjustified.

We do believe that the bids in the auction should be irrevocable with regards to volume. However the price in this instance must be set at the reference tariff.

s6.2.5

The proposed method for allocating volume based on NPV of bids requires significantly more detail in order to be understood by the market, and hence be seen as robust and acceptable.

At a conceptual level, BP is concerned that ultimately via the auction process APTPPL may derive revenue from existing capacity which is well in excess of the reference tariffs the AER has pre-determined to provide a suitable regulated rate of return on the covered RBP pipeline. Even if the auction process itself did happen to ensure capacity was made available to the party most willing to pay for that capacity, the question of the excess income remains.



If APTPPL had proposed that this additional revenue would be used specifically for the benefit of all RBP Users (in some form or another - perhaps to fund additional investment) then BP would be more supportive of the proposed pricing mechanism for constrained existing capacity.

As it stands though, the AA proposal seems to be geared towards allowing APTPPL to achieve above regulated returns, fully contradicting the intent of the Access Arrangement mechanism for covered pipelines in the NGL and NGR.

In the absence of further justification on why this additional revenue should be retained by APTPPL, BP believes the AER should investigate alternative pricing mechanisms for Existing Capacity when this capacity becomes available and is oversubscribed. Reverting to the current queuing policy, particularly in light of new capacity trading liquidity provided by the STTM, is possibly the best outcome.

A related point - the STTM may lead to more diverse products being offered by APTPPL at the cost of "normal" Firm Service capacity. For example, a "Park" facility on the pipeline may be offered in the future at the expense of recontracting Firm existing capacity. It would be prudent for the AER to stipulate the treatment of revenues flowing from any possible service mix change, if existing capacity were to be reduced and contracted as a new negotiated service.

s6.3

The concept of auctioning Developable Capacity concerns BP. Whilst we can appreciate the "market based" approach to this new capacity, the very concentrated pool of potential users of this capacity probably indicates that the outcome of the auction will simply be a last chance for APTPPL revenue maximisation rather than truly economic based outcomes for new developments.

For a prospective user, the auction creates "gazumping" uncertainty when presumably in order to participate in the auction the prospective user is already committed to new capacity for a minimum price.

BP requests that the AER carefully examine the potential outcomes of this proposed section.

4. Demand Forecast

The demand forecast presented by APTPPL in the Access Arrangement Submission document (s3), presents a scenario that BP believes is unlikely to eventuate. Specifically, the proposition in table 3.5 that reference service demand for 2016/17 will fall by 16TJ/day over the previous year appears unaligned with history, and every published gas load projection for Queensland that BP has analysed.

The Submission itself tends to contradict the theory that any available existing capacity in 2016/17 will not be recontracted, in the Reasonableness check (s3.6).



This section references external views clearly expressing that there is unlikely to be a material change in demand in 2016/17 compared with previous years.

BP asserts that the proposed demand forecast in the AA is not suitable, and that forecasting demand based on currently contracted haulage for year 5 of a 5 year period, is fundamentally flawed. We believe the AER should project full utilisation of existing capacity throughout the 5 year time horizon.

5. Price Path

Section 9.7 of the Submission proposes a price path that under-recovers revenue in the early years of the AA, and over-recovers in the later years to meet the present value requirements of Rule 92(2).

BP has decided to not test and challenge the validity of the proposed cost build up from APTPPL. We believe the AER is significantly more experienced in this area, and hence we are willing to rely on the veracity of the numbers based on AER approval.

However, the proposed price path creates some obvious distortions which we believe should be avoided. It has been clearly articulated that for recontracting, reference tariffs set a benchmark price, which can be exceeded under the current proposal. It is also evident that existing capacity becomes available in the later years of the 5 year period. Hence there is a direct commercial advantage to APTPPL of having higher reference tariffs later in the AA timeframe.

The vast majority of RBP capacity at present is contracted under a negotiated services basis, meaning any step change in the reference tariff is unlikely to have a material impact on gas costs to consumers linked to the RBP. Consequently, BP believes that the NGO would be best served by not allowing the proposed price path in the submission, but by closely matching the tariffs to the exact revenue requirement year by year.

6. Revisions to Rates and Allowances

A number of changes have been made to Rates and Allowances, as now presented in the Details section of the AA. For the most part these changes have been made with little explanation other than "alignment with standard form for APA Group access arrangement (pg120 - submission).

The direct impact of these rates and allowance changes is likely to be a material increase in revenue to APTPPL via these non reference services. For example, it's proposed that the Daily Variance Rate be increased from 120% to 250% of the capacity tariff!

BP suggests that all of these proposed rates and allowance changes, including the reduction of tolerance levels etc, should not be approved by the AER without



complete justification from APTPPL, and further consultation with industry, as these changes ultimately lead to increased costs for RBP users and consumers, with no offsetting gains.

7. Miscellaneous Concerns

The items below relate to detail within the proposed AA.

s2.2.2 (c)

The change of MHQ to now be based on MDQ / 24 x 1.1 rather than multiplied by 1.2 is a significant change that has direct implications for Users. This reduction in MHQ restricts a Users ability to manage their load daily and hourly, possibly leading to the requirement to contract a greater level of MDQ to cover their load.

Also, the tightening of MHQ allowances, could conceptually allow APTPPL to sell extra MDQ to the market, without expansion as lower hourly flow changes may allow for greater full day capacity.

As this change is only justified based on internal APA Group standardisation, BP believes AER should reject this proposed change as it is a material and potentially costly change for Users.

s2.2.4 (l)

BP is of the view that the proposed changes to the AA which reinforce that the existing right of APTPPL to increase MDQ on the contract when Overrun's have occurred more than 12 times, is not conducive to efficient use of pipeline capacity. We believe this right should only exist for unauthorised overruns, as by definition an authorised overrun is pre-approved, generates variable revenue to the Service Provider, and in practice should be encouraged to facilitate optimal capacity utilisation. If there is the risk of an Authorised Overrun leading to a significant fixed cost increase for a User, there is likely to be underutilisation of this service, a perverse outcome for all concerned.

s4.3.2

APTPPL have proposed that Imbalance Charges now be calculated daily based on a rate of 250% of the Capacity charge, on a imbalance allowance of 5% of MDQ (Details), rather than the previous AA method of applying these charges monthly based on physical differences in receipts and deliveries.

BP believes these changes will have a very significant impact on Users, and a subsequent significant increase in revenue to APTPPL. A 5% imbalance limit is prohibitively restrictive for most Users, and hence the increased costs resulting from this change are likely to be material.



BP believes the AER should reject these proposed changes on the basis that they again materially impact Users, increase revenue for APTPPL, without any offsetting benefit when assessed against the NGO.

s4.3.3

In a similar way, APTPPL have proposed that Daily Variance Charges now be calculated based on a tolerance of 5% (was 10%) and at a rate of 250% of the capacity tariff (was 120% of the capacity tariff). Even more outlandishly, APTPPL have proposed that these charges now relate on an individual receipt point and delivery point basis, rather than the aggregated receipt and delivery point variation.

BP cannot see any justification for these increases and changes, and subsequently requests the AER reject the proposed changes outright.

Should Intra-day Renominations be added as a reference service, BP believes Daily Variation Charges should apply based on the difference between final nomination and actual allocation.

Clause 20 (MOS)

This clause in the proposed Terms and Conditions is likely to significantly impact the operation of the STTM in Brisbane should the Service Provider ever exercise their right under this clause. Due to the very tight restrictions already in existence relating to imbalance limits, which APTPPL have proposed to further tighten, an RBP User wishing to provide MOS into the Brisbane STTM faces the risk of being removed from the MOS stack should they fall outside the prescribed imbalance limits, something that is likely to occur very frequently.

It is questionable in fact how any User of the RBP could provide balancing gas into the Brisbane STTM under this clause, due to the requirements of NGR 399 pertaining to the requirements for offering MOS in the first place to the STTM.

BP request the AER adjust this clause to allow for normal operational changes in linepack, and completely remove the proposed right of APTPPL to not receive or supply MOS gas under any situation. The sections of the AA relating to imbalance charges already provides APTPPL with protection and income resulting from pipeline imbalances.



Conclusion

BP trusts that the feedback provided in this submission can in some ways assist the AER in determining the key issues relating to the RBP 2012- 2017 access arrangement. We believe this AA is critical in many ways, due to the timing of this revision relative to the introduction of the STTM to Brisbane. Key to our input, is the request to redefine reference services on the RBP to ensure that moving forward, the RBP AA provides the gas industry with a solid and suitable standard service framework.

BP looks forward to further involvement in this process. Should you have any requirement for clarification or further exploration of any aspects of this submission, please do not hesitate to contact me directly.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Brendan Dillon".

Brendan Dillon