Issues Paper

Revisions lodged by APT Petroleum Pipelines Ltd for the Roma to Brisbane Pipeline access arrangement

18 April 2006

Contents

The issues paper

The ACCC has released this issues paper to guide interested parties in preparing submissions to assist the ACCC in its assessment of the proposed revised access arrangement for the Roma to Brisbane Pipeline. It contains and outlines:

- How to make a submission
- Background, scope and issues of the assessment
- Key matters about which the ACCC is seeking comment and information

This Issues Paper identifies a number of issues relevant to the ACCC's assessment of the proposed revised access arrangement. It is not intended to be exhaustive or to replicate the proposals made by APT Petroleum Pipelines Ltd (APTPPL). This paper should be read in conjunction with the proposed access arrangement and proposed access arrangement information.

Key inquiry dates

Provision of revised access arrangement	31 January 2006
Release of issues paper	18 April 2006
Due date for submissions	18 May 2006
Draft decision	August 2006
Due date for submissions on draft decision	September 2006
Final decision	October 2006

Contacts

If you wish to obtain a hard copy of this Issues Paper, to be notified of developments concerning the review of the RBP access arrangement or for other administrative matters, please phone (02) 6243 1233; fax (02) 6243 1205; or e-mail: rbp@accc.gov.au.

Any other inquiries should be directed to Patricia Pascuzzo on 02 9230 9115.

How to make a submission

Interested parties are invited to make submissions to the ACCC on any issues raised by this paper, or any other issues they consider relevant, by 18 May 2006. The ACCC is not obliged to consider submissions received after this date.

Interested parties are not restricted to comment only on matters raised in this issues paper. Any information which interested parties consider relevant to this assessment will be considered by the ACCC. Copies of the proposed revised access arrangement and supporting information are available from the Australian Energy Regulator's (AER's) website at www.aer.gov.au.[1].

After considering these submissions, the ACCC will issue its Draft Decision. Following consideration of further submissions, and any amendments to the proposed revised access arrangement, the ACCC will issue its Final Decision.

All public submissions received will be placed on the AER website and the public register held by the Code Registrar. Any information considered to be of a confidential nature should be clearly marked as such, and the reasons for seeking confidentiality be provided. The ACCC will not disclose confidential information where it is of the opinion that undue harm or prejudice is likely to result to the legitimate business interests of a user or a service provider.

Submissions should be supplied in electronic format compatible with Microsoft Word to the e-mail address rbp@accc.gov.au.

In addition, one original signed document together with a completed submission cover sheet should be mailed to the address below.

Mike Buckley
General Manager
Networks Regulation Branch
Australian Competition and Consumer Commission
GPO Box 3648
SYDNEY NSW 2001

[1] The enabling legislation to transfer the ACCC's current functions under the Code to the AER has yet to be enacted. However, for administrative simplicity, all ACCC documents relating to the Code functions are included on the AER website.

Submission cover sheet

Please complete and submit this form with your submission to:
Mr Mike Buckley
General Manager
Networks Regulation Branch
Australian Competition and Consumer Commission
GPO Box 3648
SYDNEY NSW 2001

Organisation:……

Street address:……..

Suburb/City:……. **State & Postcode:……**

Postal address:…….....

Suburb/City:…… **State & Postcode:…….……..**

Principal contact:…… **Phone:……**

Position:……... **Fax:……**

Email address:…… **Mobile:……..**

Please indicate if your submission:

- ☐ contains NO confidential material
- ☐ contains SOME confidential material (provided under separate cover and clearly marked)
- ☐ contains confidential material and the whole submission is provided 'IN CONFIDENCE'

Abbreviations and glossary

access arrangement	An arrangement for third party access to a pipeline provided by a service provider and approved by the relevant regulator in accordance with the Code
access arrangement information	Information provided by a service provider to the relevant regulator pursuant to section 2 of the Code
access arrangement period	The period from when an access arrangement or revisions to an access arrangement takes effect (by virtue of a decision pursuant to section 2) until the next revisions commencement date
APA	Australian Pipeline Trust
APTPPL	APT Petroleum Pipelines Limited
ACCC	Australian Competition and Consumer Commission
AER	Australian Energy Regulator
Code	National Third Party Access Code for Natural Gas Pipeline Systems
covered pipeline	A pipeline to which the provisions of the Code apply
CPI	Consumer Price Index
CSM	Coal seam methane (or coal seam gas)
DORC	Depreciated Optimised Replacement Cost
GPAL	Gas Pipelines Access Law
ICB	Initial Capital Base
NCC	National Competition Council
NPV	Net present value
ORC	Optimised Replacement Cost
prospective user	A person who seeks or who is reasonably likely to seek to enter into a contract for a service (including a user who seeks or may seek to enter into a contract for an additional service)
queuing policy	A policy for determining the priority that a prospective user has, as against any other prospective user, to obtain access to spare capacity
RAB	Regulatory Asset Base
RBP	Roma to Brisbane Pipeline
reference service	A service which is specified in an access arrangement and in respect of which a reference tariff has been determined

reference tariff	A tariff specified in an access arrangement as corresponding to a reference service.
reference tariff policy	A policy describing the principles that are to be used to determine a reference tariff
revisions commencement date	The date upon which the next revisions to the access arrangement are intended to commence
revisions submissions date	The date upon which the service provider must submit revisions to the access arrangement
service provider	A person who is the owner or operator of the whole or any part of the pipeline or proposed pipeline
services policy	A policy detailing the service or services to be offered on the covered pipeline

1. Introduction

This assessment is the first full assessment by the ACCC of the access arrangement for the Roma to Brisbane Pipeline (RBP) under the *National Third Party Access Code for Natural Gas Pipeline Systems* (the Code). The previous ACCC assessment, for the period 1 October 2002 to 28 July 2006, covered only non-tariff elements of the access arrangement under the transitional arrangements for the *Natural Gas Pipelines Access Agreement* approved by the Queensland Minister.

The purpose of this issues paper is to outline the access arrangement assessment for the RBP and to highlight a number of issues to facilitate public consultation. It should be read in conjunction with the proposed revised access arrangement, access arrangement information and supporting information provided by APTPPL.

Key features of APTPPL's proposal

The service provider, APT Petroleum Pipelines Limited (APTPPL), proposes a single reference service – firm forward haul – in a single zone. That is, one reference tariff will apply to all users of the pipeline, regardless of location, size or usage.

A price path approach is proposed with a constant reference tariff (in real July 2006 dollars) comprising a daily capacity charge of $0.4243/GJ of MDQ and a throughput charge of $0.0283/GJ. Under the price path approach, APTPPL would achieve better (worse) than the benchmark rate of return if demand is greater (lesser) than forecast and/or costs are lower (higher) than forecast during the access arrangement period.

APTPPL proposes that the reference tariff applies only to the existing pipeline capacity of up to 202.9 TJ/day.[2] It proposes that services requiring any new capacity on the RBP will be negotiated: that is, the reference tariff will not apply. On this basis, any additional service requirements (such as backhaul or interruptible services) would be subject to commercial negotiations between the user and APTPPL. The rights of either party to seek arbitration to resolve negotiation disputes remains in accordance with the Code.

APTPPL proposes an initial capital base (ICB) of $343 million. This value was determined by applying the net present value (NPV) of costs based depreciated optimised replacement cost (DORC) methodology developed by the Australian Competition Tribunal in its review of the ACCC's Further Final Decision on the Moomba to Sydney Pipeline Access Arrangement.

A wider gas quality specification is proposed than currently applies to existing contracts, reflecting the new Queensland specification. A wider specification will help to accommodate new sources of gas for haulage, particularly coal seam methane.

[2] The existing pipeline capacity is based on the configuration of the pipeline as at 31 January 2006 which is nominally 180 T/day but can deliver services of up to 202.9 TJ/day.

The RBP and Queensland gas industry

The RBP consists of a mainline, which is both compressed and looped, and a number of laterals. The mainline is approximately 440 km long with approximately 30 km of its length running through Brisbane to Gibson Island. The original 410 km section from Wallumbilla to Ellengrove is 273 mm in diameter. This section is also looped with a 406 mm diameter pipeline. The looping was carried out in a number of stages, commencing in 1988, after the original line had been fully compressed. The final section of looping was completed in 2002. The current licensed capacity of the pipeline is 180 TJ/day.

There are six compressor stations along the length of the pipeline. Those at Yuleba, Kogan and Oakey serve the original pipeline while those at Condamine, Dalby and Gatton serve the loop pipeline. Upgrading of the compression capacity of these stations is currently being studied with a view to increasing the pipeline capacity.

The 273 mm diameter Peat lateral is 128 km long. Its capacity is currently 52 TJ/day.

There are currently six receipt points on the pipeline with another three under construction. There are 17 delivery points.

The RBP has had a key role in the development of Queensland gas industry since its commissioning in 1969. The key end users of gas transported through the RBP were initially large industrial customers. However, it is expected that greater demand growth will arise from the electricity generating sector in the future.

The pipeline originally supplied the Brisbane area with gas from Surat Basin fields close to Roma. More recently, natural gas is also sourced from the Cooper/Eromanga Basin via the South West Queensland Pipeline (SWQP). In 2001 and 2002 the RBP was extended to enable coal seam methane (CSM) from the Peat and Scotia gas fields to be supplied into south east Queensland.

The RBP also connects with the Queensland Gas Pipeline (QGP), which runs from Wallumbilla to Rockhampton (via Gladstone). This allows Wallumbilla to function as a hub for a number of sources of gas in Queensland.

2. Key issues in the RBP proposed revised access arrangement

The following section provides context and background on the proposed revised access arrangement and identifies some key issues.

Demand forecasts

APTPPL have provided two demand forecasts. The first is used to determine the revenue requirement for the forthcoming access arrangement period, covering the period from 2006 to 2011, (see Table 1 below). The second forecast, covering from 2006 to 2017, is used to estimate the capacity of the ORC as input to the NPV of costs approach to determining the DORC (see the Charles River Associate (CRA) report on DORC asset valuation).

Both of APTPPL's demand forecasts assume the RBP remains the only pipeline supplying the Brisbane market and that the pipeline will be expanded to meet load growth, based on negotiations to secure capacity increases.

The forecasts provided in Table 1 (below) have been used to determine the proposed reference tariff. These forecasts are only based on the existing capacity of the pipeline. APTPPL proposes that access to additional capacity above the defined existing capacity would not be at the reference tariff, but be negotiable. It has not included the cost of expected expansions in the calculation of the reference tariff.

Table 1: APTPPL forecasts based on existing capacity

Year ending June	2004-05 (actuals)	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Forecast (MDQ) TJ/day	175 (est)	177.5	196.2	199.1	199.8	200.5	202.9
Throughput (PJ/pa)	48	51.1	56.5	57.3	57.5	57.7	58.4

The second set of demand forecasts reflects the expected expanded capacity of the RBP beyond the forthcoming access arrangement period. The basis of these forecasts is provided in section 8 of the public Further Information provided to ACCC (21 February 2006). These forecasts were prepared in June 2005 and have been reviewed by ACIL Tasman (December 2005). This review has incorporated more recent information into the forecasts such as a different version of the NEMMCO Statement of Opportunities. The ACCC expects to receive a public version of the longer term forecasts shortly, and will place it on the website once received.

The major driver of longer term growth for use of the pipeline appears to be power generation. However, there are different views on matters such as location and choice of fuel for generators which has resulted in different long term demand forecasts for the RBP.

In addition, further development of CSM reserves in southern Queensland is expected to occur over the next few years. The location of some of these reserves provides the potential for some major users to bypass the RBP for. Additionally, the Queensland economy is expected to grow significantly over the next few years, partly due to strong population growth in the south-east corner of the state. Aside from electricity-based demand, the demand for gas in the south-east Queensland is growing strongly as gas increases its relatively modest market share. These factors could reasonably be expected to stimulate demand for gas in the region and the demand for haulage and other services via the RBP.

Issues for consideration

The ACCC seeks comments and supporting evidence on whether:

- there is additional demand that is currently not being reasonably met by the RBP;
- the forecasts for the proposed access arrangement period are reasonable for the determination of reference tariffs and revenues;
- the assumed rates of load growth are reasonable for users' assumptions regarding retailers, major users and the power generation sector (timing, fuel source and location);
- there is significant demand for the reference tariff and services at existing capacity, and future capacity, say up to 305 TJ/day as per the CRA report, both in the forthcoming access arrangement period and beyond;
- further development of CSM reserves and other sources will affect supply and demand at various receipt points or zones;
- the basis for long term demand forecasts, as used for the capital base, sufficiently reflects the specific needs of users and potential users, for example storage, park and loan for generators.

Services policy

As required by the Code, an access arrangement must include a services policy which describes one or more services that the service provider will make available to users and prospective users. The policy must contain one or more services likely to be sought by a significant part of the market (a reference service), and any service or services that, in the regulator's opinion, should be included in the services policy.

APTPPL has proposed a single reference service of firm forward haul. APTPPL advises that 178 TJ/day of the 180 TJ/day of developed capacity is fully contracted and it proposes to treat developable capacity as a negotiated service rather than as a reference service.

APTPPL has not proposed any non-reference services other than a negotiated service.

In the 2002 assessment of the RBP access arrangement, a number of additional services were identified by users as potentially being beneficial to electricity generators, including:

- Pressure service;
- Interruptible service;

- Backhaul service;
- Spot service; and
- Park and loan service.

Under APTPPL's current proposal, users requiring such services will need to reach a negotiated agreement with the service provider on the tariff and other terms. Where a dispute arises, users will have resort to arbitration as outlined in section 6 of the Code.

Issues for consideration

The ACCC seeks comments and supporting evidence on whether:

- APTPPL's proposed reference service will meet users' anticipated needs during the next access arrangement period;
- market developments will impact on the demand for additional services (including non forward haul services);
- limiting the reference service to current capacity is appropriate; and
- there are any other services likely to be sought by a significant segment of market participants that should be included in the services policy, particularly if the pipeline capacity is increased. Submissions should include an estimate of the volumes and specify the location(s).

In commenting on the above, parties may refer to their previous experiences in negotiating additional services with APTPPL.

Reference tariff

APTPPL proposes firm forward haul as the only reference service in its revised access arrangement. APTPPL states that it has proposed the reference tariff to be broadly consistent with current and future prices that have underpinned the growth of the RBP. Based on forecast volumes and costs, and escalating at 100 per cent of CPI from July 2006, the 2011 reference tariff is said to approximate the forecast average tariff at that time for current contracted users.[3]

APTPPL proposes one reference tariff for all users irrespective of their receipt and delivery points, that is, a single zone postage stamp tariff.

The allocation of revenue is 95 per cent to the capacity charge, covering costs that are largely fixed and do not vary with the quantity of gas transported. The remaining five per cent of revenue is recovered from the throughput charge. In addition, there would be charges relating to overruns, imbalances, daily variances and receipt and delivery points. For 2006-2007 APTPPL proposes a capacity charge of $0.4243/GJ of MDQ and a throughput charge of $0.283/GJ. This allocation represents a significant change for some contracted users.

[3] APTPPL, Further information, 21 February 2006, p. 10.

Issues for consideration

The ACCC seeks comments and supporting evidence on whether:

- the capacity-commodity split of the proposed reference tariff is appropriate and conducive to efficient utilisation of the pipeline;
- the proposed tariff path is appropriate;
- the proposed single zone 'postage stamp' approach reflects the needs of the majority of users;
- the proposed additional charges are reasonable and whether they should be rebated from the reference tariff; and
- the proposed reference tariff, as currently structured, allows users to obtain a firm forward haul service which includes only those elements that the users seeks from the service.

In commenting on the above, parties may refer to their previous experiences in negotiating additional services, including additional capacity with APTPPL and/or on the RBP.

Extensions and expansions policy

Section 3.16 of the Code requires the extensions and expansions policy of an access arrangement to set out the method used to determine whether extensions and expansions will be treated as part of the covered pipeline and, if covered, how they will affect reference tariffs.

APTPPL's proposed access arrangement provides that it will elect, after consultation with the ACCC, whether any future extension of the RBP should be covered (and accordingly, incorporated into the access arrangement).

APTPPL proposes that any new expansion of capacity will be covered unless it proposes, and the ACCC agrees, that it should not be covered.

Services provided from capacity and expansions will be offered as a negotiated service at a negotiated tariff. Where a dispute arises, users will have resort to arbitration as outlined in section 6 of the Code.

The forecast demand APTPPL has used to estimate the pipeline's optimised replacement cost exceeds the capacity of the existing pipeline. This analysis indicates that the pipeline needs to be expanded within one to two years[4]. However, the ACCC understands that APTPPL will only commence construction of additional capacity when gas transportation agreements are executed and become unconditional.[5]

[4] Roma – Brisbane Pipeline: DORC Asset Valuation CRA International Report pp 9 -10

[5] APTPPL, Response to ACCC request for information dated 2/3/06 and 24/3/06, p. 19.

Issues for consideration

The ACCC seeks comments and supporting evidence on:

- users' experience with the current, and views on the proposed, extensions and expansions policies to understand how well they work in practice;
- circumstances particular to this pipeline that have or may impact the effectiveness of the proposed policy;
- how the expansions policy with negotiated tariffs might operate and impact on users;
- whether the definition of a reference service should be expanded to apply to firm forward haul for expanded capacity (and up to what level), if this may mean a higher reference tariff
- users' actual prior and current experiences in accessing additional capacity, including issues arising in negotiating for the additional capacity, the cost of the additional capacity and information provision by the service provider; and
- APTPPL's requirement to have firm haulage contracts in place prior to proceeding with pipeline expansions is appropriate.

Queuing policy

The purpose of a queuing policy is to deal with surplus demand and facilitate the timely provision of new capacity. The queuing policy APTPPL proposes to apply in the forthcoming access arrangement period is essentially the same as the queuing policy currently in place.

APTPPL has advised that the current capacity of the RBP is fully contracted. The ACCC understands users may seek more capacity in the forthcoming access arrangement period than is currently reflected in the queue operated by APTPPL. In addition, the ACCC understands some users may be concerned with the time taken by APTPPL to process and approve capacity requests. As APTPPL proposes to offer services using additional capacity as negotiated services, arbitration in accordance with section 6 of the Code will be available to resolve disputes between prospective users and APTPPL.

Issues for consideration

The ACCC seeks comments and supporting evidence on:

- users' experiences with APTPPL's existing queuing policy;
- users' experience in using arbitration or other dispute resolution processes;
- whether the queuing policy proposed by APTPPL is reasonable for large and small prospective users and whether it meets the anticipated needs of prospective users of the pipeline;
- users' experience with lodging a request for extra capacity, and whether the queue accurately reflects demand for additional capacity;
- whether queuing arrangements will facilitate an appropriate expansion of the pipeline; and
- whether the policy reduces or eliminates the risk that a prospective user will hoard capacity.

Trading policy

The purpose of the trading policy is to facilitate the trading of users' surplus capacity. The trading policy APTPPL proposes to apply in the forthcoming access arrangement period is essentially the same as the trading policy in place at present. It undertakes to respond to requests for substituted transfers and to change receipt or delivery points within 14 business days of receiving the request as well as all information reasonably required to consider the request.

Issues for consideration

The ACCC seeks comments and supporting evidence on:

- users' experiences with APTPPL's existing trading policy;
- whether sufficient information is available on a timely basis to allow users to determine actual available capacity at each receipt and delivery point to facilitate trading between users with temporary surpluses or shortages of capacity;
- whether users and prospective users consider that the proposed trading policy would facilitate trade; and
- whether the trading policy proposed by APTPPL is reasonable and meets the anticipated needs of users and prospective users of the pipeline.

Initial capital base

The initial capital base (ICB) is a significant component in the calculation of reference tariffs. The Code (section 8.10) requires the regulator to take into account a range of factors in establishing the ICB.

APTPPL has calculated a Depreciated Optimised Replacement Cost (DORC), based on the NPV (net present value) of costs DORC methodology, of $342.6 million in October 2005 dollars. It proposes an ICB of $343.9 million, being the DORC value adjusted for inflation and asset age.[6]

The long term forecast of demand for the pipeline anticipates growth in gas-fired power generation as well as steady growth in demand for traditional market segments. APTPPL's Optimised Replacement Cost (ORC) is $456.1 million, based on a capacity that would meet part of this forecast load. This has been adjusted to $462.2 million to reflect the cost of APTPPL-owned linepack and equity raising costs.

This NPV of costs approach is based on the Australian Competition Tribunal's approach to determining the ICB for the Moomba to Sydney Pipeline Access Arrangement.[7] Under the Tribunal's approach the DORC is calculated from the difference between the present value of all future costs (capital and operating) associated with building a new pipeline and the present value of all future costs associated with providing the same services using the existing pipeline.

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[6] APTPPL labels the $342.6 million as the proposed ICB (p. 6 of the access arrangement information). However, the ICB is the term used for the value at the beginning of the access arrangement period, not the date of the DORC calculation. Thus the value APTPPL proposed for July 2006 ($343.9 million) is the value it proposes for the ICB.

[7] The ACCC has appealed the Tribunal's decision to the Federal Court.

Issues for consideration

The ACCC seeks comments and supporting evidence on:

- the use of DORC as a valuation method (rather than some other valuation consistent with the Code);
- the appropriateness of the NPV of costs approach to calculating DORC; and
- whether the ORC provided by APTPPL is reasonable.

Capital contributions

In the past, a number of users have indicated that they have made contributions over and above their haulage tariff payments towards the capital and operating costs of capacity expansions (looping and compression) on the RBP.

Under section 8.23 of the Code any charge agreed between the service provider and the user, exceeding a reference tariff for a reference service where the excess is paid in respect of funding a new facility is deemed to be a capital contribution. Such a charge may be a one-off lump sum payment or it may be an on-going payment.

In its determination of the ICB, the ACCC can consider (under s 8.10(f) of the Code) the basis on which tariffs have been (or appear to have been) set in the past. Accordingly, the ACCC seeks information from users as to the quantum of these contributions and on past charges in general.

Issues for consideration

The ACCC seeks comments and supporting evidence on:

- the amounts that users have paid to APTPPL or previous owners that constitute contributions towards the capital cost of capacity expansions and the additional capacity received in return for those contributions;
- the time periods over which these contributions were paid;
- the basis on which these contributions were determined;
- previous experience in the negotiations on user capital contributions; and
- the extent to which user capital contributions should be taken into account in the determination of reference tariffs for the forthcoming access arrangement period and the basis for this.

Weighted average cost of capital (WACC)

APTPPL proposes a pre-tax real WACC of 6.9 per cent. In calculating this WACC it applies a 'ranges approach'. That is, it has identified a range of values for each CAPM parameter and constructed a 'high' and 'low' option. The resulting cost of equity range is 9.43 – 12.63 per cent. Using a formula (rather than a cash flow model) APTPPL has calculated a range for pre-tax real WACC of 5.42 – 7.15 per cent.

Issues for consideration

The ACCC seeks comments and supporting evidence on:

- whether the values assumed for the various parameters used in determining the WACC are appropriate for the RBP
- whether the proposed WACC is consistent with the Code; and
- whether the risk adjusted rate of return is appropriate given the extent to which volume risk is borne by users.

Forecast non capital costs

Reference tariffs are to recover forecast non capital costs that are prudent and would be incurred by a service provider acting efficiently in accordance with good industry practice.

APTPPL has included its estimates of non capital costs for the access arrangement period in section 3.6 of the access arrangement information under the categories Wages and Salaries, APT Other Corporate Costs, Operations and Maintenance, Insurance, Licence Fees etc and Security and Self Insured Risk. These forecasts are based on APTPPL's actual direct costs, the cost of services provided to APTPPL by Agility Management and an allocation of APA corporate overheads.

Labour costs (the combination of salary costs and personnel numbers) are assumed to increase at six per cent per year over the life of the asset. Non-labour costs are escalated at CPI.

APTPPL has included two additional non capital cost items: security and self insured risk. An amount for security has been included as a result of increased security measures undertaken due to the threat of terrorism. This is forecast at $100 000 per year. A total of $80 000 per year has also been included in non capital costs for self insurance risk. This is to cover the risk of computer crime, computer breakdown, crisis management, legal actions, extortion and death or disability of key personnel.

Issues for consideration

The ACCC seeks comments and supporting evidence on whether:

- the non capital costs proposed by APTPPL are reasonable and prudent;
- the rate of increase for labour costs is appropriate;
- the additional costs of security and self insurance are appropriate; and
- the self insurance assessment has appropriately covered all risks in the category (positive and negative).

Forecast capital costs

For the revenue model, APTPPL has forecast minor capital expenditure of around $2 million per year. It has not included any capital expenditure to fund expansions as it proposes that the reference tariffs be established only for the existing capacity.

For the calculation of the DORC using the NPV methodology, APTPPL has forecast the cost of expansions to meet expected demand over the next twenty years.[8]

Issues for consideration

The ACCC seeks comments and supporting evidence on whether:

- it is appropriate not to include the cost of future expansions in the calculation of total revenue and reference tariffs; and
- the forecast expansions to the existing pipeline (for the DORC calculation) are prudent with regard to their nature, timing and valuation.

Gas specification

The gas specification currently in the access arrangement for the RBP is that which applied at the date of commencement (October 2002). In January 2003, Australian Standard *AS 4564, Specification for general purpose natural gas,* was released. The standard was produced to facilitate interstate trade in natural gas as the various state transmission pipeline networks become interconnected.

AS 4564 differs from the RBP specification with regard to a number of parameters. Queensland has adopted the national standard but with derogations applying to hydrocarbon dewpoint and carbon dioxide content. The ACCC understands that the hydrocarbon dewpoint derogation will be removed in the event that there is a material connection between the Queensland transmission network and the rest of Australia. At present there is a pipeline between Ballera in south-west Queensland and Moomba which transports raw gas for treatment at Moomba before subsequent sale into the Moomba to Adelaide Pipeline System or the Moomba to Sydney Pipeline. However, this connection is not material in this context.

The Queensland standard permits contractual control of carbon dioxide content and APTPPL proposes a limit of 3.0 mol per cent. AS4564 does not impose a specific limit on carbon dioxide content because this parameter is indirectly controlled via inert gas content and Wobbe Index limits. The RBP access arrangement also makes provision for the continuation of the gas specification applicable to existing haulage contracts.

Issues for consideration

The ACCC seeks comments and supporting evidence on whether:

- the current Queensland gas specification is appropriate for the purposes of the RBP access arrangement;
- the current Queensland gas specification creates any issues for users or prospective users of the RBP; and
- the specific limit for carbon dioxide is necessary.

System use gas

System use gas (SUG) is the gas required by the pipeline operator to operate the pipeline system. The major use is as fuel for driving compressors. Other categories of

[8] CRA International, *Roma-Brisbane Pipeline: DORC Asset Valuation* (a report prepared for the Australian Pipeline Trust), February 2006, p. 9-10.

system use gas include gas used for purging and unaccounted for gas. As the RBP is a relatively highly compressed pipeline, SUG is an important cost to users.

APA's standard practice, which it proposes to continue, is to require that users provide system use gas in addition to the actual quantities required for delivery at the users' receipt points. Some parties have argued that this practice eliminates the incentive for APTPPL to operate the pipeline's compressors efficiently.

Issues for consideration

The ACCC seeks comments and supporting evidence on whether:

- it is preferable that shippers provide their own system use gas;
- APTPPL should offer the option of providing system use gas;
- APTPPL should provide all system use gas; and
- the proposed approach is likely to result in cross subsidisation among users or any inefficiencies in pipeline operations.

Terms and conditions

APTPPL has submitted a set of terms and conditions with the access arrangement which it considers to be as consistent as possible with the terms and conditions applying to other pipelines in APA's portfolio but which reflect where necessary any matters specific to the RBP.

Issues for consideration

The ACCC seeks comments and supporting evidence on:

- the experience of existing customers with APTPPL's current terms and conditions for the RBP;
- whether the terms and conditions for pipeline access now proposed by APTPPL are reasonable and whether they meet the anticipated needs of users and prospective users;. For example:
  - the appropriate quantity of linepack to be provided by APTPPL;
  - the reasonableness of the authorised overrun provision;
  - whether APTPPL's request that daily nominations be submitted 24 hours in advance is considered reasonable by users.

Incentive mechanism

APTPPL proposes to adopt a price path approach for its reference tariff. This approach would allow APTPPL to achieve better than the benchmark rate of return under the access arrangement if efficiencies are achieved during the access arrangement period. That is, if greater volumes than forecast are transported, or operating and maintenance costs are less than forecast. Conversely, if actual volumes transported are less than forecast, or operating and maintenance costs are more than forecast the rate of return achieved would be less than the benchmark rate.

Issues for consideration

The ACCC seeks comments and supporting evidence on:

- whether this incentive mechanism is reasonable and sufficient or if there might be other incentive mechanisms which would be more appropriate to include in the access arrangement
- whether the incentive mechanism should take account of revenues from non-reference services sought by users; and
- whether revenue from non-reference services should be rebated from reference service tariffs.

Major events trigger

Section 3.17 of the Code provides that the regulator may, in making its decision on an access arrangement, require that specific major events be defined that trigger an obligation on the service provider to submit revisions prior to the revisions commencement date.

The proposed revised access arrangement for the RBP includes a revisions submission date of 30 November 2010 and a revisions commencement date of 1 July 2011. APTPPL has not included any major events trigger.

Initial planning of the PNG Pipeline provided for the route to terminate at Gladstone. Recent planning of the pipeline route is understood to provide for a link to, or near, Moomba or Ballera. The selected route for the pipeline will have implications for the future role of the RBP. If PNG gas were to be delivered via a new pipeline to Brisbane rather than via the Moomba or Ballera areas, the volume of gas transported on the SWQP and the RBP would be reduced.

The proposed revised access arrangement includes an assumption that the proposed PNG Pipeline commences operation during 2009 and will have no impact on the operation of the RBP during the access arrangement period. That is, no shipper of gas in the PNG Pipeline will adjust its usage of RBP services before mid 2011.

Issues for consideration

The ACCC seeks comments and supporting evidence on whether:

- it is reasonable to assume that the proposed PNG Pipeline will have no impact on the demand for services from the RBP before 2011;
- a decision to proceed with the PNG Pipeline, or the commissioning of that pipeline, should trigger an obligation on APTPPL to submit revisions prior to 30 November 2010; and
- other major specific events should be defined as trigger events.

Arbitration arrangements

The Code does not generally limit the ability of service providers and prospective users to reach agreement about access. In particular, parties can agree to a tariff other than the reference tariff. Users may also negotiate for the provision of services that are not covered by a reference tariff. Where parties are unable to reach agreement on access

terms (including the tariff), either party may submit the dispute to the arbitrator for resolution under section 6 of the Code.

The ACCC is arbitrator with respect to gas transmission pipelines (except for those in Western Australia). In May 2004, the ACCC issued a draft guideline (available from the AER's website) which explains how it generally will exercise its dispute resolution powers for the transmission pipelines it regulates. No disputes have been referred to the ACCC with respect to the RBP.

Issues for consideration

The ACCC seeks comments and supporting evidence on:

- whether users of the RBP have considered taking matters to arbitration, and the factors that led to the matters not being progressed; and
- what factors would prospective users consider in deciding whether to initiate an arbitration should a dispute arise during the course of future negotiations relating to additional capacity and/or additional services.

Any other issues

The issues listed above are not intended to restrict or influence the issues raised in submissions by interested parties. Submissions are welcomed on any matter associated with the proposed revised RBP access arrangement including any omissions from the document.

Appendix 1: Map of the Roma to Brisbane Pipeline