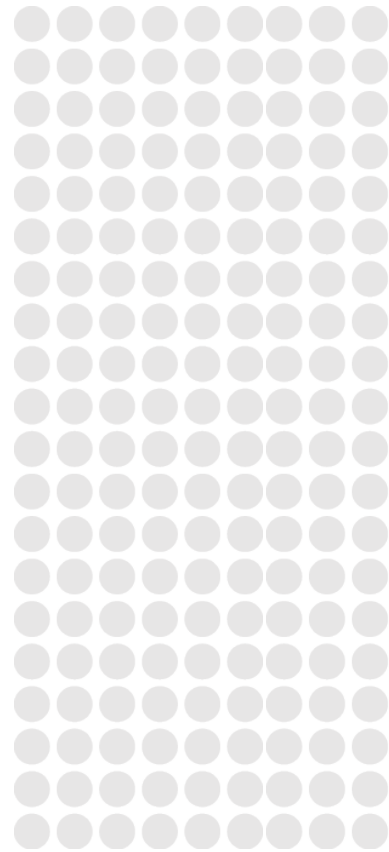




Roma Brisbane Pipeline Access Arrangement Revised Proposal

14 January 2022



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- Attachment 2 - Access Arrangement Document (Mark up)
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- Attachment 4 - Reference Tariff Model - Revised Proposal - Confidential
- Attachment 5 - Reference Tariff Model - Revised Proposal - Public
- Attachment 6 - Westbound Prudent discount Model - Revised Proposal - Confidential
- Attachment 7 - Westbound Prudent discount Model - Revised Proposal - Public
- Attachment 8 - Transmission Asset Base Rollforward Model
- Attachment 9 - Forecast Capital Expenditure Model
- Attachment 10 - Forecast Operating Expenditure Model
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- Attachment 12 - RBP Information Technology. Information Paper - Public
- Attachment 13 - RBP Business Case - Confidential
- Attachment 14 - ACIL Allen - Updated RBP western haul forecasts - confidential
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Foreword

We recently prepared, for Australian Energy Regulator's approval, proposed revisions to the key regulatory document — the Access Arrangement — for the Roma Brisbane Pipeline.

We are a leading energy infrastructure business. Our purpose is to strengthen communities through responsible energy.

We work towards our vision to be world class in energy solutions. To make that vision a reality, we are building a culture that enables us to be our best for each other, for our customers and for the communities in which we work

Underpinning our business and this access arrangement revised proposal is our customer promise.

Our promise is to deliver service you value. We will...

- Listen to understand
- Enable our people to respond
- Do what we say we'll do.

We have worked together with our stakeholders and the AER to put forward a revised proposal that represents best practice in pipeline management.

We will continue to engage with our stakeholders after the submission of this revised proposal so the ongoing operation of the Roma Brisbane Pipeline continues to represent best practice reflecting the interests of our customers and community.

The Roma Brisbane Pipeline has some unique challenges reflecting that it has operated to supply natural gas to customers in Brisbane since 1969.

We are working towards resolutions to these issues with our customers.

^[1] <https://www.legislation.gov.au/Details/C2018A00029>

^[2] https://www.aph.gov.au/Parliamentary_Business/Bills_Legislation/Bills_Search_Results/Result?bld=r6657

^[3] Number of Critical Infrastructure assets enterprise wide which include 4 within VTS



Executive Summary

We are submitting this revised proposal consistent with the requirements of the National Gas Rules.

We will be continuing our stakeholder engagement which has supported this revised proposal and our consideration of the issues contained. We will provide any feedback that arises out of our ongoing stakeholder engagement to the AER.

On 28 November the AER published its draft determination on the Roma Brisbane Pipeline access arrangement. The Draft Determination accepted the majority of the proposal as put forward by us.

The AER sought additional information in relation to a small number of matters:

- Forecast demand for Eastbound Gas-Powered Generation and Westbound transportation
- Forecast operating expenditure for Security of Critical Infrastructure and Information Technology
- The need for a prudent discount on the westbound service.

In addition to this we have provided updated information for:

- Estimated Capital expenditure for current period
- Forecast capital expenditure for Group IT
- Eastbound Demand Forecast

Forecast Demand

We have updated the ACIL Allen forecast to reflect the most recent actuals for the Westbound service.

The commencing point for the forecast is a five-year average of actual demand, which is the same method used by the AER in their forecast for the draft determination. We then have adopted the forecast as outlined in the ACIL Allen report. This is discussed further in section 5.2.

^[1] <https://www.legislation.gov.au/Details/C2018A00029>

^[2] https://www.aph.gov.au/Parliamentary_Business/Bills_Legislation/Bills_Search_Results/Result?bld=r6657

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(confidential)

We have updated the eastbound forecast to reflect actual changes to the contractual position of shippers on the Roma Brisbane Pipeline.

The contracted demand is in the table below

Table 1: Demand on the RBP

Component	FY23	FY24	FY25	FY26	FY27
Westbound	94	94	93	88	88
Eastbound	126	106	104	104	104
Total	220	199	197	192	192

Forecast Operating and capital expenditure

In our proposal we acknowledged that we were undertaking further analysis on the capital and operating expenditure arising from the Security of Critical Infrastructure Bill and obsolescence of some of our key information technology infrastructure.

Consistent with this the AER in their draft determination have requested additional information prior to including this in the allowed capital and operating expenditure.

We have provided additional information and updates in this revised proposal. More information is available in section 4.

There are no other changes to forecast capital and operating expenditure compared to the draft determination and our proposal.

The table below outlines forecast capital and operating expenditure

Table 2: Forecast Capital and operating expenditure

Capex and Opex	2023	2024	2025	2026	2027	Total
Capital Expenditure	18.6	5.8	4.6	3.1	5.4	37.5
Operating Expenditure	20.9	21.3	20.6	20.4	20.5	103.6

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^[2] https://www.aph.gov.au/Parliamentary_Business/Bills_Legislation/Bills_Search_Results/Result?bld=r6657

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Prudent Discount

The AER indicated there was insufficient information for them to accept the proposed prudent discount for westbound service.

We have provided more information demonstrating that the real and present risk of a material amount of westbound demand defecting to the Darling Downs Pipeline. We have provided a prudent discount consistent with retaining this demand on the Roma Brisbane Pipeline to the benefit of all customers.

Updated information on the future of Incitec Pivot has revealed that there is no further need for the prudent discount on the eastbound service and it has been withdrawn.

Updated Capital expenditure for the current period

The estimated capital expenditure for financial year 2022 (the current year) in the proposal, and the draft determination, was based on the budget set for the financial year. Six months of the year has now passed and we have actual costs incurred and progress on the completion of projects which has enabled us to update our forecast of capital expenditure for Financial Year 2022. This will provide a more accurate estimate for the current year and less divergence with actuals at the time of the next access arrangement.

A comparison of capital expenditure for FY 2022 in the proposal and the revised proposal is set out in the table below.

Table 3: Financial Year 2022 capital expenditure estimate

Financial Year Capital Expenditure Estimate (\$FY22)	Proposal	Revised Proposal	Difference
Capital Expenditure	16.3	15.8	-0.5

^[1] <https://www.legislation.gov.au/Details/C2018A00029>

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1. Stakeholder Engagement

We are focused on understanding our customer and stakeholder needs and reflecting these in our proposal and how we operate our business.

The main recipients of natural gas of the Roma Brisbane pipeline are businesses, rather than residential customers, compared to other states. This is reflected in the relatively low level of interest by stakeholder representatives representing residential customers.

1.1. The importance of contracts and negotiations in Gas

There are differences between the business model for gas transmission pipelines compared to distribution networks and electricity transmission networks. Customer preferences are clearly delivered through direct negotiation with us.

Gas Transmission pipelines are unlike other regulated energy networks in that customer preferences are delivered through this mechanism. This is in contrast to the arrangements that exist in electricity. Users of electricity transmission networks do not negotiate the terms and conditions of their access to the network.

On the RBP the majority of the gas consumed, and therefore transported, is by large businesses. These are sophisticated users of information capable of

^[1] <https://www.legislation.gov.au/Details/C2018A00029>

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expressing their preferences through contracts. Whether that contract is with a shipper or directly with gas producers and pipeliners doesn't matter.

This is an incredibly sophisticated mechanism to reflect these customer preferences. The preferences expressed in contracts are directly linked to outcomes in relation to pipeline operation.

The processes and management decision making that underpin the operation of the Roma Brisbane Pipeline (RBP), and this revised proposal, reflect the contractual position and preferences of those customers.

Customer preferences have created a variety of contracts which reflect the individualised nature of the services that we provide.

It is customer preferences driving the decision to remove the DN250 from service. Customer demand is insufficient to warrant its continued operation.

As the prices are set in contracts there is a very strong incentive to minimise operating expenditure and capital expenditure to that which is necessary. Contract prices do not increase to reflect increased costs on the RBP.

Negotiations for pipeline services on the RBP is an ongoing activity for us.

1.2. Stakeholder Engagement Group

In addition to commercial negotiations and contracting we conduct our stakeholder engagement group on the RBP. This provides an opportunity for

^[1] <https://www.legislation.gov.au/Details/C2018A00029>

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those representatives who don't directly contract with us to raise their views on our pipeline and the issues we confront.

We note it is open to shippers, who have attended these sessions, to raise their concerns or views with the wider community and AER present at those sessions.

We had seven sessions in total for the access arrangement and reference service proposal.

Our engagement principles and indicative timetable and topics were outlined in our publicly available engagement plan. We consulted on the engagement plan.

All elements of the proposal were discussed with stakeholders in advance of the proposal. Stakeholder Engagement sessions were attended by around 20 participants

1.3. A proposal years in the making

APA commenced its Stakeholder Engagement Group in April 2020. We have been clear on the issues faced by RBP with our stakeholders and given considerable opportunity for them to express views or to engage with us further.

The most significant issues of the proposal were raised at the first session:

- The condition of the DN250
- Westbound competition

This is more than 14 months prior to the access arrangement being submitted. These issues were raised with our stakeholders on multiple occasions.

All matters contained in the proposal were raised with stakeholders prior to being included in the submission. APA's proposals and the factors we considered were all outlined with stakeholders in our workshops to enable them to provide feedback that we could consider.

All decision makers who determine the future of the RBP were made aware of all stakeholder feedback received by APA.

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APA is a business that takes its stakeholders' views seriously and actively seeks them out.

1.4. Feedback on proposal

APA has been completely transparent at all stages as to the nature of the issues contained in the proposal and has made best endeavours to provide an understanding of the materiality of different options under consideration.

We have also noted the limited level of response that the AER has received in response to their engagement.

We are of the view that the limited extent of stakeholder response is reflective of both the prevalence for directly negotiated services on the RBP (as discussed in section 1.1 above), and how stakeholders have assessed the relative priority and materiality of the contents of the APA proposal and its implications for them individually rather than a reflection on the engagement undertaken by APA.

We respect our stakeholders and have taken their feedback seriously and reflected it in the proposal and revised proposal.

1.5. Going Forward

We note the comments raised by the AER. APA is committed to improving and as part of that goal will take the AER feedback on board.

APA recently expanded its stakeholder engagement framework to ensure we're better able to 'bring the outside in' when it comes to the ways we make decisions and execute on our strategy.

Listening to our stakeholders and responding to their needs is key to our purpose to strengthen communities through responsible energy.

We have established a Stakeholder Advisory Panel. This industry-leading initiative is designed to enable APA to share what we are doing with

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stakeholders and the broader community, as well as gain insights from Panel members about their interests, concerns and expectations.

The Panel will act as a sounding board to APA on policy matters, strategic programmes and plans as well as identifying additional matters that Panel members consider of importance to their stakeholders.

Accordingly, feedback from the Panel will inform the agenda for our new Stakeholder Engagement Forums, which we intend to hold at least twice a year.

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2. Tariffs

As part of its reference service determination the Australian Energy Regulator established two reference services for the RBP for the next access arrangement period (Financial Years 2023 to 2027).¹

A reference service is a default service available to users of the Roma Brisbane pipeline that acts as an “anchor point” for all discussions of other services to be offered by the RBP.

2.1. Building block revenue

The reference tariff is designed to recover the building block revenue as determined through the AER’s revenue model.

The calculation of the elements of the building block revenue is set out in section 2.

The results of these calculations are set out in Table 4 below

Table 4: Summary of Building block revenue

Building Block Revenue	2023	2023	2023	2023	2023	Total
Building Block Revenue	42.7	45.7	48.7	50.9	48.8	236.7

All values in this document are in \$m Financial Year 2022 Real unless expressed otherwise and all years are financial years unless expressed otherwise. Totals may differ due to rounding.

The table below compares the building block revenue in the revised proposal with that contained in the AER’s draft determination.

2.2. Reference and non-reference services

The AER accepted the RBP proposed approach to the allocation of revenue to reference tariffs. RBP is not proposing any changes to this method.

The AER request more information in relation to the westbound prudent discount before they could include it in the access arrangement.

¹ All years referenced in this document are financial years unless explicitly stated otherwise

^[1] <https://www.legislation.gov.au/Details/C2018A00029>

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APA has supplied additional analysis in section 6 supporting the need for a prudent discount.

2.3. Proposed reference tariffs

In the regulation of natural gas transmission pipelines the AER sets a reference tariff for the first year of the access arrangement and sets how the tariff will be adjusted for the duration of the access arrangement (FY2023 to FY2027). These are both set out in the access arrangement document.

The table below sets out the forecast reference tariff.

Table 5: Initial Reference Tariffs

Reference service (\$/GJ MDQ/day)	2023
Eastbound	0.6182
Westbound	0.6378

The reference tariff is then adjusted each year for inflation, the revenue previously received from rebateable services and a smoothing factor the “X factor”.

Roma Brisbane is proposing to evenly apply the rebateable services adjustment to both the Westbound and Eastbound reference tariffs.

Table 6 below sets out the tariffs assuming an inflation rate of 2.25% as is used in the forecast PTRM.

Table 6: Forecast Reference Tariffs

Reference service (\$/GJ MDQ/day)	2023	2024	2025	2026	2027
Eastbound	0.6182	0.6321	0.6463	0.6608	0.6757
Westbound	0.6378	0.6522	0.6668	0.6818	0.6972

2.4. Tariff adjustments

As part of its final determination the AER sets X factors that “smooth” the reference tariffs over the duration of the access arrangement. The purpose of

^[1] <https://www.legislation.gov.au/Details/C2018A00029>

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this is to avoid the volatility from year to year that would occur should the tariff be set to recover the costs of the pipeline in that year.

Stakeholder feedback indicated that larger industrial customers would prefer a one off change in the tariff with ongoing annual changes minimised. This has been adopted in our revised proposal. would prefer a one off change in the tariff with ongoing annual changes minimised. This has been adopted in our revised proposal.

Table 7: X factors

X-factor	2023 (Po)	2024	2025	2026	2027
Eastbound X factor	-4.2	0.0	0.0	0.0	0.0
Westbound X factors	-7.5	0.0	0.0	0.0	0.0

Negative x-factors increase the reference tariff and positive X-factors the inverse.

A major factor influencing the tariff outcome is the forecast of demand on the RBP. Roma Brisbane's rationale for the demand forecast is set out in 6.

^[1] <https://www.legislation.gov.au/Details/C2018A00029>

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3. Revenue

RBP’s reference tariff is calculated to recover the building block revenue over the financial years 2023 to 2027 based on forecast volumes.

Roma Brisbane is anticipating a reduction the required revenue in next the access arrangement. This is facilitated by the following elements:

- Reduction in the return on capital (section 3.3)
- Reduction in capital expenditure (section 3.5)
- Strict control over operating expenditure (section 3.6)

These factors combined have resulted in a lower required revenue in the next access arrangement compared to the current period.

Table 8: Comparison of Building Block revenue

Revenue	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Current Period	52.0	51.4	51.4	43.2	40.4	238.4
Revised Proposal	49.9	44.8	43.5	42.0	40.4	220.6
Difference	-2.1	-6.6	-7.9	-1.2	0.0	-17.8

The expenditure and revenue profile that Roma Brisbane has adopted has resulted in a 7% reduction in the revenue requirement from the current access arrangement period.

3.1. Smoothed Revenue

In gas pipeline transmission regulation revenue is smoothed using forecast volumes to convert the building block revenue into a starting reference tariff and a forecast price change called the X-factor.

Table 9 compares the building block revenue with smoothed revenue to demonstrate that, following the calculation of the reference tariffs as set out in section 3, in present value terms they are the same.

^[1] <https://www.legislation.gov.au/Details/C2018A00029>

^[2] https://www.aph.gov.au/Parliamentary_Business/Bills_Legislation/Bills_Search_Results/Result?bld=r6657

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Table 9: Building block compared to smoothed revenue

Revenue (\$m Nominal)	2023	2024	2025	2026	2027	PV
Building Block Revenue	42.7	45.7	48.7	50.9	48.8	208.2
Smoothed Revenue	50.2	46.6	46.8	45.8	46.3	208.2

The revised proposal smoothed revenue is 10% higher than the AER's Draft Determination and 2% higher than our original proposal.

Table 10: Revised Proposal and Draft Determination Smoothed Revenue

Smoothed Revenue (\$FY23)	2023	2024	2025	2026	2027	Total
Revised Proposal	49.1	44.6	43.7	41.9	41.4	220.7
Draft Determination	41.2	40.5	39.7	39.4	39.0	199.8
Difference	8.7	4.4	3.7	2.7	1.4	20.9

The building blocks that are driving this are set out in 3.2 and discussed further across section 3.

3.2. Building Block Revenue

The Building Block Revenue is the sum of the individual building block components. These components are set out in Table 11.

Table 11: Building Block Revenue

Revised Proposal Building Block Revenue (\$FY23)	2023	2024	2025	2026	2027	Total
Return on Capital	21.1	21.3	20.9	20.5	19.9	103.7
Return of Capital (regulatory depreciation)	2.5	3.8	4.8	5.7	2.6	19.3
Operating Expenditure	20.9	21.3	20.6	20.4	20.5	103.6
Revenue Adjustments	-2.7	-2.6	-0.8	0.0	0.7	-5.4
Net Tax Allowance	0.0	0.0	0.0	0.0	0.0	0.0
Total Revenue (unsmoothed)	41.8	43.7	45.5	46.5	43.6	221.2

The AER's draft determination was set out below.

Draft Determination Building Block Revenue (\$FY23)	2023	2024	2025	2026	2027	Total
Return on Capital	21.1	20.6	19.5	18.4	17.4	97.0

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Return of Capital (regulatory depreciation)	2.5	3.3	3.9	4.4	1.1	15.2
Operating Expenditure	18.8	18.8	18.8	18.9	18.8	94.2
Revenue Adjustments	-3.3	-3.0	-1.1	0.0	0.8	-6.6
Net Tax Allowance	0.0	0.0	0.0	0.0	0.0	0.0
Total Revenue (unsmoothed)	39.2	39.8	41.1	41.7	38.0	199.9

As can be seen from the above tables while there are minor differences across most categories the main difference relates to the inclusion of operating expenditure relating to Security of Critical Infrastructure Bill and Information Technology. This is covered in more detail in section 4

In the sections below Roma Brisbane will provide more detail on each building block.

3.3. Return on capital

The return on capital is determined by the rate of return and the Regulatory asset base.

Roma Brisbane has maintained the rate of return consistent with the rate of return used by the AER in its draft determination. A number of aspects of this calculation change with time so the AER's final determination rate of return will numerically differ for reasons that are impossible for Roma Brisbane to avoid. See Table 12.

Table 12: Rate of Return

Return on Capital (\$FY22)	2023	2024	2025	2026	2027	Total
Revised Proposal	21.1	21.3	20.9	20.5	19.9	103.7
Draft Determination	21.1	20.6	19.5	18.4	17.4	97.0
Difference	0.0	0.7	1.4	2.0	2.5	6.7

The majority of the difference is in the rate of return percentage applied to the calculation of the return on capital. Table 13 sets out the nominal rate of return for each year of the current and forecast access arrangement period.

^[1] <https://www.legislation.gov.au/Details/C2018A00029>

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Table 13: Rate of Return Draft Determination and Revised Proposal

Return on Capital (percent)	2023	2024	2025	2026	2027
Rate of return					
Revised Proposal	4.3%	4.3%	4.3%	4.3%	4.3%
Draft Determination	4.3%	4.2%	4.1%	3.9%	3.8%
Difference	0.0%	0.1%	0.3%	0.4%	0.5%
Cost of Equity					
Revised Proposal	4.8%	4.8%	4.8%	4.8%	4.8%
Draft Determination	4.8%	4.8%	4.8%	4.8%	4.8%
Difference	0.0%	0.0%	0.0%	0.0%	0.0%
Cost of Debt					
Revised Proposal	4.0%	4.0%	4.0%	4.0%	4.0%
Draft Determination	4.0%	3.8%	3.6%	3.4%	3.2%
Difference	0.0%	0.2%	0.4%	0.6%	0.9%

As the table demonstrates the revised proposal has the same cost of equity as the draft determination.

We are required under the National Gas Rules to use the Post Tax Revenue Model as published by the AER. We are legally bound to the PTRM as a legal instrument, we cannot vary it. The AER's model requires that for the pipeline "The trailing average portfolio return on debt must be entered up to the year of update (i.e. year 1 at the final decision, year 2 in the first annual update etc.)." This is the revised proposal paper as part of the final determination and therefore only the first year is entered. As can be seen in the above table the first year cost of debt value from the draft determination and revised proposal are the same. The AER has included a forecast of the cost of debt in the draft determination. This is not an option available to us in the revised proposal PTRM under the National Gas Rules.

We have not recalculated the cost of debt nor the risk-free rate given the AER's forecast in the draft determination is so recent.

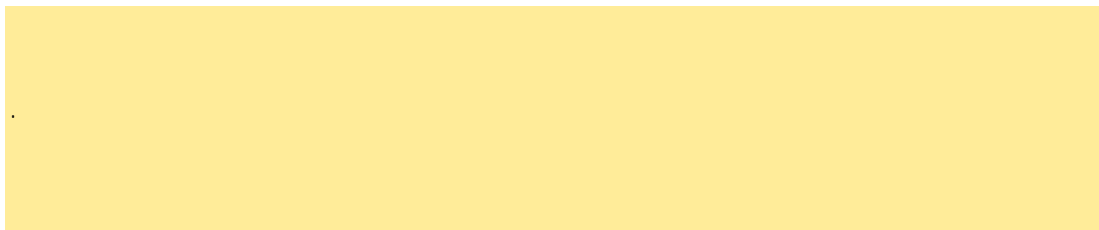
Both the return on equity and the return on debt are materially lower in the forecast period than in the current period.

^[1] <https://www.legislation.gov.au/Details/C2018A00029>

^[2] https://www.aph.gov.au/Parliamentary_Business/Bills_Legislation/Bills_Search_Results/Result?bld=r6657

^[3] Number of Critical Infrastructure assets enterprise wide which include 4 within VTS

3.3.1. Averaging period (confidential)



We are maintaining this for the revised proposal on the basis this provides sufficient time for the AER to update and issue its cost of debt update by the start of April. This in turn will give us the opportunity to include the updated cost of debt in our tariff variation notice.

If this is insufficient time for the AER to produce the cost of debt update we are comfortable moving the averaging period to an earlier period.

3.4. Regulatory Asset Base

The AER accepted the RBP historic regulatory asset base as proposed with preliminary updates for Financial year 2021. We have updated the opening regulatory asset base to reflect a more recent forecast of financial year 2022 capital expenditure.

There are some minor differences to the forecast capital base due to very minor changes in forecast capital expenditure discussed in section 3.5 and section 4. The comparison between the revised proposal and draft determination is set out in Table 14

Table 14: Transmission Asset Base over forecast period

Closing Asset Base (\$FY22)	2023	2024	2025	2026	2027
Revised Proposal	503.2	494.2	483.1	469.9	462.5
Draft Determination	501.2	490.2	478.2	465.2	458.9
Difference	2.0	4.0	4.9	4.7	3.6
Percent of Draft Determination	0.4%	0.8%	1.0%	1.0%	0.8%

3.5. Forecast capex

The AER accepted the forecast capital expenditure as proposed by the RBP.

^[1] <https://www.legislation.gov.au/Details/C2018A00029>

^[2] https://www.aph.gov.au/Parliamentary_Business/Bills_Legislation/Bills_Search_Results/Result?bid=r6657

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As outlined in section 4 RBP has continued its work on security of critical infrastructure and Technology and Transformation expenditure.

The additional analysis has revised a project that was previously identified as operating expenditure to be capital expenditure. This means the forecast of Group IT capital expenditure has been revised.

This means there is some difference between the AER's draft determination and the revised proposal.

Table 15: Forecast Capital Expenditure

Forecast Capex(\$FY22)	2023	2024	2025	2026	2027	Total
Revised Proposal	18.6	5.8	4.6	3.1	5.4	37.5
Draft Determination	16.3	3.3	2.7	2.0	5.0	29.2
Difference	2.3	2.5	1.9	1.1	0.5	8.3

This is due to the inclusion of a small amount of additional capital expenditure in relation to Group IT that was previously identified as forecast operating expenditure. In the table below is the forecast Group IT expenditure as included in the AER's draft determination and as proposed in the RBP revised proposal.

Table 16: Group IT forecast capital expenditure

Group IT	FY23	FY24	FY25	FY26	FY27	Total
Revised Proposal	3.5	3.5	2.4	1.6	0.9	11.7
Draft Determination	1.1	0.9	0.4	0.4	0.4	3.3
Difference	2.4	2.5	1.9	1.1	0.5	8.4

More detail on the Group IT capex is contained in section 4.

This is the only difference between the revised proposal and the AER's draft determination.

3.6. Forecast operating expenditure

With the exception of operating expenditure associated with SOCI and information technology Roma Brisbane is not anticipating significant changes in operating expenditure in the next access arrangement period. This is reflected in the forecast for RBP operating expenditure.

^[1] <https://www.legislation.gov.au/Details/C2018A00029>

^[2] https://www.aph.gov.au/Parliamentary_Business/Bills_Legislation/Bills_Search_Results/Result?bld=r6657

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Figure 1: Operating expenditure 2019-2027

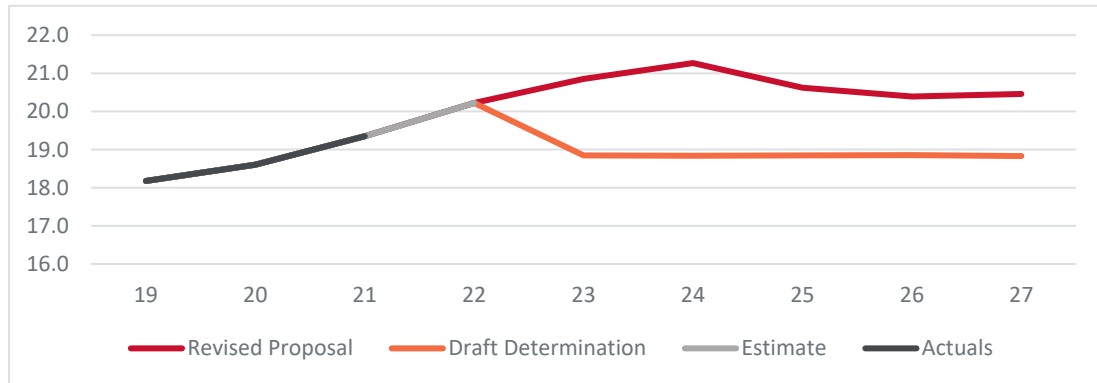


Table 17: Operating expenditure

Forecast Opex (\$FY22)	19	20	21	22	23	24	25	26	27
Revised Proposal	18.2	18.6	19.4	20.2	20.9	21.3	20.6	20.4	20.5
Draft Determination	18.2	18.6	19.4	20.2	18.8	18.8	18.8	18.9	18.8
Difference	0.0	0.0	0.0	0.0	2.0	2.4	1.8	1.5	1.6

3.6.1. Revised Proposal

RBP has used a revealed cost method – the base, step and trend method – to forecast total operating expenditure for the next access arrangement period. When applying the base, step and trend method, RBP chose FY2020 as the base year.

The AER’s draft determination accepted most of the elements of RBP’s forecast operating expenditure except for the proposed step change for transformation and technology costs.

Transformation costs covered Security of Critical Infrastructure projects and Information Technology.

The AER indicated that it did not have sufficient information available to be able to approve the inclusion of this step change.

RBP includes further information on its proposed step change in section 4.

^[1] <https://www.legislation.gov.au/Details/C2018A00029>

^[2] https://www.aph.gov.au/Parliamentary_Business/Bills_Legislation/Bills_Search_Results/Result?bld=r6657

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3.7. Efficiency Carryover Mechanism

The efficiency carryover mechanism for Roma Brisbane Pipeline commenced at the start of the current access arrangement. The calculation of the efficiency carryover mechanism in the draft determination contains information predating that period. This is not supported by the access arrangement or the national gas rules. We have corrected for this in the revised proposal.

Table 18: Efficiency Carryover Mechanism

Efficiency Carryover Mechanism (\$m FY23)	2023	2024	2025	2026	2027	Total
Revised Proposal	-2.7	-2.6	-0.8	0.0	0.7	-5.4
Draft Determination	-3.3	-3.0	-1.1	0.0	0.8	-6.6
Difference	0.6	0.3	0.3	0.0	-0.1	1.2

^[1] <https://www.legislation.gov.au/Details/C2018A00029>

^[2] https://www.aph.gov.au/Parliamentary_Business/Bills_Legislation/Bills_Search_Results/Result?bid=r6657

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4. Security of Critical Infrastructure and Information Technology

4.1. Security of Critical Infrastructure

The energy sector is particularly susceptible to security threats. These threats are increasing as demonstrated by recent events worldwide.

The Australian Government has proposed legislative measures to protect Critical Infrastructure. The existing Security of Critical Infrastructure Act 2018 (the Act)^[1] will be superseded by the Security Legislation Amendment (Critical Infrastructure) Bill (SoCI Amendment Bill) 2020^[2], proposed to pass in two separate Bills to address urgent elements of the reform as soon as possible.

The first component of this, Security Legislation Amendment (Critical Infrastructure) Bill 2021 passed 22 November 2021 subject to Royal Assent, and the reforms are expected to be passed in their entirety by mid-2022.

APA is currently captured under the Act (2018) as the responsible entity for 22 Critical Infrastructure assets^[3].

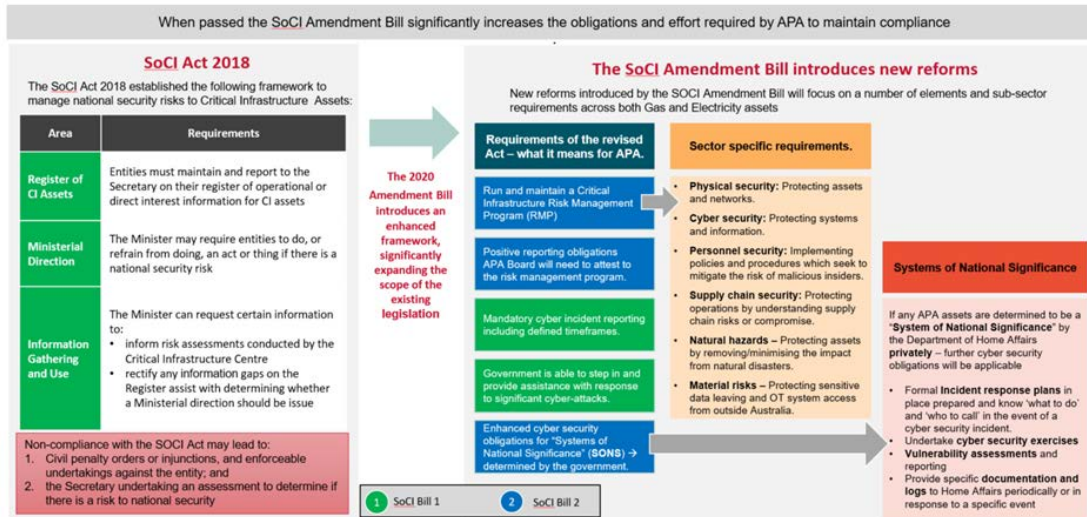
The Security of Critical Infrastructure Amendment Bill (SoCI 2020) introduces an enhanced framework, significantly expanding the scope of the existing legislation and governance rules requiring formally defined responsibilities and activities that support good risk practice and a greater awareness of threats and vulnerabilities to critical infrastructure assets.

The SoCI 2020 bill increases the number of APA Critical Infrastructure assets captured to 27, including an additional four renewable assets and power station, but also increases the obligations and requirements APA must comply with. The requirements of the SOCI Bill 2020 and the implications for APA are set out in the diagram below.

^[1] <https://www.legislation.gov.au/Details/C2018A00029>

^[2] https://www.apa.gov.au/Parliamentary_Business/Bills_Legislation/Bills_Search_Results/Result?bld=r6657

^[3] Number of Critical Infrastructure assets enterprise wide which include 4 within VTS



The intent of the upcoming Security Legislation Amendment (Critical Infrastructure) Bill (SoCI Amendment Bill) 2020 reforms is to drive an all-hazards approach uplift in critical infrastructure resilience. The reforms assign penalty provisions to certain obligations and intend to appoint an appropriate regulator for the energy sector to monitor their implementation.

4.1.1. APA consideration

The quantum of costs to meet the SOCI obligations has been carefully considered by APA. APA has undertaken a bottom-up and top-down modelling to assess the ranges and sensitivity analysis on the category of criticality. APA is an ASX listed company and faces the scrutiny by investors. APA is strongly focused on SoCI costs as a substantial proportion of total SoCI costs will be borne by APA security holders.

4.1.2. Gap analysis

APA engaged EY to conduct a gap analysis of APA's capabilities to meet the SOCI obligations. EY found that the scope of obligations under SoCI 2020 is greater than the existing legislative mandate within SoCI 201 and that APA requires a range of capabilities to meet new compliance requirements in the following the domains:

^[1] <https://www.legislation.gov.au/Details/C2018A00029>

^[2] https://www.aph.gov.au/Parliamentary_Business/Bills_Legislation/Bills_Search_Results/Result?bld=r6657

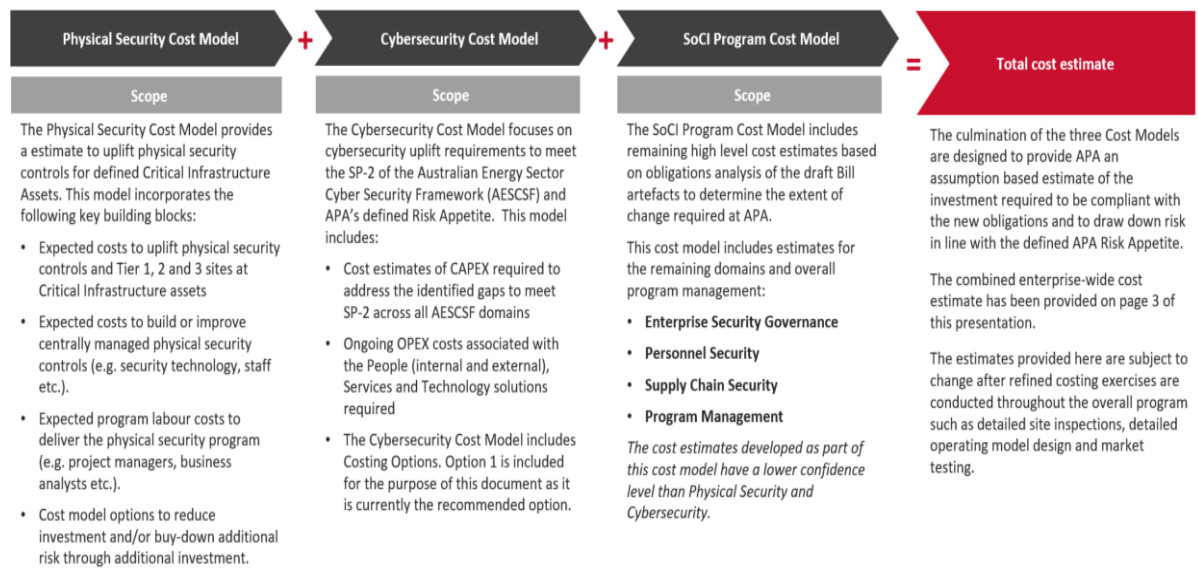
^[3] Number of Critical Infrastructure assets enterprise wide which include 4 within VTS

- governance
- personnel
- physical security
- cyber security
- supply chain.

4.1.3. Forecasting methodology

The APA enterprise-wide SoCI program cost estimates incorporate information from three cost models – physical security, cyber security, and the remaining program domains (program costs).

An overview of the costing methodology is shown in the following diagram.



For RBP, the SoCI program costs have been allocated as a proportion of total SoCI program costs based on the APA's Cost Allocation Method (attachment 10 of the proposal).

^[1] <https://www.legislation.gov.au/Details/C2018A00029>

^[2] https://www.aph.gov.au/Parliamentary_Business/Bills_Legislation/Bills_Search_Results/Result?bld=r6657

^[3] Number of Critical Infrastructure assets enterprise wide which include 4 within VTS

4.1.4. Proposed expenditure

The SoCI legislative framework is imposing new obligations on RBP. This is imposing incremental capital expenditure (and operating expenditure) costs on RBP. To be clear, the SoCI program and forecasts is separate from the IT portfolio forecasts (as discussed in section 4.2 below).

The proposed capital forecasts for the RBP SoCI program have been categorised is presented in the table below.

The SoCI legislative framework is imposing new obligations on APA. This is imposing incremental capital expenditure (and operating expenditure) costs on RBP. To be clear, the SoCI program and forecasts is separate from the IT portfolio forecasts (as discussed below).

The proposed capital expenditure forecasts for the RBP SoCI program are presented in the table below.

Table 19: SOCI Program Capital expenditure

SoCI program (\$FY22)	2023	2024	2025	2026	2027	Total
Revised Proposal	0.8	0.8	0.8	0.8	0.8	3.8

The proposed operating expenditure forecasts for the RBP SoCI program are presented in the table below.

Table 20: SOCI Program Operating expenditure

SoCI program (\$FY22)	2023	2024	2025	2026	2027	Total
Revised Proposal	1.5	1.6	1.2	0.9	0.2	5.3
Draft Determination	-	-	-	-	-	-
Difference	0.8	0.8	0.8	0.8	0.8	5.5

SoCI program justification has been submitted to the AER on a confidential basis.

4.2. Information Technology

APA's enterprise-wide Information Technology (IT) portfolio enables core business information, communication, and operational technology to

^[1] <https://www.legislation.gov.au/Details/C2018A00029>

^[2] https://www.apa.gov.au/Parliamentary_Business/Bills_Legislation/Bills_Search_Results/Result?bld=r6657

^[3] Number of Critical Infrastructure assets enterprise wide which include 4 within VTS



respond in an effective way to the energy sector shift to decarbonisation, decentralisation, and digitisation and to protect APA against cyber security threats. (The SoCI program has been discussed separately in the above section).

Information, communications, and operational technology is necessary to support everyday business functions and technical operations of assets. The shift to digitisation is playing a greater role in more aspects of the day-to-day operations in energy.

Investment in fit-for-purpose information, communication and operational technology is necessary to enable APA to continue to operate efficiently and deliver reliable, secure and safe services to customers. Fit-for-purpose systems are crucial for APA to remain compliant with regulatory obligations including regulatory information notices. Fit-for-purpose Information, communication and operational technology is crucial for APA to operate effectively in the complex energy market.

APA's IT program provides enterprise-wide delivery of business transformation, continuous improvement initiatives and technology solutions and maintains and protects APA's operations. The enterprise-wide approach to information, communication and operational technology provides economies of scale and scope in the delivery of services.

The enterprise-wide approach (rather than a stand-alone approach) enables customers to benefit from lower costs. This benefit applies to both customers of APA's regulated and unregulated assets. The economies of scope allows APA to apply the enterprise-wide information and technology systems to support customers and asset management across APA.

APA's Information Technology organisation covers the following core functions:

- **EPMO (Enterprise Program Management Office)**. Responsible for ensuring projects deliver optimum business value as early as possible and ensuring a continuous improvement focus
- **Operational Technology**. Ensures APA has appropriate, resilient, and high performing real time systems and engineering applications, data, and solutions

^[1] <https://www.legislation.gov.au/Details/C2018A00029>

^[2] https://www.aph.gov.au/Parliamentary_Business/Bills_Legislation/Bills_Search_Results/Result?bld=r6657

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- **Information & Technology.** Partners with business units to deliver end to end I&T solutions.

Effective information, communication and operational technology is vital to ensure that we can meet regulatory obligations and continue to provide safe and secure services and provide information for our customers and community.

APA has legacy systems that are out of support and are at end of technical life. The need for replacement of these systems is driven by:

- Poor condition
- No longer fit-for-purpose
- Obsolete including no or limited warranty/ support and service from vendors
- Hard to find components and spare parts and outdated software.

Replacement of out-of-date systems are necessary to bring some of our legacy systems to good practice standard. These include the programs that are part of the EPMO portfolio.

Key drivers impacting the Information Technology portfolio are set out in the following table.

Key drivers impacting Information Technology portfolio	
Replacement of obsolete legacy systems	<ul style="list-style-type: none"> • APA has several legacy systems that are reaching end of technical life • The need for replacement driven by poor condition and obsolescence including no or limited warranty/ support and service from vendors
Migration to cloud-based services	<ul style="list-style-type: none"> • IFRC clarification to accounting standards for cloud migration (Software as a Service and Platform as a Service) has influenced consideration of whether programs were operating or capital expenditure • Due to this accounting clarification, a higher proportion of cloud-based business solution costs are being allocated to operating rather than capital expenditure • Noting that Operational Technology projects would remain as capex.

^[1] <https://www.legislation.gov.au/Details/C2018A00029>

^[2] https://www.aph.gov.au/Parliamentary_Business/Bills_Legislation/Bills_Search_Results/Result?bld=r6657

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Routine upgrades and maintenance

- Ongoing programs will be maintained and updated as required on a routine basis in line with vendor requirements.
- Ongoing maintenance is required to mitigate the risks associated with system failure.

4.2.1. Expenditure forecasts

The forecast operating and capital expenditure for Information Technology portfolio is based on best information we have to date about the scope of information, communication, and operational business solutions. The scope of the programs is subject to ongoing assessment and a better understanding of APA requirements will be available in early 2022.

The cost estimates have been based on the best judgement of external consultants and APA subject matter experts.

RBP customers benefit from economies of scale and scope in the delivery of services of APA's enterprise-wide approach to IT (rather than a stand-alone approach for each asset). This allows customers to benefit from lower costs for the services that the Information Technology portfolio enables and supports.

Further, APA Group is a listed company and costs are scrutinised by market investors and security holders. This may provide RBP stakeholders with some assurance that the Information Technology portfolio are proportionate, prudent, and efficient.

4.2.2. RBP revised proposal

RBP is allocated a cost of the Information Technology portfolio costs budget on the discussed cost allocation method using a revenue allocation. This allocation is 4.89% of total corporate costs.

The revised capital forecasts for IT (EPMO, Operational Technology and I&T) is shown in the table below. Total Information Technology portfolio capital forecasts for RBP is \$5.9 million.

^[1] <https://www.legislation.gov.au/Details/C2018A00029>

^[2] https://www.aph.gov.au/Parliamentary_Business/Bills_Legislation/Bills_Search_Results/Result?bld=r6657

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Table 21: IT Program capital expenditure

IT program – capex (\$FY22)	2023	2024	2025	2026	2027	Total
Revised Proposal	1.8	1.7	1.1	0.7	0.6	5.9

The migration of technology business solutions to cloud-based services means that we have forecast an increase in new and incremental costs to operating expenditure, rather than capital costs. This is due to clarification of accounting standards.

The IFRIC Interpretations Committee (IFRIC®) has published two agenda decisions clarifying how arrangements in respect of a specific part of cloud technology, Software-as-a-Service (SaaS), should be accounted for. Following the clarification of the accounting standards for cloud-based computing more software-as-a-service is being treated as operating expenditure rather than capital expenditure. Further information on the accounting clarifications is provided in the Information Technology Information Paper referred to below).

Table 22: IT program – operating expenditure

IT program – opex (\$FY22)	2023	2024	2025	2026	2027	Total
Revised Proposal	1.4	1.8	1.0	0.7	0.7	5.6
Draft Determination	-	-	-	-	-	-
Difference						

The new and incremental operating costs have been included as a step-change in the operating expenditure base-step-trend method forecasts (refer section 4.2.2).

More information on the Information Technology portfolio and programs and projects by each of the functions is presented in the RBP Information Technology Information Paper (Attachment 12 - RBP Information Technology Information Paper - Public).

^[1] <https://www.legislation.gov.au/Details/C2018A00029>

^[2] https://www.aph.gov.au/Parliamentary_Business/Bills_Legislation/Bills_Search_Results/Result?bld=r6657

^[3] Number of Critical Infrastructure assets enterprise wide which include 4 within VTS

4.3. Revised proposal compared to original proposal

The AER accepted the original proposal for capital expenditure.

The difference between the original proposal and the revised proposal Group IT capital expenditure is set out in the table below.

Group IT Capex (\$m FY22)	2023	2024	2025	2026	2027	Total
Revised Proposal	3.5	3.5	2.4	1.6	0.9	11.7
Original Proposal	1.1	0.9	0.4	0.4	0.4	3.3
Difference	2.4	2.5	1.9	1.1	0.5	8.4

The original proposal for Group IT operating expenditure compared to the amount in this revised proposal is set out in the table below.

Table 23: Group IT expenditure original and revised

Group IT Opex	2023	2024	2025	2026	2027	Total
Revised Proposal	2.2	2.5	1.8	1.4	1.4	9.4
Draft Determination	3.3	3.7	2.6	1.7	1.7	13.0
Difference	-1.1	-1.1	-0.8	-0.3	-0.3	-3.6

The main difference between the original proposal and the revised proposal is the refinement of costs estimates from external consultants and subject matter experts. Additional analysis has also meant that the forecast for the replacement of the APA Grid platform to remain consistent with the interpretation of accounting standards is to be treated as forecast capital expenditure rather than forecast operating expenditure.

^[1] <https://www.legislation.gov.au/Details/C2018A00029>

^[2] https://www.aph.gov.au/Parliamentary_Business/Bills_Legislation/Bills_Search_Results/Result?bld=r6657

^[3] Number of Critical Infrastructure assets enterprise wide which include 4 within VTS



5. Demand

The forecast for pipeline demand in the upcoming access arrangement period has been derived by stratifying the market into the four sectors with unique demand drivers: the eastbound retail (residential, commercial and small industrial) load; the eastbound major industrial load; the eastbound gas-fired power generation (GPG) load; and the westbound load.

5.1. Stakeholder Feedback

Feedback from shippers was used in establishing the gas powered generation, retail and major industrial demand for eastbound demand. The forecast reflects the contracting approach and discussions with shippers around their contracted capacity in financial year 2021 and their expectations for renewal.

5.2. Eastbound

The Eastbound demand on the RBP comes from three sources:

- Gas Powered Generation
- Industrial Load
- Retail Load

5.2.1. Gas Power Generation

For the proposal RBP engaged ACIL Allen to forecast the demand from Gas Powered Generation.

Since the AER's draft determination a gas transportation agreement has been signed with key gas powered generators on the RBP.

The revised proposal forecast demand is the volume contained in this agreement.

The gas transportation agreement with CleanCo is a three year agreement. It commences on 1 January 2022 and expires on 31 December 2024. So it covers the first half of the access arrangement period. Our assumption is that this contract will be renewed upon its completion until the end of the access arrangement period.

^[1] <https://www.legislation.gov.au/Details/C2018A00029>

^[2] https://www.aph.gov.au/Parliamentary_Business/Bills_Legislation/Bills_Search_Results/Result?bld=r6657

^[3] Number of Critical Infrastructure assets enterprise wide which include 4 within VTS



(confidential)

5.2.2. Industrial and retail load

RBP's eastbound demand forecast for non gas powered generation was based on the current contracted capacity adjusted for any future changes that RBP were confident would happen.

Our revised proposal forecast uses the same method.

The table below sets out the contractual position of the current shippers on the RBP and any known changes to their expected contractual position.

Table 24: Eastbound shippers on the RBP (confidential)

(confidential)

^[1] <https://www.legislation.gov.au/Details/C2018A00029>

^[2] https://www.aph.gov.au/Parliamentary_Business/Bills_Legislation/Bills_Search_Results/Result?bld=r6657

^[3] Number of Critical Infrastructure assets enterprise wide which include 4 within VTS

The comments below should be read in conjunction with the forecasts in the table above.

Incitec Pivot announced its intention to cease production at its Gibson Island facilities in December 2022, halfway through FY 2023. With zero demand for pipeline services forecast after that date.

(Confidential)



(confidential)

5.2.3. Difference between historic demand and data used by AER

The Commercial Spreadsheet that the AER used is an aide de memoire to the APA commercial team. It is not a record of the historic contractual position on the RBP. While there are similarities between the information contained in both there are elements that differ to reflect the different nature of the historic record compared to the Commercial Spreadsheet.

The biggest difference in the capacity totals between the two sources is an operational reservation of 35 TJ MDQ reflected in the commercial spreadsheet that is not a contracted amount for eastbound transportation.

There is a contract on the RBP that includes a park and loan component. The contracted park and loan component of the contract is included in the rebateable revenue for the calculation of the annual reference tariff.

There is insufficient physical capacity to park the contracted amount on the RBP. So the park is undertaken on the South West Queensland Pipeline. When

energy. connected.

^[1] <https://www.legislation.gov.au/Details/C2018A00029>

^[2] https://www.aph.gov.au/Parliamentary_Business/Bills_Legislation/Bills_Search_Results/Result?bld=r6657

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the customer wants the gas it is transported eastbound across the RBP to the customer. In order to ensure that this capacity is available when required under the contract it is recorded in the Commercial Spreadsheet as sold capacity to prevent it being double contracted.

However, the 35TJ is an operational enabler to the park and loan arrangement. So it should not be taken into account when determining the capacity to be sold on the RBP.

To include the 35 TJ in the demand forecast would result in it being double counted for the purposes of calculating the annual reference tariff. It would reduce the reference tariff as forecast firm transportation service and then would reduce it again when it was included in the rebateable service revenue.

5.2.4. Summary

The east bound firm capacity forecast is set out in the table below

Table 25: Eastbound forecast demand (MDQ/day)

Demand	2023	2024	2025	2026	2027
Eastbound	126	106	104	104	104

5.3. Westbound

The AER did not accept RBP's westbound demand forecasts. In its Draft Decision in November 2021 (AER Attachment 12), the AER proposed an alternative westbound demand forecast for the regulatory period.

The AER also encouraged RBP to "[in RBP's revised proposal] provide information to support its reasons to make these adjustments to its historical series". The intent of this section is to address this requirement.

The tables below show the original, Draft Decision and revised westbound demand forecast for the high case.

Table 26: Westbound demand forecast: original vs Draft Decision vs RBP revised forecast (high case)

Demand	2023	2024	2025	2026	2027
RBP original forecast	100	100	100	100	100

^[1] <https://www.legislation.gov.au/Details/C2018A00029>

^[2] https://www.aph.gov.au/Parliamentary_Business/Bills_Legislation/Bills_Search_Results/Result?bld=r6657

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AER draft decision forecast	114.3	114.3	114.3	114.3	114.3
RBP revised forecast	94	94	93	88	88

We have also conducted a sensitivity analysis. The results are shown as base and low cases in section 5.2.5 of this report. While recognising ACIL Allen consider the base case to be the most probable case. Our view is that consistent with the high case, the Port Kembla import terminal is unlikely to go ahead in the forecast access arrangement period and we have adopted the more conservative high case forecast.

The assumptions for each of these cases are summarised in Table 27.

5.3.1. Westbound forecast demand methodology

The methodology for carrying out the RBP westbound demand forecast is illustrated in Figure 2.

As illustrated, the forecasting process involved the following steps:

1. Review of the historical booked capacity (further discussed in section 5.2.2 of this report)
2. Establishing the demand forecast in the first year of the regulatory period (further discussed in section 5.2.3 of this report)
3. Demand forecast for the remaining four years of the regulatory period (further discussed in section 5.2.4 of this report)

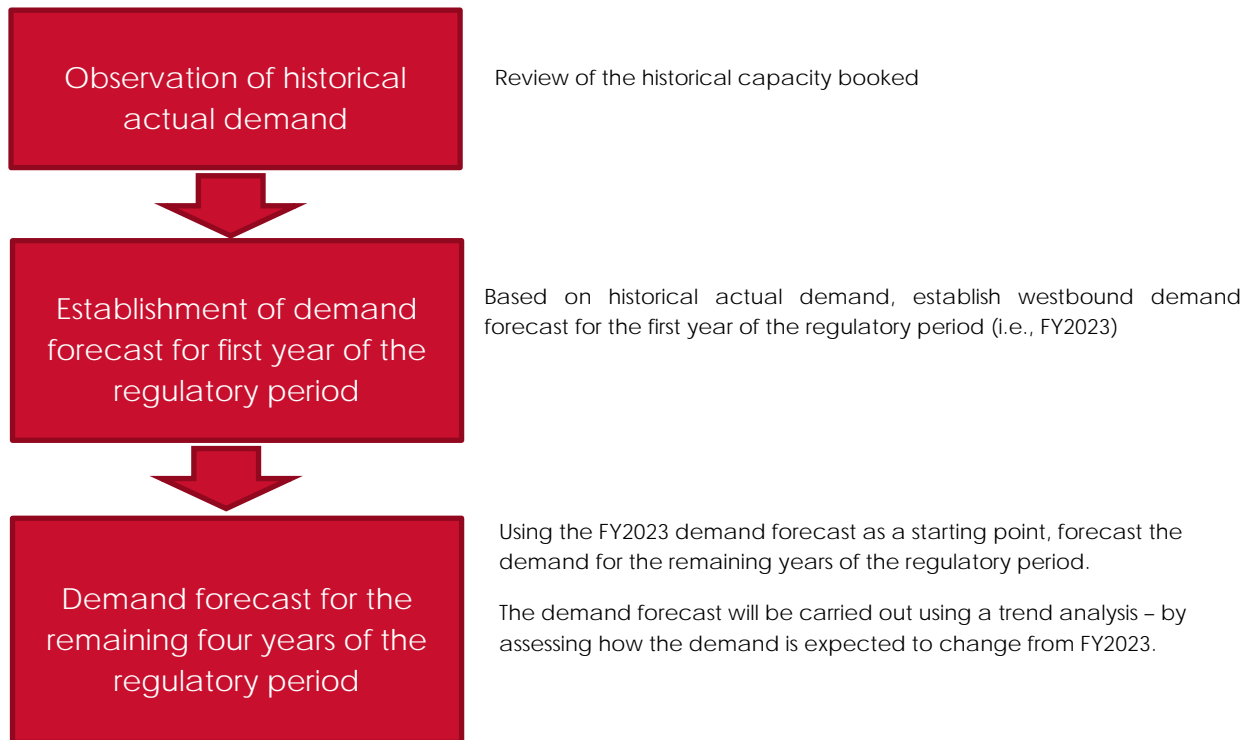
In each of the steps above, this following three sub-sections will discuss: (a) how the AER arrived at its forecast in the Draft Decision; (b) what revised forecast do RBP propose; and (c) the reasoning for proposing the revised forecast.

^[1] <https://www.legislation.gov.au/Details/C2018A00029>

^[2] https://www.aph.gov.au/Parliamentary_Business/Bills_Legislation/Bills_Search_Results/Result?bid=r6657

^[3] Number of Critical Infrastructure assets enterprise wide which include 4 within VTS

Figure 2: RBP westbound demand forecast methodology



5.3.2. Observation of the historical actual demand

As in the case for eastbound RBP demand forecast, the actual demand data used for the westbound demand forecast was based on the observed actual contracted demand.

RBP notes that the AER's demand forecast, in its Draft Decision, was based on incorrect actual demand data. In this report, RBP has substituted the western haul demand forecast using the correct data and included actual data for FY 2020 and FY 2021. The annualised total of the demand used in the revised proposal is the same value reported to the AER in the annual RINs.

The updated actual demands, compared to what the AER used in its Draft Decision forecast, are illustrated in Figure 3.

41

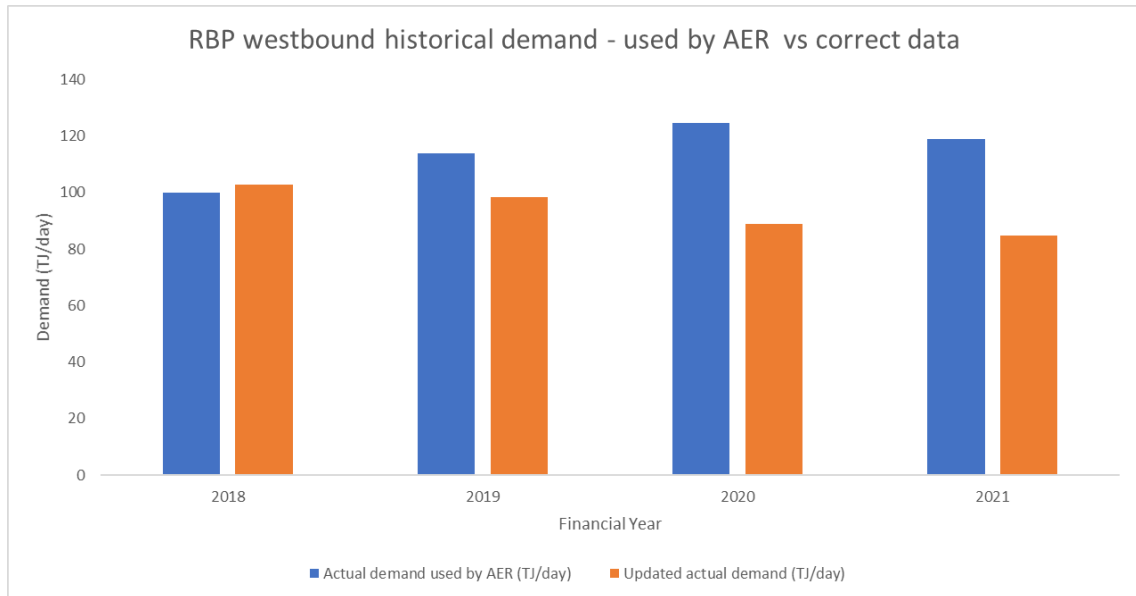
energy. connected.

^[1] <https://www.legislation.gov.au/Details/C2018A00029>

^[2] https://www.aph.gov.au/Parliamentary_Business/Bills_Legislation/Bills_Search_Results/Result?bld=r6657

^[3] Number of Critical Infrastructure assets enterprise wide which include 4 within VTS

Figure 3: Westbound actual demand – data used by AER vs correct data



The breakdown of these demands is illustrated in Table 26 below.

Table 27: Breakdown for RBP westbound actual demands (data used by AER vs correct data) (confidential)

[Redacted content]

The following observations can be made from the above figure:

- Apart from FY2018, the correct actual demands are lower compared to those reflected in the data used by the AER in its Draft Decision demand forecast.

^[1] <https://www.legislation.gov.au/Details/C2018A00029>

^[2] https://www.aph.gov.au/Parliamentary_Business/Bills_Legislation/Bills_Search_Results/Result?bld=r6657

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- Unlike the case for the actual demand data used by the AER, the updated (i.e., correct) actual demands were downwards trending since FY2019.

The key drivers for the differences between the two data set is the demand from Stanwell Corp. The following demands from Stanwell Corp have been removed from the data used by the AER:

- 35 TJ/day in FY 2020 and FY2021. These 35 TJ/day demands represent the park-and-learn reservation as discussed in section 5.1.3 of this report. This component was erroneously used by the AER when forecasting demand in its Draft Decision.
- 17.5 TJ/day in FY2019. This represents a half-year of the 35 TJ/day.

5.3.3. Establishment of the demand forecast for the first year of the regulatory period (FY23)

This step establishes the westbound demand forecast for FY2023 based on the actual demand data. ACIL Allen have used the AER's method of a four-year average reflecting updated date for the first-year forecast demand.

As noted in ACIL Allen's report, due to the downwards trend observed in the actual westbound demand data from FY2019 to FY2021, a realistic projection for the demand in FY2023 would be 85 TJ/day.

However, RBP proposes a more conservative demand forecast of 94 TJ/day in order to ensure consistency with the methodology used by the AER in its Draft Decision.

In proposing the demand forecast for FY2023 for its Draft Decision, the AER used the average of the actual demands from FY2018 to FY2021.

^[1] <https://www.legislation.gov.au/Details/C2018A00029>

^[2] https://www.aph.gov.au/Parliamentary_Business/Bills_Legislation/Bills_Search_Results/Result?bld=r6657

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It is proposed that the same methodology be used for the RBP revised westbound forecast using the corrected and updated numbers. This gives a forecast result of 94 TJ/day for FY2023.²

The forecast demand of 94 TJ/day is the same across the base, high and low cases.

5.3.4. Demand forecast for the remaining four years based on trending analysis

This step assesses the westbound demand forecasts for the remaining four years of the regulatory period (i.e., from FY2024 to FY2027).

This forecast demand was carried out utilising a trend analysis which involves assessing the year-on-year change of the projected demand using the FY2023 forecast (discussed in section 5.2.3) as a starting point.

Such trend analysis differs from the AER's Draft Decision approach which assumes no trend (i.e., assuming a flat forecast demand of 114.3 TJ/day).

The trend analysis was carried out on the basis of the assumptions set out in Table 25. As discussed above, the conservative high case has been adopted although the base case is the most probable scenario.

² Note this number in Table 26.

^[1] <https://www.legislation.gov.au/Details/C2018A00029>

^[2] https://www.aph.gov.au/Parliamentary_Business/Bills_Legislation/Bills_Search_Results/Result?bld=r6657

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Table 28: RBP westbound demand – trending analysis assumptions

Assumption parameters	Base case	High case	Low case
Gas demand in the east coast of Australia	<ul style="list-style-type: none"> Remain relatively flat compared with recent years Peak winter demand expected to reach levels forecast by AEMO in their latest Gas Statement of Opportunity (GSOO) report and Victorian Gas Planning Reports (VGPR). 		
Victorian net-zero emission targets for 2030: <ul style="list-style-type: none"> Aiming to reduce emission level in Victoria To be achieved through electrification, hydrogen in electricity network and biogas in the natural gas market Potential impact: reduction of winter peak and gas demand in the Victorian Transmission System, thereby reduction of demand for the RBP western haul service 	<ul style="list-style-type: none"> No effect on RBP western haul contracting. No change to interim targets in Victoria. No substitution of natural base by electricity, hydrogen or biogas over the regulatory period 		
Potential additional infrastructure or supply investments: <ul style="list-style-type: none"> These potential investments are described in Table 4.2 of the ACIL's report. These infrastructures and supply, if built, can drive supply demand balance in Victoria and other southern states Potential impacts: these infrastructures and supply arrangements can supplant the need for RBP to flow gas to the southern states 	<ul style="list-style-type: none"> South West Pipeline (SWP) expansion is implemented by FY24 along with the augmentation of the Iona Storage facility Pork Kembla Liquid Nitrogen Gas (PKLNG) project is commissioned by winter 2023 	<ul style="list-style-type: none"> SWP expansion and Iona Storage facility implemented in FY25 PKLNG project is not commissioned during the regulatory period 	<ul style="list-style-type: none"> SWP expansion is implemented by FY24 along with the augmentation of the Iona Storage facility PKLNG project is commissioned by winter 2023 Narrabri is brought online from 2024
Behaviour of LNG producers: <ul style="list-style-type: none"> High export LNG price means gas less likely to flow to the domestic market (primarily southern states), thereby less need for RBP western haul services 	<ul style="list-style-type: none"> Western haul contracts booked by the LNG producers in FY21 of around 63 TJ per day will continue through to FY23 	<ul style="list-style-type: none"> Compared to FY21, Western haul contracts booked by LNG producers will be lower by 6 TJ/ day at the end of the forecast period. 	<ul style="list-style-type: none"> Compared to FY21, Western haul contracts booked by LNG producers will be lower by 13 TJ/ day at the end of the forecast period

^[1] <https://www.legislation.gov.au/Details/C2018A00029>

^[2] https://www.aph.gov.au/Parliamentary_Business/Bills_Legislation/Bills_Search_Results/Result?bld=r6657

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Assumption parameters	Base case	High case	Low case
<ul style="list-style-type: none"> • APLNG has other routes to Wallumbilla and this has increased in recent years while RBP western haul booked capacity has fallen. • GLNG likely to reduce capacity due to LNG reserves pressure and other upstream developments which can supply Wallumbilla without the need for RBP • QCLNG most likely to maintain RBP western haul capacity contract similar to the current level • Overall impact: Unlikely to see contracted capacity remain at recent levels. Small drop in contracted capacity likely over forecast period. 	<ul style="list-style-type: none"> • This is expected to be lower by around 10 TJ/day at the end of the forecast period as new supply capacity comes online from the augmentation of the SWP pipeline and Iona storage facilities • PKLNG plant will reduce the need for the LNG producers to send so much gas south • Other factors that contribute to the expected less contracted capacity are pipeline competition, upstream development patterns and increased use of short-term contracting services 	<ul style="list-style-type: none"> • Smaller decline is due to the demand/supply balance in the east coast market remaining tight with limited supply development in southern states in the high case compared with base case • Higher uncertainty from limited supply development in southern states also limits LNG producers from engaging more in shorter term contracts, keeping more capacity on firm annual contracts. 	<ul style="list-style-type: none"> • Larger decline is due to the demand/supply balance in the east coast market easing with more supply development in southern states in the low case compared with base case • Lower uncertainty from more supply development in southern states potentially incentivises LNG producers to engage more with short term services as supply is less of a problem
<p>Behaviour of small volume contracts (below 3 TJ/day):</p> <ul style="list-style-type: none"> • Behaviour of the small volume contracts can affect the utilisation of RBP western haul • Such behaviours are impacted by: <ul style="list-style-type: none"> ○ the development of the Wallumbilla trading hub ○ the use of day ahead and capacity trading markets ○ the differential between the Wallumbilla LNG net back price and prices in the southern markets 	<ul style="list-style-type: none"> • In FY2021, total quantity of such contracts was 4.5 TJ/day • This is expected to fall to 3 TJ/day over the forecast period 	<ul style="list-style-type: none"> • In FY2021, total quantity of such contracts was 4.5 TJ/day • This is expected to remain at 4.5 TJ/day over the forecast period. 	<ul style="list-style-type: none"> • In FY2021, total quantity of such contracts was 4.5 TJ/day • This is expected to fall to 0 TJ/day over the forecast period

^[1] <https://www.legislation.gov.au/Details/C2018A00029>

^[2] https://www.aph.gov.au/Parliamentary_Business/Bills_Legislation/Bills_Search_Results/Result?bld=r6657

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Assumption parameters	Base case	High case	Low case
<ul style="list-style-type: none"> availability other routes exist to take gas to Wallumbilla from fields in the southern Surat Basin <p>Overall impact: Likely to see contracted capacity remain at levels very similar to FY21. For small contracts such as these, shorter term services and pipeline trading offer other avenues to book capacity.</p>			
<p>Behaviour of other contracts</p> <ul style="list-style-type: none"> Other larger contracts in addition to LNG producers (e.g., retailers) likely to remain flat in uncertain environment Diversification is important for retailers and particularly those that have long term ties to Queensland Coal Seam Gas (CSG) supply <p>Overall impact: Likely to see contracted capacity remain at levels very similar to FY21. Diversification of supply is important for retailers and likely to be less sensitive to supply developments as other shippers who can supply based on opportunities presented by seasonal demand imbalance in east coast gas market.</p>	<ul style="list-style-type: none"> In FY2021, total of total quantity of such contracts was 20 TJ/day This is expected to remain at 20 TJ/day over the forecast period. 	<ul style="list-style-type: none"> In FY2021, total of total quantity of such contracts was 20 TJ/day This is expected to remain at 20 TJ/day over the forecast period. 	<ul style="list-style-type: none"> In FY2021, total of total quantity of such contracts was 20 TJ/day This is expected to fall slightly to 18 TJ/day over the forecast period.

^[1] <https://www.legislation.gov.au/Details/C2018A00029>

^[2] https://www.aph.gov.au/Parliamentary_Business/Bills_Legislation/Bills_Search_Results/Result?bld=r6657

^[3] Number of Critical Infrastructure assets enterprise wide which include 4 within VTS



Based on the assumptions as set out in Table 27, the trends of the demand forecast for the high case is as shown in Table 28.

Table 28 shows:

- For FY2025 to FY2027, how the forecast demand is expected to change relative to the forecast demand of FY2023 (negative means reduction relative to FY2023)³. The changes are shown at contractual level.
- The timing of implementation of key potential infrastructure or supply projects. They can affect the supply-demand balance in the gas market which in turn affect the demand for RBP western haul services.

The trend for each of the contract reflects the ACIL Allen's forecast based on its assumptions. These assumptions are reflected in the commentaries for these individual contracts - in Appendix A of the ACIL Allen report.

³ The FY2023 demand forecast is 94 TJ/day for all the base, high and low cases, as discussed earlier in this report.

^[1] <https://www.legislation.gov.au/Details/C2018A00029>

^[2] https://www.aph.gov.au/Parliamentary_Business/Bills_Legislation/Bills_Search_Results/Result?bld=r6657

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Table 29: trend of RBP western haul demand forecast (high case) (confidential)

^[1] <https://www.legislation.gov.au/Details/C2018A00029>

^[2] https://www.aph.gov.au/Parliamentary_Business/Bills_Legislation/Bills_Search_Results/Result?bld=r6657

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5.3.5. Sensitivity analysis

We have conducted a sensitivity analysis based on the assumption stated in Table 28.

The results for the base case are shown in Table 30.

Table 30: Westbound demand forecast: original vs Draft Decision vs RBP revised forecast (base case)

Demand	2023	2024	2025	2026	2027
RBP original forecast	85	80	70	65	65
AER draft decision forecast	114.3	114.3	114.3	114.3	114.3
RBP revised forecast	94	92	89	85	82

At the individual contract level, the results for base case are shown in Table 31.

Table 31: trend of RBP western haul demand forecast (base case) (confidential)



The trend for each of the contract reflects the ACIL Allen’s forecast based on its assumptions. These assumptions are reflected in the commentaries for these individual contracts - in Appendix A of the ACIL Allen report

^[1] <https://www.legislation.gov.au/Details/C2018A00029>

^[2] https://www.aph.gov.au/Parliamentary_Business/Bills_Legislation/Bills_Search_Results/Result?bld=r6657

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The results for the low case are shown in Table 32.

Table 32: Westbound demand forecast: original vs Draft Decision vs RBP revised forecast (low case)

Demand	2023	2024	2025	2026	2027
RBP original forecast	65	65	50	45	45
AER draft decision forecast	114.3	114.3	114.3	114.3	114.3
RBP revised forecast	94	89	85	78	75

At the individual contract level, the results for low case are shown in Table 32.

Table 33: trend of RBP western haul demand forecast (low case) (confidential)



The trend for each of the contract reflects the ACIL Allen’s forecast based on its assumptions. These assumptions are reflected in the commentaries for these individual contracts - in Appendix A of the ACIL Allen report

5.3.6. Gasmark Model

ACIL Allen has also projected the western haul gas flows using its GasMark model.

^[1] <https://www.legislation.gov.au/Details/C2018A00029>

^[2] https://www.aph.gov.au/Parliamentary_Business/Bills_Legislation/Bills_Search_Results/Result?bld=r6657

^[3] Number of Critical Infrastructure assets enterprise wide which include 4 within VTS

An important note to make is that GasMark does not measure contracted capacity. Instead, the model provides forecasts of pipeline flows.

Hence, the results from GasMark cannot be directly compared against the forecast demand as discussed in the earlier part of this report. Rather, the GasMark results serves a validation tool for “sanity check”.

From the ACIL Allen’s report, it can be observed that the forecast gas flow is downwards trending. This is in line with what we expect. Such downwards trend is also observed in the contracted capacity forecast as discussed earlier.

5.4. Total Demand

In summary the RBP demand forecast, in TJ/day, is as follows:

Table 34: Forecast Demand

Source	2023	2024	2025	2026	2027
Westbound	94	94	93	88	88
Eastbound	126	106	104	104	104
Total	220	199	197	192	192

^[1] <https://www.legislation.gov.au/Details/C2018A00029>

^[2] https://www.aph.gov.au/Parliamentary_Business/Bills_Legislation/Bills_Search_Results/Result?bld=r6657

^[3] Number of Critical Infrastructure assets enterprise wide which include 4 within VTS



6. Prudent discount

However, the AER did not accept the proposed prudent discount to apply to the westbound service noting

We do not accept APTPPL's proposed prudent discount on the westbound service as, based on the information provided, we are not satisfied that the prudent discount is necessary to respond to competition. However, we remain open to adopting a different stance in our final decision should additional information substantiating the commercial threat be provided.

6.1. Prudent Discounts

In the proposal Roma Brisbane proposed two prudent discounts under Rule 96, one related to the eastbound service and one for the westbound service.

However, recent developments in relation to Incitec Pivot have meant that a prudent discount for the eastbound service is no longer necessary. The application of a prudent discount would not make a material difference to the decision by the customer to use the RBP. This has been reflected in calculating the RBP eastbound tariffs.

For the westbound service, the RBP competes for some loads with other pipelines in the region. These pipelines have posted tariffs less than the westbound reference tariff derived following the building block procedures under the National Gas Rules. This places the RBP at a competitive disadvantage in securing westbound load. As envisioned in Rule 96(2)(a), a discount is sometimes necessary to respond to competition from other providers of pipeline services. If the RBP is able to maintain westbound load at a discounted tariff (as opposed to not being able to attract the westbound load due to tariffs being higher than competitors'), reference tariffs would be lower than they would otherwise have been.

These are discussed in more detail below.

^[1] <https://www.legislation.gov.au/Details/C2018A00029>

^[2] https://www.aph.gov.au/Parliamentary_Business/Bills_Legislation/Bills_Search_Results/Result?bld=r6657

^[3] Number of Critical Infrastructure assets enterprise wide which include 4 within VTS



6.2. Competition from other pipelines

The proposed prudent discount tariff is the breakeven point reflecting the ongoing cost of connection and the tariff charged by Darling Downs. The prudent discount reflects that connection costs are such that it would require a contract longer than two years to breakeven on switching to Darling Downs Pipeline. The longer the contract the deeper the discount needed to maintain the price at a breakeven point. This means the prudent discount tariff gets lower the further into the access arrangement.



Darling Downs Pipeline PPL 134 has 93 TJ MDO per day forecast spare capacity on the AEMO Gas Bulletin Board. This is more than adequate to meet the level of competitive demand forecast.

Consistent with the proposal, the recovery of the foregone revenue will be calculated into the westbound reference tariff as it is these customers who most benefit from the ongoing presence of the discounted westbound demand.

^[1] <https://www.legislation.gov.au/Details/C2018A00029>

^[2] https://www.aph.gov.au/Parliamentary_Business/Bills_Legislation/Bills_Search_Results/Result?bid=r6657

^[3] Number of Critical Infrastructure assets enterprise wide which include 4 within VTS