Final decision: Amadeus Gas Pipeline access arrangement 2016–21

We have made a final decision on the access arrangement for the Amadeus Gas Pipeline (AGP). APT Pipelines (NT) Pty Limited (APTNT) operates the AGP, a covered gas transmission pipeline in the Northern Territory. Our final decision allows APTNT to recover $112.8 million ($nominal) from users of its reference service over five years commencing 1 July 2016.

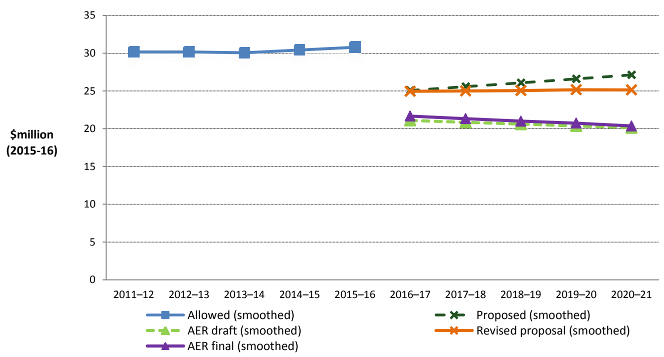
Overview

The Australian Energy Regulator (AER) approves access arrangements for the AGP and other major gas networks in eastern and southern Australia under the National Gas Law (NGL) and National Gas Rules (NGR).

Our final decision allows APTNT to recover $112.8 million ($nominal) from users of the AGP over five years commencing 1 July 2016. If we had accepted APTNT's revised proposal, it would have been permitted to recover $134.6 million ($nominal) over the 2016–21 access arrangement period. Our final decision is for 16.2 per cent less revenue than APTNT's revised proposal.

The figure below shows the difference between AGN's proposed revenue and our final decision.

AGN's past and proposed total revenue and AER final decision revenue allowance ($million, 2015–16)



Key elements of our decision

As a covered pipeline the AGP is subject to full regulation, which requires the service provider to submit an initial access arrangement to the regulator for approval, and revise it periodically. An access arrangement sets out the terms and conditions under which third parties can use a pipeline. It must specify at least one reference service likely to be sought by a significant part of the market, and a reference tariff for that service.

We based our assessment of APTNT's proposed revenue for its reference service on a number of components. These include expenditures to maintain and operate the network, and the return to shareholders on their investment. Together, these determine the revenue APTNT may recover from users of the reference service.

We discuss each of these below.

Rate of return

Significant investment is required to build and maintain a gas transmission network. The return APTNT must pay lenders and investors is referred to as the rate of return. Even a small difference in the rate of return can have a big impact on revenues.

Our final decision sets the allowed rate of return (or 'cost of capital') at 6.18 per cent. We have not accepted APTNT's revised proposed rate of return of 8.58 per cent.

The investment environment has improved since our previous decision, which was made during the period of uncertainty surrounding the global financial crisis. This improved investment environment translates to lower financing costs necessary to attract efficient investment. We consider that APTNT has sought a rate of return that is higher than necessary given the current investment environment.

We have not accepted the methodology proposed by APTNT to set its rate of return. Instead, we have used the methodology we developed through extensive consultation during our Better Regulation program in 2013. We consider that our approach provides for a rate of return that better reflects the allowed rate of return objective.

The lower rate of return in this decision will reduce APTNT's average annual revenue requirement compared to the previous access arrangement period.

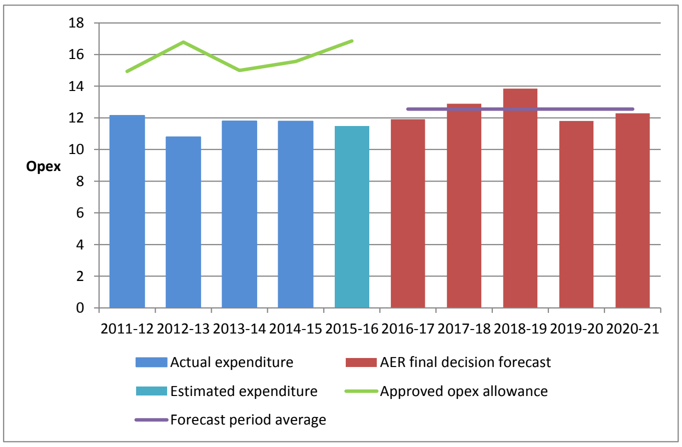
Operating expenditure

Opex includes forecast operating, maintenance and other non-capital costs incurred in the provision of the reference service. It includes labour and other non-capital costs that APTNT is likely to require during the 2016–21 access arrangement period for the efficient operation of its network.

We must be satisfied that the level of opex reflects costs that would be incurred by a prudent service provider acting efficiently, in accordance with accepted good industry practice, to achieve the lowest sustainable cost of delivering pipeline services.

We have accepted APTNT's total forecast opex of $62.8 million ($2015–16) for the 2016–21 access arrangement period.

APTNT's past and forecast opex ($million, 2015–16)



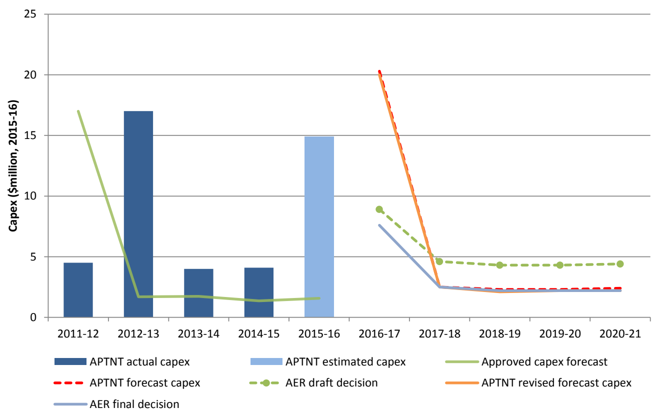
Capital expenditure

Capex refers to the cost of building new facilities or replacing existing infrastructure. Factors that influence our required level of capex include expected growth in the network, and the age and condition of existing assets.

We must be satisfied that the level of capex proposed by APTNT is justified, and reflects costs that would be incurred by a prudent service provider acting efficiently, in accordance with accepted good industry practice, to achieve the lowest sustainable cost of delivering pipeline services.

We have estimated total forecast net capex of $16.8 million ($2015–16) for APTNT's 2016–21 access arrangement period. This is 42 per cent lower than the $29.0 million APTNT proposed.

AER final decision compared to APTNT's past and proposed capex ($million, 2015–16)



The differences between the total net capex approved in our final decision and that in APTNT's revised proposal is largely attributable to forecast expenditure on two projects:

- Belowground station pipework recoating project—This project spans both the current and forecast access arrangement periods, and is now approximately 60 per cent complete. After submitting its revised access arrangement proposal, APTNT provided an updated (lower) estimate of likely costs for this project. Our final decision reflects this updated information. The majority of the approved expenditure for this project ($7.3 million) is reflected in the approved conforming capex in the 2011-16 access arrangement period. The remaining $1.8 million has been included in our total capex forecast for 2016–21.

- Channel Island spurline piggability project—APTNT included forecast capex of $10.8 million for this project in its total capex forecast for 2016–21. However, we are not satisfied that APTNT's forecast capex for this project would be incurred by a prudent operator acting efficiently, in accordance with accepted good industry practice, to achieve the lowest sustainable cost of providing services.[1] Our approved forecast of total net capex for 2016–21 therefore does not incorporate APTNT's forecast expenditure for this project.

For more information:

More information on our final decision can be found on our website: www.aer.gov.au.

[1] NGR, r. 79(1)(a).