



25 October 2019

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Dear Sebastian

**Amadeus Gas Pipeline reference service proposal: response to submission from Central Petroleum**

APA appreciates the opportunity to respond to the submission lodged by Central Petroleum Limited, on 15 October 2019, on the Amadeus Gas Pipeline (**AGP**) reference service proposal. APA Group entity, APT Pipelines (NT) Pty Limited (**APTNT**), is the service provider for the AGP.

Central Petroleum noted, in its submission, that the company had not been invited to participate in APTNT's consultation on the AGP reference service proposal. This is not entirely correct, although APTNT acknowledges an inappropriate choice of contact for advising Central Petroleum on the reference service proposal process. APTNT had been advised that Gas Trading Australia Pty Ltd was Central Petroleum's agent in matters relating to the AGP. Information on the reference service proposal process was sent to Central Petroleum's agent, and an offer was made to discuss the proposal. APTNT did not receive a response.

APTNT has now explained the situation to Central Petroleum, and will ensure that contact is made directly with the company in subsequent engagement on the AGP Access Arrangement revisions.

In its submission, Central Petroleum recognises that all of the existing capacity in the AGP which can be used for the provision of firm transportation service has been contracted by a particular user. All other users and potential users of the pipeline must then rely on a number of non-firm and "non-transportation", services to meet their gas transportation needs. Central Petroleum lists these services as:

- As-available transportation service
- Interruptible transportation service
- Firm park and loan services
- Interruptible park and loan services
- In-pipe trade service
- Pipeline expansion service.

Central Petroleum proposes that, in the absence of capacity for firm transportation service, each of these services be made a reference service. Central Petroleum advances two propositions in support of this proposal. They are:

### *Proposition 1*

Not making the services reference services, when they are currently sought by users, provides a misleading view of revenue and return for the AGP.

### *Proposition 2*

If the services are not reference services, users will be deprived of the protection which regulation provides.

When examined in the context of AGP service provision, neither of these propositions justifies making any of the six services listed by Central Petroleum a reference service for the AGP Access Arrangement.

APTNT remains of the view that the AGP should have a single reference. That service should be the firm transportation service described in section 6.7 of APTNT's reference service proposal for the pipeline.

### **Proposition 1**

Revenue and return visibility will be provided by Australian Energy Regulator (**AER**) publication of APTNT's responses to the regulatory information notices issued, by the regulator, prior to submission of the AGP Access Arrangement revision proposal.

In responding to the regulatory information notices, APTNT must provide revenues, historical and forecast, by type of service. The responses also provide information on expenditures and asset values, allowing the regulator, and others, to make assessments of returns.

Not making a particular service a reference service, when that service is currently sought by users, does not result in a misleading view of revenue, or of return, for the AGP.

### **Proposition 2**

In the paragraphs which follow, we look more closely at each of the six services which Central Petroleum proposes be made reference services.

Interruptible transportation service and pipeline expansion are already regulated; they do not need to be made reference services.

The capacity of the AGP for firm transportation service is, as Central Petroleum noted, now fully contracted. In consequence, as-available and park and loan services (firm and interruptible) are not available to prospective users. Making these services reference services, when they are not available, would not be a sensible outcome.

Making in-pipe trade service a reference service would, at the present time, be infeasible and unnecessary.

### **As-available transportation service**

An as-available service was previously offered to some users with agreements for gas transportation on the AGP. A user could nominate additional gas for transportation using the as-available service and, if scheduled by APTNT, the service was then a firm transportation service on the day on which it was to be provided.

APTNT cannot now provide users with this flexibility to transport "firm" on the day, and has ceased to offer as-available service. As-available service is not a candidate for a reference service on the AGP, and not making the service a reference service will not deprive users of the protection of regulation.

All of the capacity of the AGP available for the provision of firm transportation service has, as Central Petroleum noted, been contracted with a user. Furthermore, following interconnection to the Northern Gas Pipeline (**NGP**) in January 2019, this capacity has been more intensively utilised.

APTNT can no longer anticipate having "unused" capacity, which can be offered to users on a firm basis on the days when it might be available. APTNT's expectation must now be that the party which has contracted all of the capacity available for firm transportation service in the AGP will use that capacity. AGP can make capacity available to others on a day, but not for the provision of firm service on that day (that is, not for the provision of as-available service). If there is not sufficient capacity available on a day, then the party which has contracted all of the capacity for firm transportation service has a prior right to all of the available capacity.

### ***Interruptible transportation service***

With the capacity for firm transportation service fully contracted, prospective users of the AGP have sought access to less reliable interruptible transportation service. If, on a day, APTNT does not have sufficient capacity in the AGP to meet its obligations to provide firm transportation service, interruptible transportation service must be curtailed to allow firm service provision to continue to the maximum extent.

Section 2.4 of the AGP Access Arrangement regulates interruptible transportation service, but as a non-reference service, and not as a reference service.

Under the access regulatory regime of the NGR, a reference service must have a reference tariff (NGR, rule 48(d)). Setting a reference tariff for interruptible transportation service is difficult because the volume of the service which might be provided is inherently difficult to forecast. The forecast volume of service over which the costs of service provision are to be recovered is uncertain, and uncertainty in the service volume makes uncertain the forecast costs which should be recovered via a tariff.

The uncertainty in service volume has the further implication that different pipeline users will place different valuations on interruptible transportation service. Some users transport gas to operations which can tolerate uncertainty because they can switch to alternative fuels. Because of this ability to switch fuels, those users may place high values on interruptible transportation service. Other users, with limited tolerance of uncertainty in gas supply, may place lower values on the service. In these circumstances, users are better left to negotiate the extent of interruptibility and the price of interruptible transportation service. The Access Arrangement terms and conditions of service then serve as benchmarks for the other terms and conditions for interruptible transportation service. This is the current scheme of the AGP Access Arrangement.

The AGP Access Arrangement appropriately regulates interruptible transportation service. There is no need for the service to be made a reference service.

### ***Park and loan services (firm and interruptible)***

Park and loan services can provide users with flexibility in the way they use transportation services on a pipeline, and APTNT has, in the past, provided park and loan services to a number of users of the AGP.

However, APTNT now has very limited ability to provide park and loan services. Park and loan services – whether firm or interruptible – are not candidates for reference services on the AGP. Not making them reference services will not deprive users of the protection of regulation.

To be able to provide its contracted firm transportation service on a day, a service provider must have a specific volume of gas – linepack – stored in its pipeline. To provide a park service, whereby gas is stored in

the pipeline for a user, the service provider must be able to increase the linepack above the volume required for the provision of firm transportation service and then, at a later time, be able to return the gas to the user, reducing the linepack. If, as a result of parking gas, the linepack becomes too high, gas cannot be received into the pipeline for firm service transportation. If, as a result of the withdrawal of parked gas, linepack becomes too low, the service provider cannot deliver from its pipeline the volumes of gas to which users are entitled under their firm service transportation agreements.

When a pipeline has spare capacity for firm transportation service, increasing the linepack, and subsequently allowing the raised linepack to fall, are relatively simple operations. But when there is no spare capacity, the linepack must be carefully managed to maintain the capability to provide firm transportation service.

To increase linepack, the pressure of the gas in the pipeline must be increased (but to no more than the maximum allowable operating pressure of the pipe itself) at locations along the pipeline. To reduce the linepack at a later time requires moving gas along the pipeline to maintain the volume required to meet deliveries consistent with users' entitlements under their agreements for firm transportation service. Increasing pressure and moving gas along the pipeline require the use of compressors.

The AGP is a long, narrow diameter pipeline with only one compressor unit, which is located at Warrego, about halfway along its length. The AGP does not have the compressors needed to carefully manage linepack to provide park and loan services and, at the same time, to maintain firm transportation service on the fully contracted pipeline.

Now that all of the capacity in the AGP which can be used for the provision of firm transportation service has been contracted by a user, APTNT cannot provide firm park and loan services.

Nor, in general, can APTNT provide interruptible park and loan services.

Under an interruptible park service, APTNT would not be required to accept gas for storage in its pipeline on a particular day if that would restrict the provision of firm transportation service. But having accepted parked gas, the service provider must allow the user time to withdraw gas which has been parked to allow any increase in linepack needed for the provision of firm transportation service. Even with adequate compression, this withdrawal of gas cannot occur instantaneously, and APA's standard gas transportation agreement allows a user of interruptible park service two days to reduce its quantity of parked gas. If this were allowed on the AGP, during those two days APTNT may not be able to provide firm transportation service to the full extent required under its current gas transportation agreements.

Similarly, under an interruptible loan service, APTNT would not be required to lend gas from its linepack on a particular day. But if a user had borrowed gas under such a service, the service provider must allow the user time to replace that borrowed gas should linepack be required for the provision of firm transportation service. Even with adequate compression, this replacement cannot occur instantaneously, and APA's standard gas transportation agreement allows a user of interruptible loan service two days to replace gas it has borrowed. If this were allowed on the AGP, during those two days APTNT may not be able to provide firm service to the full extent required under its current gas transportation agreements.

Now that the capacity of the AGP to provide firm transportation service is fully contracted, APTNT is not able to offer firm or interruptible park and loan services without putting at risk its ability to meet its obligations to provide firm transportation service. There may be specific circumstances in which APTNT can offer interruptible park and loan services but, in general, these are no longer services which the service provider can reasonably provide.

Park and loan services are no longer available to be AGP reference services. Not making them reference service will not deprive users of the protection of regulation.

### ***In-pipe trade service***

In-pipe trade service is a service which assists the trade of gas between pipeline users. APTNT has recognised, in some users' gas transportation agreements, the delivery of gas, on a day, to a notional in-pipe delivery point in the AGP, and the receipt of gas at a notional in-pipe receipt point, allowing the "in-pipe" switch of gas between users.

Making in-pipe trade service an AGP reference service would, at the present time, be infeasible and unnecessary.

A reference service must have a reference tariff. But, as APTNT noted in section 6.2 of its July 2019 Reference Service Proposal for the pipeline, there have been no in-pipe trades in the AGP. There are no data from which use of the service can be forecast for tariff setting.

### ***Pipeline expansion service***

The scheme of the AGP Access Arrangement will, in future, regulate the provision of additional firm transportation service requiring pipeline expansion.

Central Petroleum's concern that, if it were to agree to AGP expansion, there would be no clear regulation covering how the expansion would be priced under current regulations is now unfounded.

Rule 104(3), which was included in the NGR in March 2019, requires that the extension and expansion requirements of an access arrangement:

- state that the applicable access arrangement will apply to incremental services to be provided as a result of any expansion to the capacity of the pipeline during the access arrangement period
- deal with the effect of the expansion on tariffs.

APTNT will need to address these new requirements in its forthcoming AGP Access Arrangement revision proposal.

APA would be pleased to discuss, with the AER, this response to the Central Petroleum submission on the AGP reference service proposal. Our primary contact for this current review of the AGP Access Arrangement is John Williams (in Perth), on 08 6189 4594, or at [john.williams@apa.com.au](mailto:john.williams@apa.com.au).

Yours sincerely



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