

**Submission to the Australian Energy Regulator re  
AER Draft Decision and APA's Revised VTS Access  
Arrangement 2018-2022**



**20<sup>th</sup> September 2017**

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Submitted by email to: [VicGAAR2018-22@aer.gov.au](mailto:VicGAAR2018-22@aer.gov.au)

Dear Mr Pattas,

APA VTS Access Arrangement 2018-2022

A Consortium of Victorian Transmission System (VTS) users has combined with Lochard Energy, owner/operator of the Iona Underground Gas Storage in Western Victoria, to provide comments on the AER's Draft Decision on the APA VTS Access Arrangement 2018-2022 and APA's Revised VTS Access Arrangement. The VTS Access Arrangement plays a central role in the further development of the gas market in Victoria and in the broader south-eastern Australian context.

This submission follows our 3 March 2017 submission on APA's Proposed VTS Access Arrangement, in which we expressed concern that the Access Arrangement did not sufficiently address the requirement for expansion of the VTS South West Pipeline (SWP) capacity, to increase access to Iona Underground Gas Storage. We are pleased that APA subsequently addressed this issue by proposing to advance the construction of the Western Outer Ring Main (WORM) and that AER's Draft Decision approved this proposal, subject to the views of stakeholders.

The Consortium fully supports construction of the WORM and our remaining concerns focus on ensuring timely construction of WORM and the application of appropriate tariffs:

- We consider it would be of value for the AER's final decision to note the desirability of the westbound expansion of SWP and WORM investments proceeding as planned and to encourage APA to include them in the Service Envelope Agreement (SEA) within 10 business days of the AER's Final Decision, as required by section 5.1 (a) of the SEA.
- We do not regard APA's proposal to apply the cross-system tariff to all SWP westerly flow gas as fair to Iona gas that is reinjected into the VTS. We have put forward several options with the first option in which the cross-system tariff not being applied for any Iona gas refill (refer Section 3, Option 1) with a second option recommending a Refill Certificate concept (refer Section 3, Option 2), which will reimburse the cross-system tariff to gas that is reinjected into the VTS.

The submission below elaborates on these concepts.

If you wish to discuss any aspect of this submission further, please contact Vuong Nguyen at [Vuong.Nguyen@lochardenergy.com.au](mailto:Vuong.Nguyen@lochardenergy.com.au) or on 03 8646 0509.

Yours Sincerely,



Anthony Fowler  
CEO, Lochard Energy

On behalf of the Consortium members

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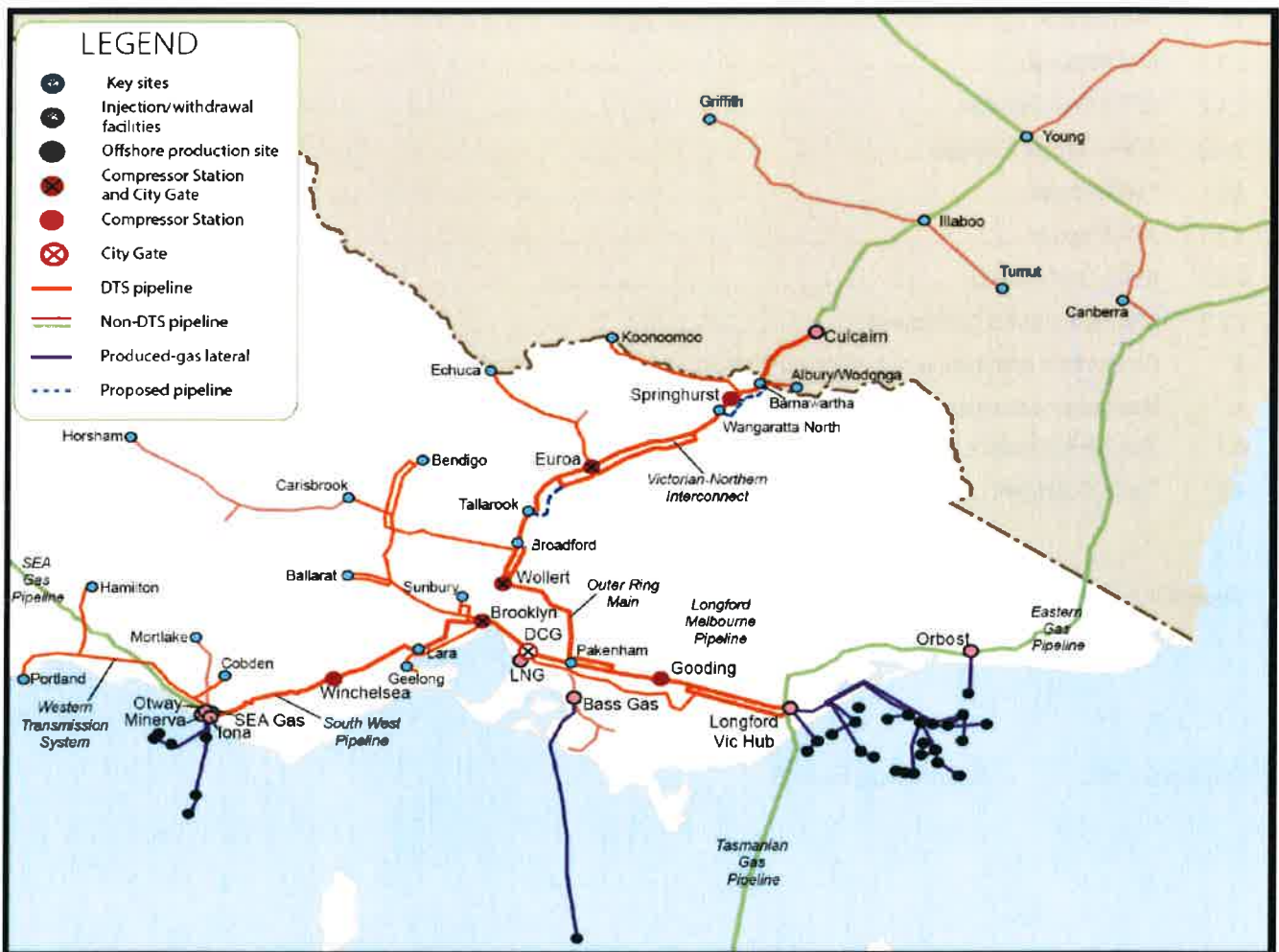
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# 1. Introduction

## 1.1 The APA VTS Access Arrangement

APA is the owner/operator of the Victorian Transmission System (VTS), a network of gas transmission pipelines serving Victorian gas users and linking with other pipelines that transport gas to markets in New South Wales, South Australia and Tasmania.

Figure 1-1 The Victorian Transmission System.



The VTS gas transmission network has the characteristics of a monopoly service provider and is regulated by the Australian Energy Regulator (AER), subject to the National Gas Law (NGL) and National Gas Rules (NGR). The VTS is a "covered" pipeline under the NGR and APA is required to periodically submit Access Arrangements (AAs), detailing the pipeline services offered and the proposed service tariffs, for AER approval.

On 6 July 2017 AER released its Draft Decision regarding APA's proposed VTS AA for the period 2018 to 2022. AER has requested interested parties to make submissions regarding the proposed VTS AA as part of its decision-making process. APA released a Revised VTS AA, responding to AER's Draft Decision, on 14<sup>th</sup> August 2017.

## 1.2 The Consortium and Lochard Energy

The Consortium group of gas market participants consists of the following: AGL; Alinta Energy; EnergyAustralia; gasTrading Australia; Lochard Energy; Visy, M2 and Origin Energy. Lochard Energy has acted as the co-ordinator of the Consortium.

Lochard Energy is the owner/operator of the Iona Gas Plant, a facility near Port Campbell in Western Victoria which comprises a gas processing plant and underground gas storage reservoirs, referred to as Iona Underground Storage or IUGS. The plant processes gas from offshore gas fields and the storage reservoirs and injects the gas into the VTS via the South West Pipeline (SWP) and into other connected pipelines. Lochard Energy's customers (gas retailers) use IUGS to store gas during low demand periods (typically in summer) and withdraw it from IUGS in high demand periods (typically in winter).

IUGS has the largest withdrawal capacity of all underground storages in Eastern Australia and has been expanded several times since it was constructed in 1998. It plays a key role in meeting higher gas demand in the southern Australian winter and during emergencies.

The Iona Gas Plant is also connected to the SEA Gas pipeline and can provide compression services to transport gas from the SWP to South Australia via the SEA Gas pipeline.

## 1.3 The Consortium's Concerns with the APA VTS AA

One of a gas retailer's core functions is to maintain a gas supply portfolio that matches its customers' gas consumption profile, while limiting its financial risk. Retailers meet their customer demand on a day-to-day basis by relying on a combination of longer-term contracts with gas producers, storage providers such as IUGS as well as some reliance on spot purchases. However it should be noted that retailers cannot rely on others to inject gas for their customers and require all these contracting mechanisms to hedge their portfolios.

In jurisdictions outside Victoria gas retailers also enter contracts with gas pipelines (transmission service providers) to lock in their ability to ship gas from the producers to their customers. Contracting by retailers provides the critical support mechanism for development of new production and transmission capacity.

Under Victoria's market carriage system however retailers do not contract directly with APA for transmission capacity but must rely upon APA to develop capacity based on projections of market requirements by the Australian Energy Market Operator (AEMO) and regulatory approval of the capital expenditure by AER. This approach can place development of essential new production or storage capacity at risk, since retailers may be unwilling to commit to contracts for supply if their ability to obtain matching transmission capacity is uncertain.

A number of IUGS users face seasonal capacity shortfall owing to a reduced flexibility provided by suppliers of gas supply agreements, and have recently asked Lochard Energy to provide them with further IUGS capacity to support their gas supply portfolios. Lochard Energy is keen to construct and supply this capacity, however it requires matching capacity expansion on the SWP, without which the extra IUGS capacity would be stranded and Lochard Energy would be unwilling to build it.

The Consortium made a submission to AER on 3 March this year in response to APA's proposed VTS AA for the period 2018 to 2022 and also commissioned Marsden Jacobs Associates to undertake an independent study on the economics of expanding the SWP. The submissions described the above gas supply issues and the consortium's concern at the time that APA's initial SWP capacity expansion proposal<sup>1</sup> did not meet the consortium's expected future IUGS requirements. On 26 May 2017 however, APA submitted a revised AA proposing to bring forward the construction of the Western Outer Ring Main (WORM) pipeline to the 2018-22 AA period. The WORM links the SWP to the existing Pakenham-Wollert ring main and the Victorian Northern

<sup>1</sup> The proposal at that time was for Brooklyn compressor reconfiguration plus Winchelsea compressor bidirectionality, which combined would increase SWP westbound capacity from 102 TJ/day currently to 147 TJ/day.

Interconnection pipeline and will significantly add to SWP capacity<sup>2</sup> as well as enhancing overall system security.

The AER Draft Decision approves expenditure on Westbound expansion of the SWP and on the WORM. However, this approval appears to be conditional on the expression of support by stakeholders.

The Consortium strongly supports APA's proposed expenditures on SWP capacity and the WORM and the AER's approval of them. The purpose of this Consortium submission is to express this support and emphasise its importance to the continuance of ongoing secure delivery of gas supply to Victorian consumers. The submission also offers the Consortium's views regarding the subsidiary elements of the decision, such as the proposed increase in the IUGS refill tariff.

## **1.4 Content of this submission**

Section 2 of this submission by the Consortium summarises APA's four AA submissions and the AER Draft Decision.

Sections 3 and 4 deal with two aspects of the SWP expansion:

- Section 3: Tariff structure to pay for expanded SWP capacity cost with clear tariff rates based on transparent and fair allocation.
- Section 4: Approved capex is used as intended and WORM constructed within proposed period.

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<sup>2</sup> The WORM will increase SWP westbound capacity to 220 TJ/day and will also increase SWP eastbound capacity marginally from 413 TJ/day to 435 TJ/day

## 2. The relevant capital expenditure, tariffs proposed by APA and AER’s Draft Decision

This section summarises APA’s four AA submissions and the AER Draft Decision.

### 2.1 The Projects

#### 2.1.1 APA Proposal

This section summarises the proposed capital expenditure, capacity increases and tariffs related to expansion of the SWP. Two distinct projects have been proposed:

1. Westbound Expansion of the SWP<sup>3</sup>
  - a. Reconfiguration of the Brooklyn Compressor Station to enable concurrent compression of the Brooklyn Corio Pipeline and the Brooklyn Lara Pipeline at different pressures, thereby reducing compression to Geelong; and
  - b. Convert Winchelsea compressor to be bidirectional.
2. The WORM<sup>4</sup>
  - a. Pipeline: 49.3km (approx.) x 500mm Wollert to Plumpton
  - b. Compression: Additional Centaur 50 at Wollert Compressor Station B allocating compression from Pakenham to Wollert pipeline (existing connection) to the new WORM (new connection)
  - c. Regulator: A new interconnecting Pressure Reduction Station at Wollert connecting the Brooklyn Lara Pipeline (BLP) to the Pakenham-Wollert Pipeline

Note that technically this is stage 2 of WORM. Stage 1, 8.3km x 500mm from Rockbank to Plumpton was completed in 2012.

The projected SWP capacities added by these projects are listed in Table 2-1. The capacities stated are incremental, so that the augmented capacity is the sum of current capacity and all the capacities added.

**Table 2-1 SWP Capacities Added by Expansion Projects (TJ/day)**

Flow Direction	Current Capacity	Added by Brooklyn CS	Added by Winchelsea CS	Added by WORM	Augmented Capacity
Towards Melbourne	413	0	0	22	435
Towards Port Campbell	102	30	15	73	220

The forecast costs and timing are presented in Table 2-2. An increase in the IUGS refill capacity of the SWP to 147 TJ/day is expected by early 2018 and the additional WORM capacity is expected by end 2020.

<sup>3</sup> APA Access Arrangement Revision Proposal Submission, p93-94

<sup>4</sup> APA VTS Supplementary Capital Expenditure Submission, p12-13 and 19-20

**Table 2-2 Expansion Project Costs and Timing (real \$2017m)**

Sub-project	2018	2019	2020	2021	2022	Total
Brooklyn reconfiguration	2.0	-	-	-	-	2.0
Winchelsea bi-directional works	1.5	-	-	-	-	1.5
WORM	23.7	44.2	58.8	-	-	126.7
<b>Total</b>	<b>27.2</b>	<b>44.2</b>	<b>58.8</b>	<b>-</b>	<b>-</b>	<b>130.2</b>

### 2.1.2 AER's Draft Decision

AER's Draft Decision approves the expansion of the SWP, on the basis that:

a) it will enable the Iona UGS facility to be refilled before the 2019 winter season; If the expansion does not proceed, IUGS is unlikely to be refilled before winter 2019, which in turn could lead to gas supply shortfalls in Victoria over winter (refer to AEMO's System Security Threat to System Security published 10 March 2017), and

b) Sleeman Consulting has also advised that this expansion represents the optimal means for achieving the required capacity increase at the lowest cost.

Taking that advice into account, AER is satisfied that the proposed \$3.5 million (\$2017) is prudent, in accordance with good industry practice, and achieves the lowest sustainable cost of providing services.

AER's Draft Decision also approves the construction of the WORM, on the basis that:

a) it takes into account both the updated information from APA and stakeholder submissions; and

b) it is supported by AEMO and CCP11.

Taking that advice into account, AER is satisfied that the proposed \$126.7 million (\$2017) is conforming capex. However, this is subject to further stakeholder consultation, recognising that not all stakeholders have had the opportunity to review and provide comment on the business case for the WORM and APA's supplementary submission.

### 2.1.3 APA's Revised Proposal

The APA Revised VTS AA Proposal focuses on variations to the AA Proposal in response to the AER's draft Decision. It does not restate either the project to increase westbound capacity of the SWP or the WORM project.

## 2.2 Tariff Impacts

### 2.2.1 APA Proposal

The westbound expansion of SWP is designed to increase the rate at which IUGS can be refilled from SWP. APA therefore proposes to allocate the cost of westbound expansion of SWP entirely to the IUGS refill charge, increasing it by 2.5c/GJ, from 5.39c/GJ to 7.89c/GJ<sup>5</sup>.

<sup>5</sup> APA Access Arrangement Revision Proposal Submission, p217



In contrast, the cost of the WORM is allocated more broadly. APA states<sup>6</sup>: "Once completed, the WORM becomes part of the broader system of pipelines and facilities for gas supply from Iona/Port Campbell to the Hub, and beyond to Northern Victoria. In line with the cost allocation methodology described in the January AA proposal, the WORM expenditure is therefore allocated to all withdrawal zones that use the flow path incorporating the WORM, in proportion to volume. This includes the cross-system tariff, as well as withdrawals at Port Campbell (but not, for example, flows to the Western Transmission System that are matched to Port Campbell injections)." None of the costs of WORM are allocated to the IUGS refill tariff itself.

The effect of the two investments on selected tariffs is summarised in Table 2-3 below. Although the WORM cost is spread, it has the greatest percentage impact on the Cross-System Tariff.

**Table 2-3 The effect of WORM investment on selected tariffs in \$2018 except 2017 tariffs (\$/GJ)**

Tariff	2017 Tariffs (\$2017)	January Proposal	Increase due to Expansion of SWP	WORM Proposal (May 2017)	Increase due to WORM
Metro SE Tariff D	0.3012	0.3335	n/a	0.3506	0.0171 (5.1%)
IUGS Refill	0.0539	0.0789	0.025 (46.4%)	0.0789	0
Sea Gas Withdrawal	0.0178	0.0205	n/a	0.0205	0
Cross System Tariff D	0.1651	0.1743	n/a	0.1979	0.0236 (13.5%)
Port Campbell Injection	1.4621	2.141	n/a	2.1841	0.0431 (2.0%)
Longford Injection	1.8619	2.140	n/a	2.1836	0.0436 (2.0%)

Note: Only the increase in IUGS Refill is due to Expansion of the SWP. Other tariff increases from 2017 to the January proposal are due to multiple changes in the Access Arrangement.

<sup>6</sup> APA VTS Supplementary Capital Expenditure Submission, p42

### 2.2.2 AER's Draft Decision

AER accepted APA's tariff structures<sup>7</sup>: "We have approved the proposed standard cost allocation methodology, which is substantially the same as that in the current access arrangement, but with some changes to cost recovery for the following:

- South West Pipeline
- Storage refill
- Victorian Northern Interconnector
- Western Outer Ring Main.

However, we require APA to recalculate its reference tariffs so that the levels of the tariffs reflect our draft decision on demand forecasts, capex forecast, opex forecast and rate of return.

We also consider the cross-system tariff should be charged in addition to the refill tariff to users who ship gas from Longford or Culcairn into Iona storage and then on to the Sea Gas pipeline. This differs from APA's proposal to charge only the refill tariff for gas put into storage. We invite submissions from stakeholders on this aspect of our draft decision."

AER's rationale for adding the cross-system tariff to the refill tariff for gas taken from the VTS into IUGS storage and then into Sea Gas, is that<sup>8</sup> the refill tariff was originally designed so that it did not recover the cost of transporting gas across the VTS into storage but the costs of the VTS have instead been recovered when the gas is taken out of storage and injected back into the VTS through the injection and withdrawal charges. This charging does not occur for gas injected from Iona into Sea Gas.

### 2.2.3 APA Revised VTS AA Proposal

APA's Revised VTS AA Proposal responds to AER's Draft Decision suggestion that the cross-system tariff should be charged in addition to the refill tariff to users who ship gas from Longford or Culcairn into Iona storage and then on to the Sea Gas pipeline.

APA states that it understands the AER's rationale is to ensure that users of the VTS contribute their share towards the cost of the VTS and that Victorian gas customers do not subsidise South Australian customers. Both of these principles are consistent with APA VTS's tariff allocation methodology.

However, APA has identified some issues with implementation. APA does not own nor have access to meter data to ascertain gas volumes that are sent to South Australia via the Iona UGS facility. APA has no meaningful way of identifying or measuring gas going to South Australia.

Further, there is a temporal aspect to the AER's draft decision. Gas may flow across the VTS and into the Iona UGS, only to be diverted to South Australia some time later. Aligning billing for Iona refill with South Australian flows may not be possible.

It would also be very difficult to identify whether gas that is sent to South Australia via the Iona UGS facility was originally sourced from Longford or Port Campbell.

These elements mean that the AER's draft decision cannot be effectively implemented in practice.

APA VTS has reviewed the AER's discussion of this matter in the draft decision and notes the AER's revision is driven by a principle of user pays. APA VTS considers that a user pays principle would support broader application of the cross-system tariff to all Iona refill volumes that are sourced from Longford, as it is these flows

<sup>7</sup> AER Draft Decision Attachment 10 p 10-13

<sup>8</sup> AER Draft Decision Attachment 10 p 10-19 to 10-20



that have increased the peak needs for westbound flows on the South West Pipeline that have driven the WORM project. Put simply, all flows from Longford to Iona drive the need for the WORM, not just those that ultimately travel to South Australia.

APA VTS notes that use of the cross-system charge contributes to the recovery of WORM costs, as the WORM is part of the metro zone. As increased Iona refill flows from Longford have largely driven the need for the WORM investment, it would appear consistent with the AER's rationale set out in its draft decision to apply the cross-system tariff to all Iona UGS flows, and not just those that subsequently go to South Australia.

### 3. Consortium preferences regarding tariff structure to pay for expanded SWP capacity cost

The Consortium agrees with the APA proposal to allocate the WORM costs broadly across the VTS network, as this aligns with the preference expressed in our March submission to AER<sup>9</sup>. However, we do not agree with the proposed application of the cross-system tariff to the Iona refill.

The APA proposal to apply the cross-system tariff to all Iona refill gas will result in the refill tariff rising from the current \$0.0539/GJ to the revised proposal's \$0.2609/GJ (\$0.0789/GJ Refill + \$0.182/GJ Cross-System<sup>10</sup>) in 2018, an increase of 391%. While it may seem fair to levy this on gas moving from the VTS through Iona to Sea Gas, it is not fair to Iona gas that is reinjected into the VTS, which attracts withdrawal tariffs such as Metro SE, that also includes all the asset costs covered by the cross-system tariff. Consequently, under the APA revised proposal, Iona gas that is reinjected into the VTS is paying the cross-system tariff asset costs twice and suffers a significant increase in its overall transmission charges.

This anomalous outcome is due to the different treatment of volumes that the cross-system tariff applies to, compared to other volumes. These volumes are not forecast and all revenue is returned to all users through the tariff variation mechanism by reducing the target revenue in later years of the period. The value returned to gas going into Iona is only a fraction of the value paid out by that gas. This is presented by APA as a natural outcome of the tariff setting process, however a simple example shows why it is not. Suppose that IUGS was connected to Melbourne by a simple bidirectional pipeline, the costs of which could be recovered by charging for haulage in one or both directions. If charging was in both directions, the volume would be twice the single direction volume and the tariff would be half, so that gas shipped in both directions would pay the same total charge no matter which tariff option was used. The natural outcome of the APA proposal to apply the cross-system tariff to all Iona refill gas would be a significant reduction in the cross-system tariff.

The Consortium considers that to remedy this defect, the increase in revenue due to levying the cross-system tariff on withdrawals into Iona should be applied solely to reducing the total transmission cost of gas reinjected into the VTS from Iona. This can be achieved in a number of ways:

- Option 1. The first option would simply be to revert to APA's original proposal, in which the cross-system tariff was not applied to any Iona refill gas. The Consortium recognises that the AER Draft Decision shows that AER does not favour this option but feels that it needs to be pointed out that the IUGS refill tariff of \$0.0789/GJ covers the marginal costs for all gas injected into IUGS (according to APA's WORM proposal) and thus doesn't involve a subsidy of gas injected into Sea Gas.
- Option 2. To retain the cross-system charge on Iona refill and give the Shippers of that gas a Refill Certificate to the value of the cross-system tariff, which would be redeemable against any VTS charge against that gas when it is re-injected into the VTS. This will ensure that the AER's initial proposal that only SEA Gas flows are charged the cross-system tariff. Some mechanisms could be put in place to determine how long the vintage of a Refill Certificate is valid for. This approach may induce trading of gas in Iona to ensure that Refill Certificates are used to the maximum extent.
- Option 3. To obtain revenue equality with the AER's proposal to levy the cross-system charge only on Iona gas injected into Sea Gas, the cross-system tariff on Iona refill should be removed and the revenue balanced by increasing the Iona refill tariff. This is equivalent to applying extra revenue to reducing the total transmission cost of gas reinjected into the VTS to the level recommended by AER.

<sup>9</sup> Lochard submission to the Australian Energy Regulator re APA VTS Access Arrangement 2018-2022

<sup>10</sup> As per APA's Revised VTS AA Proposal dated 14 August 2017

For this case, if A and B denote the volumes of Iona gas injected into Sea Gas and VTS respectively, and CS and RT denote the APA Cross System and refill tariffs and RT2 denotes the new refill tariff, then:

$$\text{AER revenue} = A*(RT+CS) + B*RT \text{ and}$$

$$\text{varied revenue} = (A+B)*RT2. \text{ Consequently:}$$

$$RT2 = RT + CS*A/(A+B)$$

Thus, the Iona Refill Tariff increases in proportion to the amount of Iona gas that is injected into Sea Gas. If this is zero, the refill remains at \$0.0789/GJ and if it becomes 100%, the cross-system charge is added in full, but at this point there is no Iona gas injected into VTS so this is reasonable. At other proportions, this is still unfair to Iona gas that is reinjected into the VTS, relative to Iona gas that is reinjected into Sea Gas but much less unfair than APA's proposal, which adds the full cross-system charge even if no Iona gas is injected into Sea Gas. Implementation of this option would require projections of the volumes of Iona gas injected into Sea Gas to be estimated

The Consortium does not believe that there is a simple tariff option that implements the AER's concept without some compromise and therefore recommends for further investigation:

- The first option in which the cross-system tariff not being applied for any Iona gas refill (refer Section 3, Option 1) with;
- A second option recommending a Refill Certificate concept (refer Section 3, Option 2), which will reimburse the cross-system tariff to gas that is reinjected into the VTS for further investigation.

The Consortium also suggests that, if any of the above other than the option 1 or 2 are adopted, the cross-system tariff should also be applied to the Sea Gas Pipeline export tariff (withdrawal zone 33), so that gas transferred from Iona to Sea Gas is not unduly penalised relative to gas transferring directly to Sea Gas.

## 4. Mechanisms to ensure approved capex is used as intended and WORM constructed within proposed period

AER approval of capital expenditure on an asset in an AA does not compel the service provider to actually construct the asset. In some circumstances this is reasonable, for example if the asset is no longer required or if the services are provided in some other way. However, in the case of the westbound expansion of SWP capacity and the WORM, which is accompanied by investment in additional IUGS capacity, it would be unreasonable for any additional IUGS capacity to be stranded by delays in or non-completion of the SWP and WORM projects.

In the absence of contracts for additional service with APA, a circumstance unique to Victoria, retailers must rely upon other mechanisms to ensure that APA constructs the westbound expansion of SWP and the WORM as proposed in the Revised AA.

One possible mechanism is the service envelope agreement between APA and AEMO. A second is contingent tariffs. The sections below elaborate on the material provided in the Consortium's March submission to the AER.

### 4.1 The Service Envelope Agreement<sup>11</sup>

The National Gas Law in section 91 BE provides that APA (APA Gasnet and APA Gasnet NSW) and AEMO must enter into a service envelope agreement for the control, operation, safety, security and reliability of the APA Gas Net System, which:

- a) Provides that APA GasNet makes the APA GasNet System available to AEMO (and in so doing provides a pipeline service);
- b) States the capacity of the APA GasNet System to be available to AEMO (or how that capacity is to be calculated) at points of injection or withdrawal under the various operating condition that are likely to prevail from time to time; and deals with any other matters required by the National Gas Rules.

If APA fails to provide capacity agreed under the SEA it becomes liable to pay uplift<sup>12</sup> charges under the Declared Wholesale Gas Market Rules if or when there are transmission constraints caused by the lack of capacity. APA's liability under this mechanism is capped but the cap is not published. To the best of the Consortium's knowledge this is the only mechanism under which APA may pay a financial penalty for not providing capacity agreed under the SEA.

In relation to the westbound expansion of SWP and the WORM it is noted that the SEA is forward looking and obliges APA and AEMO to include in the SEA any expansion or extension that APA "undertakes or proposes to undertake" that will affect the capacity of the APA Gasnet System (SEA section 5.1 (a)).

1. The Consortium recognises that AER has no role in the administration of the SEA other than if APA and AEMO are unable to reach agreement on various matters, in which case AER acts as an arbitrator. Nevertheless, we consider it would be of value for the AER's final decision to note the desirability of the westbound expansion of SWP and WORM investments proceeding as planned and to encourage APA (and AEMO) to include them in the SEA within 10 business days of the AER's Final Decision (Note: section 5.1 (a) of the SEA requires APA and AEMO to agree to the nature of the relevant event within 10 business days). Moreover, the relevant capacities and timing should not be altered in the SEA unless AEMO has published a Victorian Gas Planning Report (VGPR) which supports such a change.

<sup>11</sup> SEA Material in this section is drawn from document "APA VTS – SD- APAVTS&AEMO Service Envelope Agreement 20120321 Public" provided by APA to AER.

<sup>12</sup> Uplift charges compensate Declared Wholesale Gas Market participants for costs caused by constraints.

## 4.2 Tariffs Contingent on Completing the Expansion

Under the NGR, reconciliation of forecast and actual capital expenditure during an AA period occurs at the next AA review, at which time the capital base is adjusted for any differences. However, no adjustments are made to compensate for related revenue overs or unders. This may be appropriate in cases where the variation in capital expenditure is due to more (or less) efficient construction this seems reasonable, but is less reasonable where it is due to assets not being constructed at all, or with lower capacity.

In the latter cases, the incremental tariff under which capital expenditure is recovered could be made contingent on completion of the expenditure. For example, the increase in the IUGS refill tariff from \$0.0539/GJ to \$0.0789/GJ could be made contingent on completion of the Brooklyn and Winchelsea Compressor Station works.

This approach would not completely ensure that construction occurred but would protect VTS users from paying for capacity not provided.

## Appendix A. Abbreviations

AA	Access Arrangement
ACCC	Australian Competition and Consumer Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
APA	Australian Pipeline Trust
CCP11	Consumer Challenge Panel 11
CS	Compressor Station
CSG	Coal seam gas (natural gas released from coal seams after drilling)
GJ, TJ, PJ	Giga-, Tera-, Petajoule ( $10^9$ , $10^{12}$ , $10^{15}$ joules)
GSOO	Gas Statement of Opportunities
IUGS	Iona Underground Storage
LNG	Liquefied natural gas (gas cooled to $-161^{\circ}\text{C}$ )
MJA	Marsden Jacobs Associates
NGL	National Gas Law
NGR	National Gas Rules
SEA	Service Envelope Agreement
SWP	South West Pipeline
VGPR	Victorian Gas Planning Report
VTS	Victorian Transmission System
WORM	Western Outer Ring Main