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27 August 2014

Chris Pattas
General Manager
Network Operations and Development Branch
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

Dear Chris

ROMA BRISBANE PIPELINE
Repeal of carbon tax – Negative Pass Through Application

The AER-approved allowed revenue incorporated in the current RBP Access Arrangement includes a forecast for carbon costs as part of the operating expenditure. The Access Arrangement also includes a procedure to reconcile the forecast carbon costs against the actual costs of acquiring the required number of carbon permits. This reconciliation occurs in the second year following the year in which the liability for carbon costs was incurred.

On 9 May 2014 APTPPL sought the AER's approval for 2014/15 pipeline tariffs consistent with the Access Arrangement applicable to the Roma to Brisbane Pipeline. This approval request included a negative pass through amount for carbon costs over-recovered in the 2012-13 regulatory year. By letter dated 15 May 2014, the AER approved tariffs including the pass through for the 2014-15 year.

The carbon tax has been repealed, with effect from 1 July 2014. As a result, the forecast amount of carbon tax that needs to be recovered through tariffs will fall to zero.

Clause 4.5.4 of the RBP access arrangement requires a pass through application to be lodged within 90 business days of the Cost Pass-Through Event occurring, which APTPPL understands as being 17 July 2014, the date the repeal received royal assent.

This letter forms that negative cost pass through application.

Revision to carbon cost opex forecast

The AER-approved allowed revenue for the RBP access arrangement period includes an embedded carbon cost recovery in the order of \$700,000 per year.



As a result of the carbon tax repeal, the forecast amount of carbon tax to be recovered changes from that approved by the AER in the RBP Access Arrangement:

| AA approved | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 | Total |
|--------------|---------|---------|---------|---------|---------|-----------|
| Carbon costs | 714,601 | 722,039 | 723,326 | 781,649 | 741,473 | 3,683,088 |

to:

| Repeal forecast | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 | Total |
|-----------------|---------|---------|---------|---------|---------|-----------|
| Carbon costs | 714,601 | 722,039 | 0 | 0 | 0 | 1,436,640 |

This application therefore seeks to pass through the reduction in carbon costs equal to:

| Pass through | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 | Total |
|--------------|---------|---------|-----------|-----------|-----------|------------|
| Carbon costs | | | - 723,326 | - 781,649 | - 741,473 | -2,246,448 |

Interim decrease to reflect repeal of carbon tax

Clause 4.5.2 of the RBP access arrangement provides for tariff changes arising from pass throughs to be made on the subsequent 1 July, as part of the normal tariff adjustment process. This would mean that the repeal of the carbon tax would not be reflected in tariffs until 1 July 2015. As noted above, the approved tariffs for 2014-15 included an allowance for 2014-15 carbon costs; absent any voluntary action on APTPPL's part, the approved tariffs would inappropriately charge users for 2014-15 carbon tax, which would have to be subsequently refunded through the true-up process.

APTPL and the AER engaged in discussions which confirmed that the Access Arrangement Reference Tariff is not mandated under the National Gas Access Regime, and that APTPL is allowed to voluntarily charge a lower tariff at its discretion to reflect the reduction in the carbon tax. On 24 July 2014, the AER advised APTPL that the AER Board had resolved to take into account any voluntary tariff reductions when performing the carbon tax true-up.

APTPL advised the AER by letter dated 13 August 2014 that it would depart from the Reference Tariffs to pass on the reduction in carbon tax and has reduced its tariffs, effective 1 July 2014, to remove the \$0.7233m forecast amount of 2014-15 carbon tax recovery.

APTPL consulted with the ACCC at the officer level on 19 August 2014 to outline the proposed process, and received comfort that the proposed process was acceptable.

Given the timing of the purchase and surrender of carbon certificates for the 2013-14 carbon year (28 February 2015), it may be possible for APTPL to conduct the final carbon tax reconciliation and true-up such that the last pass through tariff adjustment



applies in the 2015-16 regulatory year. APTPPL will liaise with the AER as part of the annual tariff adjustment process.

As always, we would be pleased to discuss any questions you may have. Please contact Scott Young on 02 9275 0031.

Regards

A handwritten signature in blue ink, appearing to read 'P. Bolding', written in a cursive style.

Peter Bolding
General Manager Regulatory and Strategy