

**Review  
of  
Access Arrangement  
and  
Access Arrangement Information  
for the  
Central Ranges Pipeline**

**Carried out for the  
Australian Competition and Consumer Commission**

**11 September 2005**



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## **1. Introduction**

This report is addressed to the Australian Competition and Consumer Commission ('ACCC') as the party responsible for consideration and approval of Access Arrangements submitted by service providers under the National Third Party Access Code for Natural Gas Pipeline Systems.

This report sets out the findings of a review of the following proposed documentation that was formally lodged with the ACCC by Central Ranges Pipeline Pty Limited (ACN 108 218 355) on 23 August 2005:

- i) Access Arrangement for Central Ranges Pipeline, August 2005;  
and
- ii) Access Arrangement Information for Central Ranges Pipeline,  
August 2005

The specific focus of this report is the appropriateness of the services proposed by Central Ranges Pipeline Pty Ltd, including the terms and conditions, and identification of elements that are unusual, inappropriate or missing or which are otherwise inconsistent with best industry practice.

In preparing this report, the draft documentation has been reviewed and, as appropriate, documentation relating to other Australian gas transmission pipelines has been cross-referenced. Proposed arrangements for access to the Central Ranges gas networks have not been reviewed.

The author has used reasonable endeavours to ensure that material contained in this paper is correct. However, no representation is made with regard to the completeness or accuracy of the data or information contained herein, and the author disclaims any or all liability for loss or damage whatsoever suffered or incurred resulting from the use or reliance on data or information contained herein.

## 2. Review and Conclusions

A review of the proposed documentation is presented in Tables 1 and 2 on the following pages. Comments are provided on key (rather than all) aspects of the documentation according to the materiality of the issues identified or their likely importance to prospective users of the Central Ranges pipeline. Minor typographical, grammatical<sup>1</sup> and spelling<sup>2</sup> errors have not been addressed.

Overall, the following observations and conclusions are made:

- a) The proposed documentation is generally consistent with industry precedent and practices, key examples being documentation relating to the Central West pipeline and, under common ownership, the Moomba to Sydney and Roma - Brisbane gas pipelines.

This consistency is beneficial in that gas delivered through the Central Ranges pipeline is (in the foreseeable future) also likely to be transported through the Central West and Moomba to Sydney pipelines.

- b) Where the proposed documentation is different to that used elsewhere (a key example being the offering of Reference Services that differentiate between user groups) it is with good reason and is not contrary to the interests of prospective users of the Central Ranges pipeline.
- c) This review has not revealed any aspects of the proposed Access Arrangement and Access Arrangement Information that are of sufficient materiality to warrant recommendation that the documentation is either unacceptable or should be revised.
- d) Although the changes that are suggested in Tables 1 and 2 will lead to improvement of the proposed documentation, none of the changes are considered to be absolutely essential.

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<sup>1</sup> For example, the reference to 'Atypical' profiles in Part 4 of Schedule 5B (although carried over from other Access Arrangement documentation) is unlikely to be correct.

<sup>2</sup> For example, authorized [sic] as used in section 2.6.

**Table 1: Review of Proposed Access Arrangement Information**

Section	Issue	Explanatory Comment	Action Required
1	none	These sections incorporate historic records or provide a straightforward explanation of the approach adopted in development of tariffs for the Central Ranges Pipeline.	n/a
2	none		n/a
3	none		n/a
4	none		n/a
5	none		n/a
6	none	Costs to be included in the Capital Base for the Central Ranges Pipeline are identified in section 6. All identified costs are fair and reasonable. It is however noted that some cost items are generic in nature, with similar items appearing in proposed Access Arrangement Information for the Central Ranges Network (which is being separately considered by the Independent Pricing and Regulatory Tribunal of NSW).	Future coordination of cost reviews will be facilitated through transfer of pipeline and network regulatory responsibilities to the Australian Energy Regulator.
7	none	Economic lives of pipeline assets are specified in section 7. The specified lives are fair and reasonable. They reflect outcomes achievable with good operations and maintenance practices based upon an assumed ongoing availability of and demand for natural gas.	n/a

**Table 1: Review of Proposed Access Arrangement Information (continued)**

Section	Issue	Explanatory Comment	Action Required
8	none	The scope of the Central Ranges project is outlined. The cost of pipeline extensions to service ten identified Central Ranges Towns will be added to the Capital Base if and when the extensions are constructed. This reflects agreed terms for development of the project.	n/a
9	none	The corporate and cost structures of Central Ranges Pipeline Pty Limited are outlined. The corporate structure is consistent with industry best practices.  The cost structure includes provision for use of incentives to encourage conversion to gas. Development of a conversion incentive programme is essential to the successful, rapid development of gas markets and is strongly supported.	n/a
10	none	This section describes technical details of the Central Ranges Pipeline and the programme for its construction, all of which are consistent with good industry practices.	n/a

**Table 2: Review of Proposed Access Arrangement**

Section	Issue	Explanatory Comment	Action Required
1	none	Section 1 contains historic and descriptive information	n/a
2	See below	<p>Section 2 sets out the range of services to be offered for use of the Central Ranges Pipeline. The reference service offerings are atypical of those generally offered for firm service in a gas pipeline in that there are different reference services for different classes of customer (essentially depending upon the size of the customer and/or the end-use to which gas is put).</p> <p>The market differentiation inherent in the reference tariff arrangements is consistent with agreed terms for development of the Central Ranges pipeline, and there is good reason for this. In developing new regional gas pipeline infrastructure it is necessary, on one hand, to ensure gas is available to customers at prices that are competitive with established alternative fuels while, on the other hand, ensuring that returns are not compromised through unnecessary discounting. The proposed tariff arrangements are important in achieving these outcomes.</p>	see below
2.1 to 2.4		<p>These subsections set out provisions specific to each of the reference services. Several provisions, as listed below, are different to those that are routinely adopted for other gas transmission pipelines:</p> <ul style="list-style-type: none"> <li>- tariffs are throughput based, although minimum take-or-pay obligations apply for large (ie, Contract and Special Contract) users;</li> <li>- Overrun charges do not apply until utilisation of the Central</li> </ul>	n/a

**Table 2: Review of Proposed Access Arrangement (continued)**

Section	Issue	Explanatory Comment	Action Required
		<p>Ranges pipeline exceeds 85%;</p> <ul style="list-style-type: none"> <li>- Gas transportation quantities are determined on the basis of network metering (rather than metering at the delivery point from the pipeline); and</li> <li>- An Annual Contract Quantity ('ACQ') is to be established on an individual basis for each large (ie, Contract and Special Contract) gas customer.</li> </ul> <p>None of these provisions are disadvantageous to users of the pipeline. They are consistent with an aspiration to promote gas market growth.</p> <p>The requirement for individualised ACQ's for large gas customers will ensure that reference services are used appropriately (ie, for the category of customer for which they are intended). The requirement is unlikely to be onerous in the Central Ranges region and is also consistent with the sourcing of billing data from network metering.</p>	
2.6	Calculation of Overrun quantities may be in error	<p>This subsection sets out provisions relating to maximum quantities and overruns. The provisions are typical of those normally found in gas transportation contracts <u>except that</u> (after pipeline utilisation exceeds 85%) overruns only occur if deliveries of gas at a Delivery Point exceed the Delivery Point MDQ or the Delivery Point MHQ.</p> <p>Recognising that the sum of Delivery Point MDQ's could exceed a user's overall MDQ, the approach adopted in calculating overruns for the Central Ranges pipeline means that a user with</p>	Consider utilising standard industry wording

**Table 2: Review of Proposed Access Arrangement (continued)**

Section	Issue	Explanatory Comment	Action Required
		<p>multiple Delivery Points could take delivery of a quantity of gas that exceeds its overall MDQ without incurring an overrun. However, it also means there could be contractual doubt regarding a user's ability to take delivery of gas at a rate exceeding its overall MDQ (or MHQ) when it does not need to exceed any or all of its Delivery Point MDQ's (or Delivery Point MHQ's).</p> <p>It may be that the approach has been adopted intentionally. If not, consideration should be given to adoption of more routine wording. For example, see the definition of Overrun Quantity in the "Access Arrangement for Roma – Brisbane Gas Pipeline".</p>	
3	none	<p>Provisions regarding tariffs and tariff indexation are fair and reasonable.</p> <p>Recognising that a 'Year' for the purpose of the Access Arrangement is a financial year, the CPI references in the variation formula of subsection 3.3 are correct.</p>	n/a
3.6	none	<p>Subsection 3.6 deals specifically with Daily Variance charges, which only apply after utilisation of the capacity of the pipeline exceeds 85%.</p> <p>Daily variance provisions are adopted by some pipeline owners but they are by no means universal. Their purpose is to encourage users to make accurate nominations. A downside of their adoption is that large users who have contracted for capacity (and are required to pay for a minimum of 80% of that</p>	n/a



**Table 2: Review of Proposed Access Arrangement (continued)**

Section	Issue	Explanatory Comment	Action Required
		<p>contracted capacity) may be obliged to pay a Daily Variance Charge in circumstances where, despite there being a Daily Variance, they have taken delivery of less than their minimum bill quantity. This downside is moderated by the inclusion in the Daily Variance provisions of a threshold in terms of the number of days for which a variance must occur before charges can be made.</p> <p>The Daily Variance provisions, although not universally adopted, are not unreasonable.</p>	
4	see below	The provisions of section 4, which relates to Reference Tariff Policy, are fair and reasonable.	see below.
4.5	CPI reference	To calculate the Capital Base to apply at the end of a financial year, the CPI figure for the last (ie, June) quarter of the financial year is required. The June quarter CPI figures are not available until some time during the September quarter of the following financial year. Utilisation of March quarter CPI figures would allow the calculation to be completed at year end.	Consider using March quarter CPI figures.
5	none	Provisions regarding trading of capacity are fair and reasonable.	n/a
6	none	Provisions regarding queuing are fair and reasonable. It is to be noted that §40 of Schedule 2 (Terms and Conditions) provides that a user with an entitlement to an extension of the term of a gas transportation contract will not be subject to the queuing policy. This is considered to be appropriate.	n/a

**Table 2: Review of Proposed Access Arrangement (continued)**

Section	Issue	Explanatory Comment	Action Required
7	none	Provisions regarding extensions and expansions of the Central Ranges pipeline are fair and reasonable. It is appropriate that extensions of the pipeline to additional Central Ranges towns (as defined) be included as part of the Covered Pipeline.	n/a
Schedule 1 Definitions	definition of Tariff Customers	Definition refers to “Commercial and Industrial Customers. Reference should be to “Industrial and Commercial Customers”	correction required
Schedule 2	see below	Schedule 2 sets out general Terms and Conditions for gas transport. The proposed Terms and Conditions are consistent with those routinely adopted for gas transportation and, subject to the following more specific comments, are considered fair and reasonable.	see below
	§18: calculation of Overrun	There is a mismatch between the reference to withdrawals of gas at a Delivery Point and the MHQ or MDQ (which apply to total quantities of gas to be transported rather than quantities that can be delivered at an individual Delivery Point). See also comments (above) regarding section 2.6 of the Access Arrangement.	clarification of wording is recommended
	§28: metering accuracy	The accuracy required for metering equipment is not specified. Nor is there a reference to a procedure or manual in which requirements will be set out. Although not a prerequisite, to minimise the risk of future dispute it may be desirable for accuracy requirements to be specified or referenced.	consider

**Table 2: Review of Proposed Access Arrangement (continued)**

Section	Issue	Explanatory Comment	Action Required
Schedule 3	none	Schedule 3 deals with gas balancing requirements (ie, a requirement for inputs of gas to and withdrawals of gas from the pipeline to be in balance). There are several commonly adopted approaches to gas balancing and the approach proposed for the Central Ranges pipeline is both in widespread use and, more significantly, is aligned with that applying for the Central West pipeline, from which gas to be delivered through the Central Ranges pipeline will (for the foreseeable future) be sourced. Such alignment of terms is desirable from a user's perspective.	n/a
Schedule 4	none	The gas quality related provisions of schedule 4 are consistent with Australian Standard AS 4564 – 2003, and are appropriate for adoption.	n/a
Schedule 5B	none	The 'Form of Request for Service' documentation is essentially the same as (but slightly improved from) that used in the case of the Central West pipeline. The documentation is appropriate for adoption although it is noted that it does not specifically accommodate all possible contract scenarios (eg multiple receipt or delivery points and the requirement for individual customer ACQ information).	n/a