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Submitted by email to rbp2017@aer.gov.au

20 October 2016

Roma (Wallumbilla) to Brisbane Pipeline - Access Arrangement 2017-2022

The Australian Energy Council (the Energy Council) welcomes the opportunity to make a submission to the Australian Energy Regulator (AER) on the Roma to Brisbane Pipeline (RBP) Access arrangement 2017-2022. The Energy Council has been active in the recent regulatory processes[1] and considers that getting the level and structure of pipeline charges correct is essential to achieving the COAG's vision "for the establishment of a liquid wholesale gas market"[2].

The Energy Council is the industry body representing 21 electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. These businesses collectively generate the overwhelming majority of electricity in Australia and sell gas and electricity to over 10 million homes and businesses.

Transport charges must not inhibit wholesale gas market trading and reform

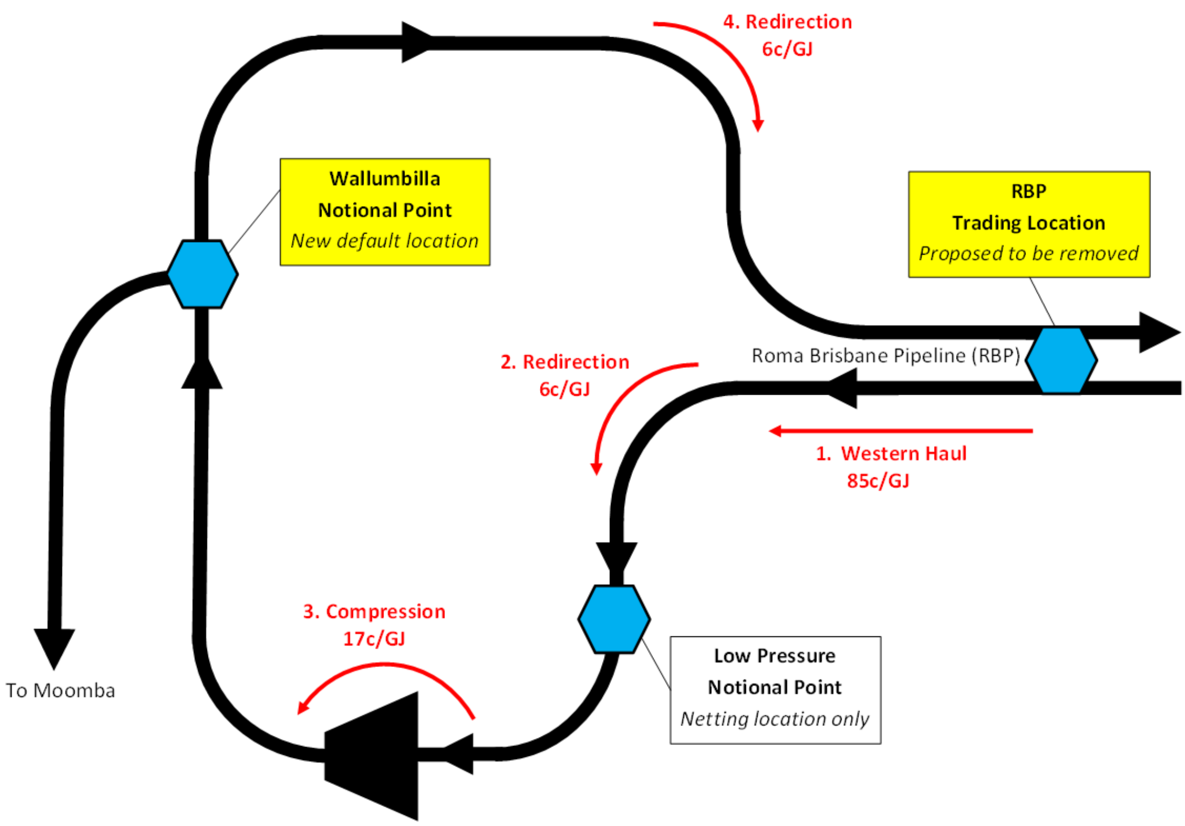
The existing Access Arrangement for the RBP may not provide sufficient flexibility to promote an active and liquid short term wholesale gas market. Users require a short term product which is fungible, with realistic charges and which does not inhibit trading. We note that in response to advocacy from Energy Council members[3] and others, APT Petroleum Pipelines Pty Ltd (APTPPL) have now discontinued the fee for intraday nominations. However, there remain other fees which inhibit trading including redirection fees, in-pipe trade fees, storage fees, compression fees and excessive transport charges. Given the market power held by APTPPL, the AER should investigate including all charges within the access determination.

The problems encountered redesigning the Wallumbilla Hub are an example of pipeline charges inhibiting gas trading and market reform. The Council of Australian Governments (COAG) Energy Council has tasked the Australian Energy Market Operator (AEMO) with redesigning the Wallumbilla Gas Supply Hub in line with AEMO's proposed Optional Hub Services market design. The Optional Hub Services design aims to focus trading at Wallumbilla at the Wallumbilla Notional Point (WNP) located on the high pressure South West Queensland Pipeline (SWQP). In line with this goal AEMO had planned to remove the current Roma Brisbane Pipeline (RBP) trading location.

[1] Including the ACCC East Coast Gas Review, the AEMC East Coast Wholesale Gas Market and Pipeline Frameworks Review and AEMO's redesign of the Wallumbilla Hub through the Gas Supply Hub Reference Group.
[2] COAG Energy Council, *Australian Gas Market Vision*, December 2014, p. 1.
[3] See Stanwell's submission to ACCC East Coast Gas Enquiry, July 2015

However, RBP participants are charged in excess of $1/GJ to transport gas from the RBP trading location to the WNP default location. These costs include western haul on the RBP (85c/GJ)[4], redirection (6c/GJ) and compression (17c/GJ). With this cost likely to inhibit trading, AEMO altered their market design and retained the RBP trading location.

Figure 1: Fees for services around the Wallumbilla National Point



Source: Australian Energy Council, 2016

Short term firm service

APTPPL proposes to introduce a second reference service known as the Short Term Firm Service (STFS). The Energy Council does not support this initiative. The best way to meet the need of participants for a short term service is to keep the structure of the existing access arrangement and remove the minimum term of the agreement (currently set at three years). This would allow participants to access transport on a short term basis for a more competitive charge.

If the AER determines to approve the STFS, a maximum term of 1 year is more appropriate (rather than the 3 years as currently proposed). In this way the Long Term Firm Service (LTFS) could be used for transport agreements over 1 year. With respect to the proposed STFS uplift, 166 per cent is disproportionate. An uplift closer to the current Authorised Overrun rate of 120 per cent would better encourage participants to contract for short term firm capacity. This would also support an increase in short term trading and support the COAG Energy Council vision. Further, we recommend the AER examine the rates for overruns, imbalances and variances to determine whether they are set at reasonable levels. In our view, the current rates (250 per cent

[4] Estimate based on APTPPL 2017-2022 RBP Access Arrangement proposal. Estimate is consistent with either a 2/3 long term firm access, 1/3 short term firm access approach, or a negotiated access approach with interruptible access at a 20-25 per cent premium to firm access charge. The charge would be even higher if the proposed STFS rate of $1.15/GJ were used.

of the tariff) are overly punitive. We note that there is no tolerance allowed in respect of unauthorised overruns, and in some cases there can be double counting. For example, unauthorised overrun and variance rates could apply at the same time, resulting in a charge that is 500 per cent of the tariff.

The Energy Council has concerns with the calculation method of 1/[average load factor] to determine the STFS premium. The same STFS capacity can be sold multiple times given the likelihood that each participant (both short and long term capacity holders) do not require their full capacity at all times. The current under-utilisation of participants' capacity contracts and the pipeline as a whole provides confirmation that the proposed methodology is inappropriate.

Firm service terms and conditions

APTPPL proposes additional terms and conditions for the Firm Service, however further clarity, certainty, and transparency is required in two areas.

Firstly, it is proposed that where sufficient capacity is not available, users with an as available service will be scheduled or curtailed to a quantity determined pro rata, based on the user's nominations. This should relate to confirmed nominations, to maximise efficiency.

Secondly, for users with interruptible services, APTPPL proposes that capacity will be scheduled or curtailed on the available capacity equitably among the users, on the basis of "tariffs paid, first-come-first-served, pro-rata based on nominated quantities or such other basis as Service Provider reasonably determines". The list of possible methods for determining capacity does not offer sufficient clarity to prospective users, in particular the reference to what the Service Provider "reasonably determines". A single, clear method should be articulated.

Rate of return

APTPPL's proposed rate of return of 7.7 per cent appears high given the current risk free rate is less than 2 per cent, the nature of APTPPL's operations on the RBP and recent network determinations made by the AER. It appears especially high when considering the pass-through costs that apply to the tariff including carbon, regulatory change, service standard events, tax change, terrorism, insurer credit risk, insurance cap, natural disasters. In the latest access proposal APTPPL has also proposed to pass through inflation risk. Capacity holders appear to be shouldering the majority of the risks.

Any questions about our submission should be addressed to Emma Richardson, Policy Adviser by email to emma.richardson@energycouncil.com.au or by telephone on (03) 9205 3103.

Yours sincerely,

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