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Roma Brisbane Pipeline: Proposal Update

Update and tariff strategy
September 2021



Update on developments since proposal submitted

Things that have updated

Opening
Regulatory
Asset Base

Forecast
Capex

Forecast
Opex

Regulatory Asset Base

Roma Brisbane updated the estimate for Financial Year 2021 with the Actuals recorded for that year. The two asset bases (as incurred) are set out below. The difference does not change the reference tariff which is calculated at 4 decimal places.

Proposal	\$m
Pipelines	434.04
Compressors	23.77
Regulators and meters	3.92
Easements	19.15
Communications	0.66
Capitalised AA costs	-0.39
Group IT	11.53
SIB Capex	4.81
Total	497.49

Update	\$m
Pipelines	432.61
Compressors	24.07
Regulators and meters	4.35
Easements	19.15
Communications	0.07
Capitalised AA costs	-0.22
Group IT	12.08
SIB Capex	6.11
Total	498.20

Forecast Capital Expenditure and Forecast Operating Expenditure – Group IT

The proposal Group IT expenditure was based on historic average capital expenditure allocated to the RBP. Accounting changes require that Cloud computing be treated as operating expenditure. At the time of the proposal Roma Brisbane was still developing its IT strategy so the costs were evenly split between opex and capex (where capex was increased using labour

The update reflects a bottom up project by project cost estimate with consideration of the likely nature of the solution resulting in allocation of costs to capital expenditure or operating expenditure. It is a superior forecast.

Proposal

Update

Group IT	FY23	FY24	FY25	FY26	FY27	Total	Avg.
Capital Expenditure Forecast	1.08	1.08	1.08	1.08	1.08	5.41	1.08
Operating Expenditure Step Change	0.94	0.94	0.94	0.94	0.94	4.71	0.94
Total	2.02	2.02	2.02	2.02	2.03	10.12	2.02

Group IT	FY 23	FY 24	FY 25	FY 26	FY 27	Total	Avg.
Capital Expenditure Forecast	1.11	0.95	0.45	0.43	0.38	3.31	0.66
Operating Expenditure Step Change	3.56	3.94	2.75	1.83	1.83	13.92	2.78
Total	4.67	4.88	3.20	2.26	2.21	17.23	3.45

Updated Building Block Revenue

These changes result in an increase in the building block revenue.

Revenue

PTRM	FY23	FY24	FY25	FY26	FY27
Proposal	42.37	44.34	47.35	49.42	46.49
Update	45.52	47.95	49.75	50.73	47.29
Difference	3.16	3.61	2.39	1.31	0.80
Opex difference	2.62	3.00	1.81	0.89	0.89
RAB difference	0.54	0.62	0.58	0.41	-0.09

Nominal WACC

PTRM	FY23	FY24	FY25	FY26	FY27	Total
Proposal	21.74	22.31	22.26	22.15	21.98	110.44
Update	21.71	22.28	22.24	22.17	22.03	110.44
Difference	-0.03	-0.03	-0.02	0.02	0.05	0.00

Tariff Strategy - options

Introduction

The purpose of this discussion is to obtain stakeholders feedback on alternative approaches to “smoothing” the reference tariffs for the next RBP access arrangement (FY23-27).

The National Gas Rules do not address how a tariff variation mechanism should work except to the extent they are required to be set at a level that recovers the building blocks in present value terms. This means the annual change on the reference tariff must be consistent with the National Gas Objective and Pricing Principles.

National Gas Objective

The objective of this Law is to promote efficient investment in, and efficient operation and use of, natural gas services for the long term interests of consumers of natural gas with respect to price, quality, safety, reliability and security of supply of natural gas.

Pricing Principles

- A service provider should be provided with a reasonable opportunity to recover at least the efficient costs the service provider incurs
- A service provider should be provided with effective incentives in order to promote economic efficiency with respect to reference services the service provider provides
 - economic efficiency that should be promoted includes
 - efficient investment in
 - the efficient provision of pipeline services

This puts very broad limits on how tariffs should be set. They can't be set too high that costs can't be recovered or too low that it undermines normal commercial investment decisions by either Roma Brisbane or other energy providers.

Terminology

Building Block Revenue – the required revenue to meet the National Gas Rules It comprises

Reference tariffs are calculated by the following formula

Next tariff = Current tariff multiplied by (1+actual Inflation) multiplied by (1-X)) plus/minus any adjustments.

Smoothed Revenue – calculates an X-Factor for each year that means the reference tariff multiplied demand over the period of the access arrangement recovers the building block revenue in present value terms. The revenue is “smooth” compared to building block which may vary up and down year on year multiple times over the access arrangement.

X-factor – the annual year on year price change in the reference tariff in real terms.

Po – the change in reference tariff from the last year of the previous access arrangement and the first year of the current access arrangement.

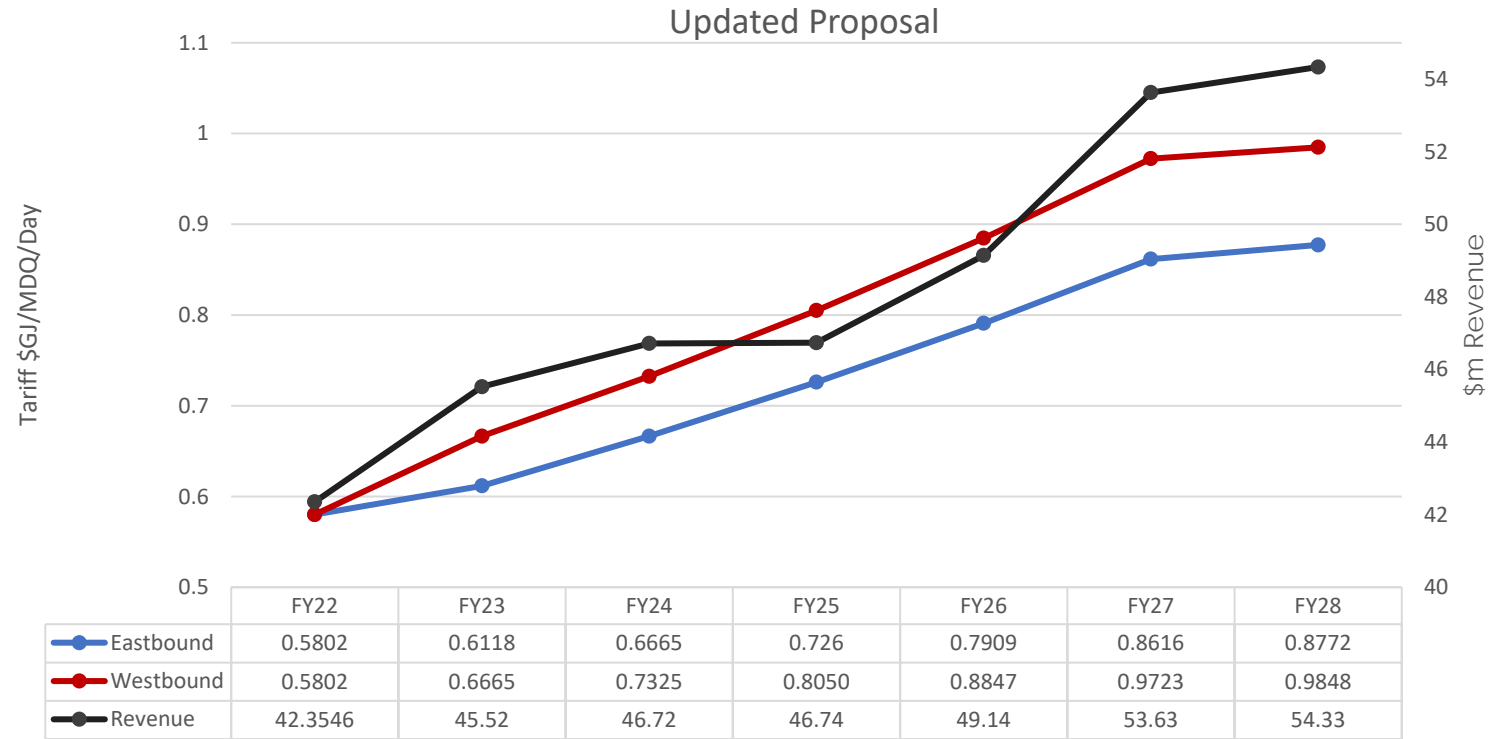
Proposal Methodology

This approach makes the tariff in the first year recover the building block revenue in the first year.

A constant X factor (year on year price change in real terms) is used for the remaining years that recovers the building block revenue in present value terms.

Advantages – matches building block in first year.

Disadvantage – varies across the current AA.



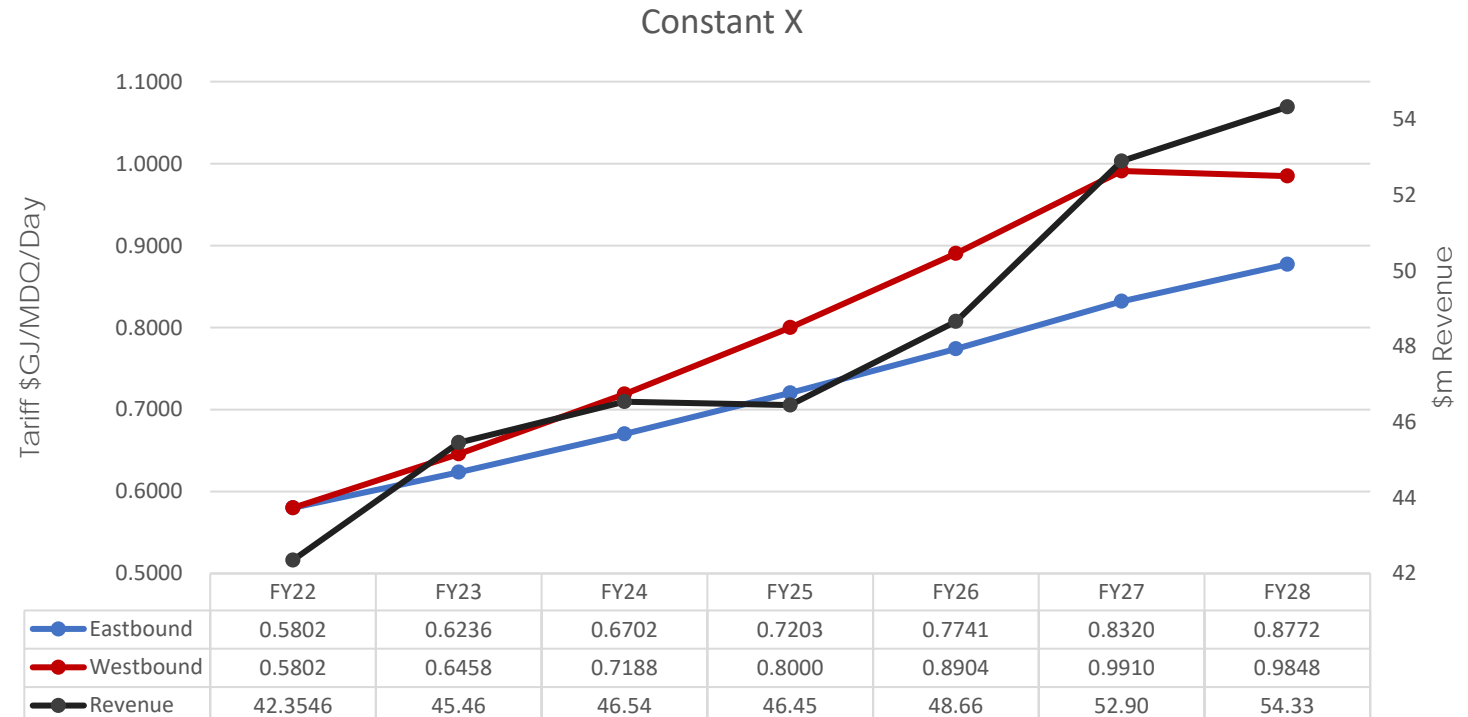
	X-factor	FY23 Po	FY24 X	FY25 X	FY26 X	FY27 X	FY28 Po
Eastbound		-3.38	-6.80	-6.80	-6.80	-6.80	0.19
Westbound		-12.62	-7.75	-7.75	-7.75	-7.75	0.70

Constant X

This approach has the same X-factor for all the years of the access arrangement and Po.

Advantages – keeps the year on year change the same in real terms.

Disadvantage – has no relationship with expected tariffs in the next AA.



X-factor	FY23 Po	FY24 X	FY25 X	FY26 X	FY27 X	FY28 Po
Eastbound	-5.37	-5.37	-5.37	-5.37	-5.37	-3.37
Westbound	-9.12	-9.12	-9.12	-9.12	-9.12	2.57

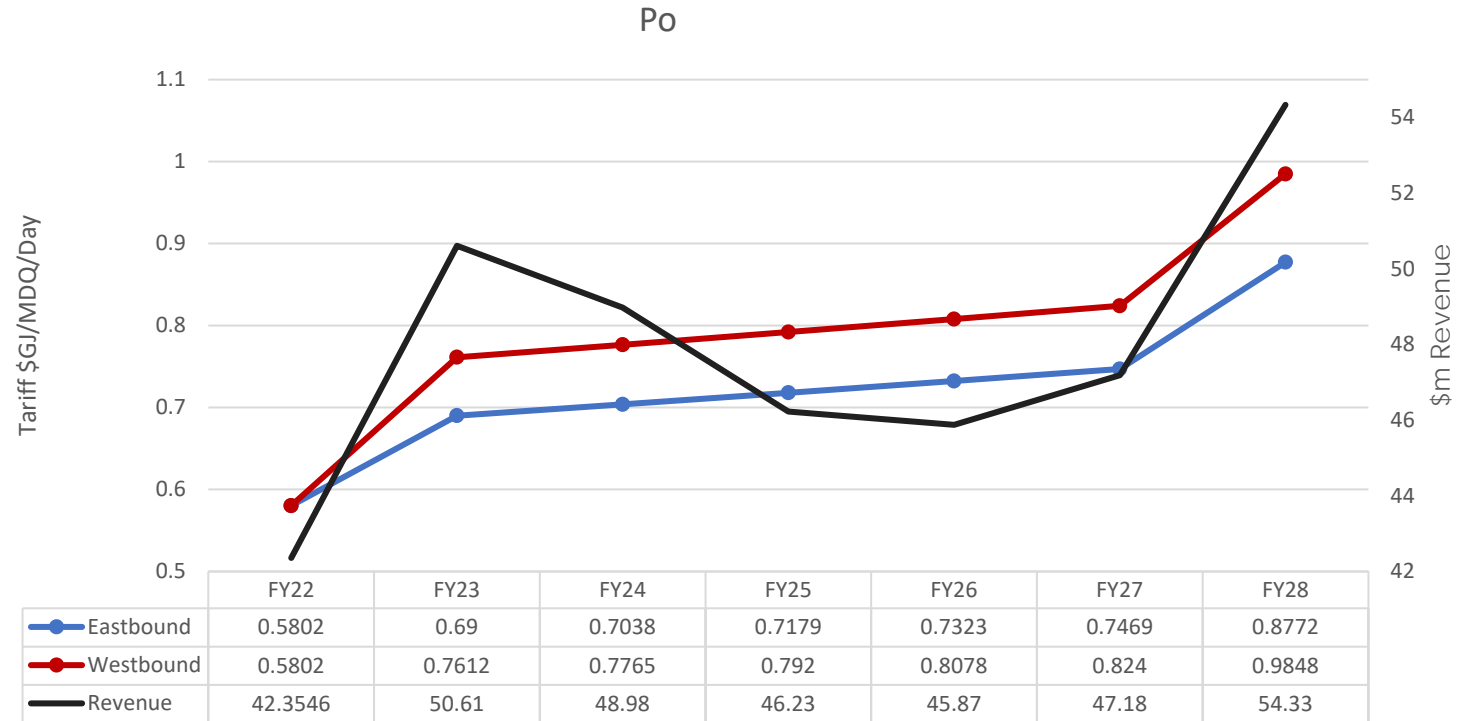
P_o

Has a zero X factor in year 2 to 5.

The slight upward slope on the blue and red lines in the graphs is forecast inflation.

Advantage – keeps tariffs even in real terms over the current AA period

Disadvantage – has no relationship with the prior or next access arrangement reference tariffs.



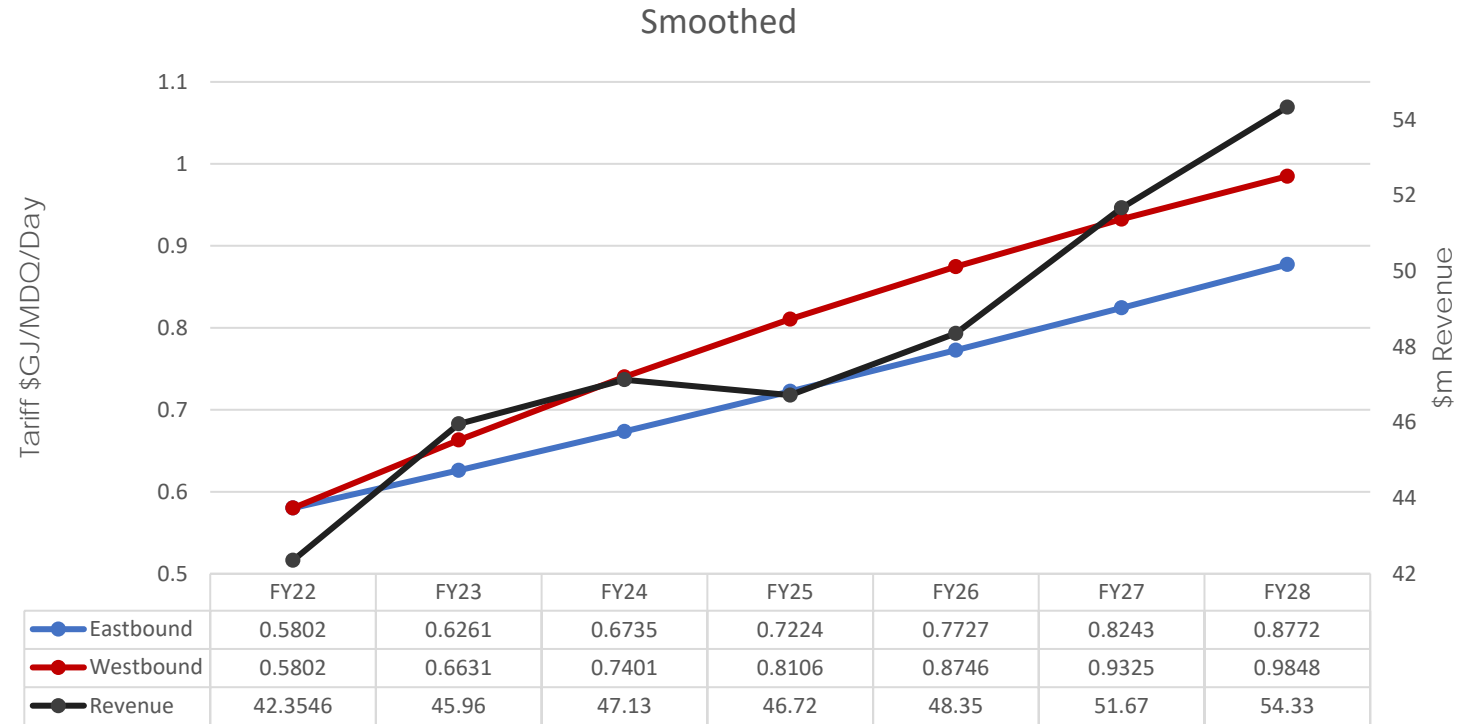
X-factor	FY23 Po	FY24 X	FY25 X	FY26 X	FY27 X	FY28 Po
Eastbound	-16.60	0.00	0.00	0.00	0.00	-15.14
Westbound	-28.63	0.00	0.00	0.00	0.00	-17.17

Smoothed tariffs

Creates a relationship between the tariff for the last year of the previous access arrangement and the first year of the subsequent access arrangement while only recovering the building block revenue.

Advantage – limits forecast disruption between access arrangement periods.

Disadvantage - ???



X Factor	FY23 Po	FY24 X	FY25 X	FY26 X	FY27 X	FY28 Po
Eastbound	-5.80	-5.47	-5.16	-4.86	-4.58	-4.33
Westbound	-12.05	-9.44	-7.39	-5.78	-4.53	-3.52

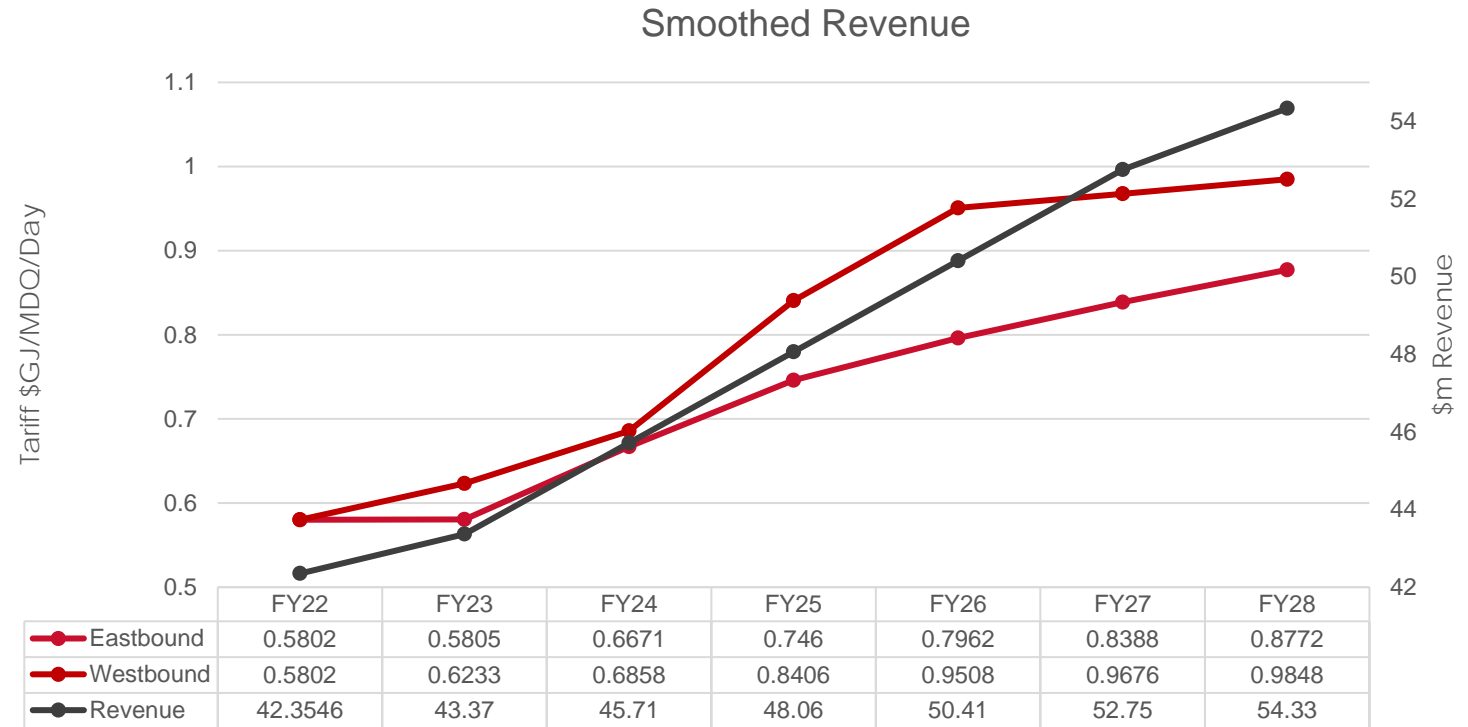
Smoothed Revenue

This approach sets X factors for each year so that revenue is as smooth as possible

Advantage – revenue doesn't vary up and down for the business from year to year

Disadvantage – tariffs do not vary in a smooth or predictable way from one access arrangement to another

Disadvantage - Inconsistent with the principles of a reference service and a reference tariff.



X Factor	FY23 Po	FY24 X	FY25 X	FY26 X	FY27 X	FY28 Po
Eastbound	1.91	-12.67	-9.64	-4.64	-3.29	-2.53
Westbound	-5.32	-7.87	-20.17	-10.89	0.23	0.22