APA pricing methodology

APA’s business model and approach

Gas transmission pipelines are characterised by large initial investments that require long time horizons to earn commercial returns.

APA finances long-lived pipeline investments using debt and equity (capital). Access to capital on competitive terms is critical for the sustainability of any infrastructure business. APA’s gas transmission pipeline business is no exception. APA requires capital, not only to fund initial pipeline development, but also for expansions, extensions, systems innovation and for the ongoing operation and maintenance of our infrastructure to meet customer needs.

APA is able to access capital on terms appropriate for our business by demonstrating our business is sustainable and lower risk. Lower risk contracts, revenues and investments are preferred to those that are higher risk. In the case of gas transportation services, the preference is for longer term, firm capacity contracts with creditworthy investment-grade counterparties. Such contracts support APA’s underlying business model, by reducing our exposure to market volatility, which in turn enables APA to access capital on terms that are appropriate for a capital-intensive infrastructure business. In doing so, APA is able to invest in and provide gas transportation services to customers more competitively than would otherwise be the case.

The requirement for a sustainable and lower risk business is core to APA’s business model. Sustainability requires a balancing of all stakeholder needs, including those of the business, investors, financiers, customers, the broader community and employees, over the long term.

Whilst maintaining its portfolio of sustainable, lower risk contracts, APA seeks to maximise the contracted capacity of its pipeline assets. APA is conscious that gas transportation services are one part of a longer supply chain. APA is incentivised to negotiate and agree flexible deal-specific arrangements with customers, as required, to ensure that those customers’ needs are met. By meeting customers’ requirements, APA can increase the amount of pipeline capacity that is contracted, reducing the overall risk to its business.

APA’s standing tariffs and pricing methodology reflect this business model.

Methodology used to establish standing prices

APA's standing prices reflect APA's standard offer for services on each pipeline using APA's Standard Gas Transportation Agreement. The derivation of each is set out on APA's website. The methodology used is described below.

1. Prices negotiated in competitive circumstances

We have sought to use prices in contracts negotiated in competitive circumstances (such as pipeline development, alternative fuel competition or other competitive circumstances) to derive our standing tariffs.

Foundation tariffs

Foundation contracts generally underpin investment in new pipeline developments. At the time of development, the foundation customer will typically conduct a competitive process for the development. Competition for the development is active and foundation contracts are negotiated against this competitive background. As such, the terms agreed in foundation contracts underpinning development are an outworking of that competitive process, and a direct proxy of competitive terms.

The foundation tariffs that underpin development reflect the cost of service provision, including risk. As such foundation tariffs provide a direct, market-based price of pipeline development and ongoing costs, including risk associated with investment in long-lived infrastructure, and appropriate commercial rates of return. Foundation tariffs reflect the cost of service provision and are the appropriate basis for pricing for non-foundation customers for at least the duration of the foundation contract.

Pricing based on competitive alternatives

The circumstances in which we negotiate contracts for pipeline services vary. Different customers have different competitive alternatives available to them, and these alternatives affect the prices at which they are prepared to contract.

Our standing prices reflect alternatives available to our customers including:

- transportation on other pipelines serving, or able to serve, the same customer location, including pipelines transporting gas from different supply basins;
- transportation using capacity obtained from other customers in the secondary market for pipeline capacity;
- gas swaps and other trades that can substitute for pipeline transportation of gas; and
- energy from sources other than pipeline-delivered gas, including electricity, diesel, trucked LNG and/or renewables.

In many cases the comparative pricing of alternatives available to the customer is encapsulated in the foundation tariff, as these alternatives were available at the time of the investment decision. In other cases, the price and terms on which the competitive alternatives are available are reflected in the terms on which pipeline services contracts are renewed or new services contracted. The price and availability of these alternatives therefore directly affects prices for pipeline services.

2. *Current firm contracts*

Where there is no effective competitive market proxy available on which to base prices, standing tariffs reflect the prices for long term firm service provision in current contracts. These prices reflect a range of considerations, which were specifically negotiated with customers and agreements entered into, providing an indicative tariff reference point.

3. *Service opportunity costs*

Our approach to pricing of pipeline services reflects our preference for long term firm contracting as this lowers our risk, which enables us to maintain lower prices for services.

APA offers shorter term firm capacity as it is sought by our customers. Shorter term firm capacity is any capacity sought for a period of less than 12 months, including seasonal, day-ahead or even within-day. Contracts for firm services involving shorter terms can limit our ability to contract for longer term firm services, which are key to the success of our business model.

Our prices for shorter term firm capacity are derived from the average aggregated load factor for our pipelines to determine a long term firm equivalent tariff. This pricing methodology reflects the average opportunity cost across our pipelines in providing shorter term firm capacity.

Our standing tariffs are also generally the tariffs for full-haul services. For capacity using only part of the pipeline (part-haul), opportunity costs are a consideration in setting tariffs. Opportunity costs also determine the availability of storage services at the standing tariff as storage limits our opportunity to provide a full haul firm service.

Shorter-term firm and part-haul services, and any other service that, when used, may limit our ability to provide long-term firm services, are generally derived from relevant long term firm service tariffs, taking account of opportunity costs.

4. *Ancillary service charges*

For ancillary services such as in pipe trades and operational capacity transfer, tariffs are set to stimulate demand and increase liquidity in the gas market, while endeavouring to recover the costs of service provision.