

10 May 2012

Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Project Reference Code: GRC0012

APA Group supplementary submission – Rebate and Rebateable Rule change proposal

APA Group makes this supplementary submission to the Australian Energy Market Commission (AEMC) in respect of the current Rule change process in relation to Reference and Rebateable services under the National Gas Law.

This submission responds to some specific matters raised by the Australian Energy Regulator (AER) in its submission recently published on the AEMC website. The AER's submission refers to arrangements in respect to the current APA GasNet Victorian Transmission System (VTS) access arrangement in place until 31 December 2012, and its powers in respect to approving the access arrangement revision proposal lodged by APA GasNet on 2 April 2012, which will ultimately replace the current access arrangement.

Revenues returned to customers during the current access arrangement period

The AER's submission asserts that the current access arrangement does not permit or mandate the return to customers of revenue associated with the AMDQ credit certificate 'volume effect'. The AER states in its submission:

...the AER notes that if AMDQ CC *was* a rebateable service, only then could its revenue be rebated against the reference tariff.¹

APA Group notes that this conclusion is reached by the AER notwithstanding the fact that over the first four years of the current access arrangement period, it has approved demand adjustments that have led to tariff variations returning approximately \$5.2 million to customers in relation to the AMDQ CC volume effect.

The AER's narrow conclusion appears to relate to its focus (as well as that of its legal advice) on its role in determining reference and rebateable services, rather than the tariff variation process. APA Group does not consider that this focus is appropriate or reflective of the current and expected future arrangements in relation to the VTS access arrangement.

¹ Australian Energy Regulator 2012, *AER submission in response to the AEMC Draft Determination*, 27 April, p 7

Revenue control model as part of approved access arrangement

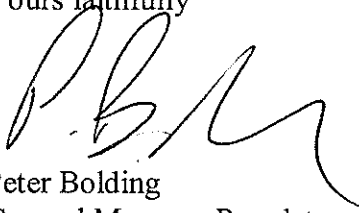
APA Group notes that its Price Control Formula and Revenue Control Model, which included the return to customers of volume-related AMDQ CC revenue, were submitted to the AER as part of its revision proposal in 2007 and subsequently approved by the AER in 2008. This model has since been used in its annual tariff variation processes throughout the 2008-12 access arrangement period. It has considered the approved model as effectively part of the approved access arrangement, and therefore not able to be altered outside of the access arrangement revision process under National Gas Rules (in particular Rules 52 or 65).

In contrast, the AER appears to consider that the revenue control model is not part of the approved access arrangement, and therefore potentially subject to change during an access arrangement period. APA Group does not consider that this interpretation is consistent with its approval of the tariff variation mechanism in the current access arrangement, which specifically references the revenue control model.

APA GasNet has recently lodged a revised access arrangement with the AER for the period 1 January 2013 to 31 December 2017. APA GasNet's proposed access arrangement incorporates substantially the same Price Control Formula as it applied in the current access arrangement period. It is APA Group's understanding that, having lodged its revision proposal, it can only revise the proposal with the AER's consent (Rule 58(3)). Therefore, the AER's concerns with respect to the upcoming access arrangement period related to its ability to 'require' the return of these revenues absent a change to the definition of rebateable services under the Rules is unfounded.

APA Group would be pleased to discuss any aspect of this supplementary submission with the AEMC at its convenience. Please contact Peter Bolding on (02) 9693 0053.

Yours faithfully



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