



Australia's energy infrastructure partner

# South West Queensland Pipeline form of regulation review



## APA welcomes the Australian Energy Regulator's (AER) draft decision recommending that the South West Queensland Pipeline (SWQP) should not be subject to full price regulation (scheme regulation)

### Background

The AER initiated a review of the form of regulation to apply to the SWQP on 6 March 2024. On 9 October the AER released a draft decision recommending that the SWQP should not be subject to full price regulation (scheme regulation) and that the existing light regulation regime (non-scheme regulatory regime) should remain in place.

### Summary of the AER's draft decision

The AER found that, "the benefits of scheme regulation are not certain, and the costs of scheme regulation are likely be higher". The AER also found...

- That a scheme pipeline determination created risks to future investment that could have broader implications for the east coast gas market and possible supply shortfalls
- That recently introduced improvements to the non-scheme regulatory regime may improve shippers' ability to negotiate access.
- While acknowledging that the extent to which actual prices paid would fall under scheme regulation is not clear, the AER asserted that prices for services provided by the SWQP could be between 33% and 59% lower under scheme regulation.

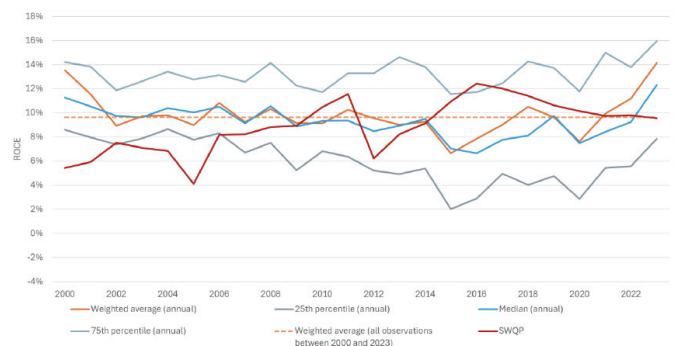
### Price reductions of 33% to 59% for SWQP services are unrealistic

**Any change in prices under scheme regulation would depend on the methodology used to establish the initial Regulatory Asset Base. The estimates in the AER's draft decision are based on regulated asset base (RAB) methodologies that APA believes are not appropriate.**

- The AER's analysis assumes unrealistic asset values for the SWQP.
- The AER's price reductions are predicated on a \$800m write down of the asset value.
- The SWQP's average annual pre-tax return over the last 5 years when using actual asset value is 8%<sup>(1)</sup> per year.
- APA has delivered expansion to meet market demand since the SWQP was constructed in the 1990s and the prices shippers pay have not increased in real terms over this period.

### Returns from similar pipeline assets globally shows SWQP returns are not excessive

Interquartile range of annual returns for the full sample<sup>(2)</sup> vs SWQP returns



Source: CEG Consultation on form of regulation for the SWQP, 27 March 2024

On an "apples for apples" historical cost accounting basis, SWQP has been earning returns within the range of comparable pipelines.

This is critical to SWQP's ability to compete for capital in global capital markets.

### If SWQP returns were reduced to a regulated level, it would be difficult for SWQP to attract capital to fund needed expansions

<sup>1</sup> Calculated based on audited Part 23 reporting which assumes actual asset value  
<sup>2</sup> Full sample includes 122 gas and petroleum businesses and mostly located in the US. 101 of these businesses operate in the OECD and 82 of these operate in the US. Analysis of this sample is included in Appendix J - CEG - Consultation on the form of regulation for the SWQP, 27 March 2024.

## Nimble and responsive investment in infrastructure capacity to increase the flow of gas north to south is essential to meet demand

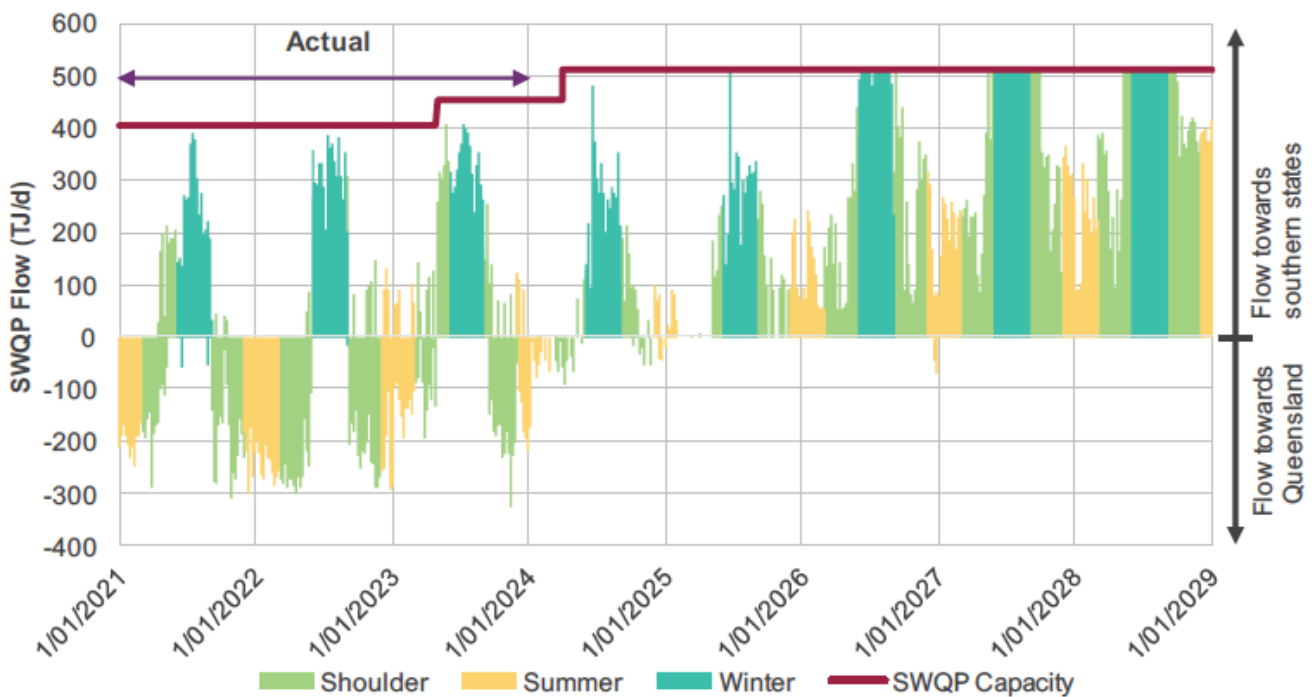
AEMO’s 2024 Gas Statement of Opportunities (GSOO) highlights the urgent need for investment if gas supply from 2028 is to keep up with demand from homes and businesses, and for gas-powered electricity generation.

APA has invested \$700 million in the East Coast Grid since May 2021 to help meet increasing gas market demand.

AEMO and APA expect an increase in demand for pipeline services in the short-term, and a need for further significant investment to meet this demand.

In light of regulatory uncertainty, APA deferred the Financial Investment Decision on further investment in infrastructure expansion.

**Figure 37 Actual (2022 to 2023) and projected (2024 to 2028, Step Change) gas flows along the SWQP (TJ/d) – positive flows are southbound**



Source: AEMO Gas Statement of Opportunities: For Australia's East Coast Gas Market, March 2024

## A supportive investment environment is needed to meet the challenges ahead



### What is the challenge?

- Critical projects needed to deliver new gas supply (like East Coast Grid expansions, Beetaloo) are extremely complex and risky
- These projects require the right rates of return to attract capital – regulatory risk is a key consideration for investors
- Regulatory risk will impact willingness of shippers to take foundation contract risks



### What is needed?

- An environment that supports nimble and responsive investment
- Confidence that projects can earn rates of return commensurate with their risk
- Confidence for foundation shippers