Regulatory issues

Final decision on Central West Pipeline

The Commission issued its final decision on the Central West Pipeline (CWP) access arrangement on 30 June 2000. The decision sets out the amendments which must be made before the Commission approves the access arrangement. The pipeline is owned and operated by APT Pipelines (NSW) Pty Limited (APT), part of the recently listed Australian Pipeline Trust.

The access arrangement describes the terms and conditions under which APT will make access available to third parties for transmission of natural gas from Marsden to Dubbo, NSW. Under the initial access arrangement proposed by APT, users would have paid much higher natural gas transmission charges over the life of the assets than other gas users in regional NSW.

After an extensive assessment process, the Commission determined that the appropriate return on equity for the CWP is 15.4 per cent which is significantly below that proposed by APT in its original proposal. The allowed return is the basis on which tariffs will be set over the next ten years for the region.

However, the rate of return should not be considered in isolation but in light of other aspects of the access arrangement which address the inherent risks of greenfields projects (newly developed infrastructure without sufficient foundation contracts) such as the CWP. In particular, the Commission has approved mechanisms including:

- an extended regulatory period of up to ten years;
- a framework that provides incentives to APT to outperform its forecasts and potentially earn returns well above the benchmark return; and
- provision for APT to capitalise early revenue losses until demand grows in the future.

These incentives encourage businesses to operate more efficiently.

In making this decision the Commission has demonstrated that a regulatory framework under the National Gas Code can accommodate the particular characteristics of a project. A key consideration for the Commission has been to balance the risks and rewards for APT.

APT has cooperated with the Commission in addressing issues relating to the access arrangement. Before final approval is granted, the amendments specified in the final decision must be made to the access arrangement.

Copies of the final decision are available from the Commission's website under Gas at <http://www.accc.gov.au>.

Airport investment

Multi-user passenger terminal at Melbourne airport

On 17 August 2000 the Commission approved a new charge of $1.65 per passenger to fund the construction of an $8.4 million domestic passenger terminal at Melbourne airport for new entrant airlines such as Virgin Blue and Impulse Airlines.

It was the Commission's final decision in response to an application by Australia Pacific Airport Melbourne (APAM).

Currently Qantas and Ansett provide domestic terminal facilities at Melbourne airport but the new facility will allow competitors such as Impulse and Virgin to operate independently. It has been designed in consultation with potential users and is a cost-effective way of servicing new entrants.

In April 2000 the Commission had issued a draft decision supporting the construction of the

facility, but opposing the $2.20 per passenger charge requested by APAM. The Commission's draft decision, which proposed a charge of $1.28 per arriving and departing passenger, took into account an agreement between APAM and Impulse for a charge of $1.65 per passenger. However, lack of support for the proposal from Virgin, and the Commission's own cash flow modelling suggested that the $2.20 proposed by APAM and the $1.65 agreed between APAM and Impulse may have been unnecessarily high.

APAM and Virgin then further negotiated the use of the facility and an agreement by all parties was reached: that is, $1.65 per arriving and departing passenger, with discounts available to the new entrant airlines as negotiated and agreed to by the parties.

Apron investment at Canberra airport

On 3 August 2000 the Commission approved a charge of $0.589 per arriving and departing passenger to fund a major apron expansion at Canberra airport.

The decision was in response to an application by Canberra airport to increase charges to recover the costs of the project.

The new apron will be available for use by all airlines, catering for Impulse Airlines and other new entrants, as well as accommodating growth by Qantas and Ansett. The decision paves the way for construction of additional aircraft parking bays at the airport.

The regulatory arrangements applying at Canberra and the other price capped airports allow airport operators to apply to the Commission to recover the costs of necessary new infrastructure expenditure by increasing charges outside the cap.

The new investment provisions encourage airport operators and users to consult on the investment needs of the airports, their timing and the prices associated with them.

In this case not all users agreed on the need for the apron expansion at Canberra airport. Ansett and Impulse supported the project but Qantas did not. The lack of agreement made the Commission's consideration of the proposal more difficult. The operational issues involved need to be resolved by the industry. Canberra airport, Impulse and Ansett undertook detailed consultation but Qantas did not participate in the process.

The charge approved by the Commission to recover the costs associated with the apron expansion is lower than that proposed by Canberra airport. This is because the Commission's decision adopts a lower rate of

return and a lower land rental value than proposed. Also costs associated with the development of a master plan were excluded.

In making its decision the Commission expressed reservations about the charging structure proposed. Canberra airport opted for a per passenger charge, however passenger numbers do not accurately reflect resource consumption. Aircraft size and weight are the primary drivers of apron costs. Aircraft MTOW (maximum take-off weight) based charges capture this more effectively than passenger based charges.

Melbourne airport: package of new investments

In August 2000 the Commission released its decision on a proposal by Australia Pacific Airport Melbourne (APAM) to increase aeronautical charges at Melbourne airport to recover the costs of investment projects at the airport.

The decision approved an increase in the landing charge of 7.9398 cents per tonne and an increase in the international passenger charge of 3.025 cents per tonne.

The investments include the extension of the elevated road which services the terminal buildings, widening of the southern freight apron, and some smaller projects concerned with environmental management. It also includes projects to lift the levels of service and safety in the international terminal.

The recommended increases are less than those sought by APAM. APAM's proposal included a number of projects which the Federal Airports Corporation (FAC) had committed to before granting the lease of Melbourne airport to APAM. These projects include widening the southern freight apron and installing an air monitoring station.

This issue also arose recently when the operator of Darwin airport sought approval to increase charges to recover the costs of two taxiway projects that the FAC had largely completed before the lease was granted.

Both the Darwin and the Melbourne airport proposals highlight the question of whether the costs of investments initiated and/or undertaken by the FAC should be recoverable by the new private operators of the airports.

The Commission's decision is that they should not be for several reasons. One is that the provisions were designed to provide incentives for the timely development of necessary aeronautical infrastructure. Another was that no commitment was made to airport bidders to allow cost recovery on any particular new investments, including those undertaken or initiated by the FAC.

Copies of the above decisions are available on the Commission's website at <http://www.accc.gov.au>.

National Electricity Code changes

On 11 August 2000 the National Electricity Code Administrator (NECA) and the National Electricity Market Management Company Ltd (NEMMCO) lodged applications for authoris-ation (Nos A90739–41) to accommodate the introduction of full retail competition (FRC). On 23 August NECA lodged applications for authorisations (Nos A90742–44) to incorporate new ancillary services arrangements.

The FRC code changes:

- introduce transitional arrangements for metering that recognise the existing domestic metering infrastructure;
- require jurisdictions to appoint a metrology coordinator to be responsible for the development of metrology procedures that facilitate the conversion of metering data into a format suitable for use in the current wholesale market settlements system; and
- clarify the role and responsibilities of the person responsible for metering.

The new ancillary services arrangements include:

- an interim market for frequency control ancillary services — featuring a week ahead, pay as bid market for eight frequency control services;

- a transitional market for frequency control ancillary services — featuring a one-way market, with a clearing price for eight frequency control services; and
- ongoing contract markets for network control and system restart ancillary services.

The Commission called for interested parties to lodge submissions by 15 September 2000 for FRC and 6 October 2000 for ancillary services.

Reopened public consultation

In the course of examining the proposed code changes to settlement statements revisions, the Commission noted that the style used in the NECA report for identifying changes to the code differed significantly from that usually employed. To ensure that interested parties were not disadvantaged by the deviation from the normal formatting style the Commission reopened consultation on the proposed changes until 8 September 2000.

Photography by Arthur Mostead.