Moomba to Adelaide Pipeline System: Standing price information

The Gas Transportation Agreement published on Epic's website contains standing terms for pipeline services on the MAPS, including standing prices for services.

The standing prices have been calculated using a "building block methodology". This methodology calculates a "revenue requirement" for each year. As the standing price is offered in respect of a five year term, a revenue requirement for each of the years in the five-year period commencing July 2017 and ending June 2022 has been calculated. This revenue requirement is then divided by the forecast demand, which gives a per GJ/day tariff.

The building blocks used in the methodology are:

- indexation of the asset base;
- return on capital;
- return of capital;
- estimated cost of corporate income tax; and
- forecast operating expenditure.

Further detail on each of the building blocks is provided below.

Building blocks

Indexation of the asset base

The value of the asset base[1] has been calculated by applying the Recovered Capital Method defined in the Financial Reporting Guidelines for Non-Scheme Pipelines issued by the AER. The value has been calculated by:

- taking the value for the asset base as determined when the MAPS was previously regulated under an Access Arrangement by the ACCC in 2001-2005;
- rolling this forwards using the Recovered Capital Method to 30 June 2017;

[1] The valuation under the Recovered Capital Method at 30 June 2017 will be subject to a limited assurance review as set out in the Financial Reporting Guideline for Non-Scheme Pipelines (FRG). Epic will publish the valuation following this methodology after the review specified in the FRG has been completed, by 31 October 2018 at the latest.

- rolling the asset base value forward for each of the years during the period 2018-2022. This includes the reduction of the asset base for return of capital included in the revenue requirement calculated for each year.

To calculate the indexation building block, the value of the asset base in each of the relevant years has been indexed by forecast CPI.

Return on capital

The return on capital has been calculated as a benchmark weighted average of the return on equity and return on debt. This return is applied to the value of the asset base in each of the relevant years to give the return on capital building block.

The return on equity has been calculated using the SLCAPM method applied by the AER as the foundation model for estimated return of equity. An equity beta of 1.0 has been applied, consistent with the MAPS being an unregulated pipeline subject to competition.

The return on debt has been calculated using the method applied by the AER, which is to calculate the simple average of the Bloomberg and Reserve Bank of Australia fair value yields for the broad BBB credit rating band at a term to maturity of ten years. This cost has been averaged over a ten year period ending in March 2017.

Return of capital

Return of capital or depreciation has been calculated on a straight line basis by rolling forward depreciation schedules from the access arrangement updated for capital expenditure and disposals.

Estimated cost of corporate income tax

A statutory income tax rate of 30% has been used. Tax losses and depreciation have been rolled forwards from the access arrangement.

A value for gamma of 0.4 has been used. This is consistent with the value the AER has adopted for this parameter throughout 2017.

Forecast operating expenditure

Forecast operating expenditure has been forecast using a long-term forecast.

Revenue requirement

The revenue requirement is calculated for a five-year period and then averaged to determine an annualised revenue.

The annualised revenue requirement is then divided by contracted and forecast recontracted volumes, which are also averaged over a five-year period. This results in a fixed firm tariff for a five year term of $0.77 per GJ/day (in $2017). Other tariffs have been calculated with reference to a premium or discount to this fixed firm tariff.