

In accordance with National Gas Rule (NGR) requirements, SEA Gas outlines below the methodology used to establish standing prices for services on its relevant pipeline assets.

SEA Gas business model and approach

SEA Gas provides an essential service and brings energy to the community through ownership and operation of gas transmission pipelines.

This ownership has necessitated large investment in the pipeline infrastructure which requires access to capital. Looking forward, SEA Gas expects to continue to need to invest in order to ensure its pipelines remain suited to provide services sought by customers as the gas market evolves. SEA Gas is able to access capital by demonstrating business sustainability through lower risk exposure and an ability to earn long term commercial returns. SEA Gas is financed using both debt and equity (capital).

To enable SEA Gas to have access to the required capital on terms appropriate to the business, SEA Gas' preference is to seek firm, longer term contracts with creditworthy counterparties thereby reducing the risk to the business and supporting business sustainability.

SEA Gas seeks to maximise contracted pipeline capacity and is incentivised to negotiate and agree flexible, tailored arrangements with customers, as required, to ensure those customers' needs are met. This provides a basis to access capital on appropriate terms thus ensuring business sustainability. This then allows SEA Gas to meet all stakeholder needs including providing a competitive service to customers.

SEA Gas' standing price methodology reflects this business model.

Methodology used to establish Standing Prices

SEA Gas' standing prices reflect SEA Gas' standard offerings for services on its pipelines using its Standard Gas Transportation Agreement.

The SEA Gas pipeline assets were borne out of a highly competitive process and the initial foundation tariffs that applied from commencement of operations in January 2004 until the end of 2018 were established in the context of that environment.

The foundation tariffs provided for a reasonable return on capital invested, and recovery of forecast operating costs, during the foundation contract term. However, the foundation tariffs did not, and were not intended to, recover the full capital and operating costs over the foundation contract period. Accordingly, at the end of 2018, when the majority of foundation shipper contracts expired, SEA Gas was left with a significant amount of unrecovered capital. SEA Gas' approach since 2018 has, therefore, been to set tariffs at a level that allow it to continue to sustain long term commercial returns.

SEA Gas operates in a competitive market. The Port Campbell to Adelaide (PCA) pipeline is one of two pipelines servicing the Adelaide region, the aggregate capacity of which exceeds peak market demand

by more than 100TJ/d. This creates competitive tension in setting tariffs for pipeline services and constrains either pipeline’s ability to exercise market power.

SEA Gas understands that shippers have alternatives to the PCA pipeline to meet their gas transportation requirements in South Australia. Hence, it has a preference for larger, longer term loads that contribute to sustained revenue certainty, over smaller shorter, term loads. Therefore, SEA Gas's standing offers for all firm services (Firm Forward Haul, Standard Storage and Premium Storage on the PCA pipeline and Haulage Service on the Port Campbell to Iona (PCI) pipeline) each reflect a defined capacity and term.

From market engagement during 2018, it became apparent that SEA Gas was unlikely to be successful in fully contracting the PCA pipeline as the foundation contracts expired. Indications at the time were that only around 85% of PCA pipeline capacity was likely to be taken up in aggregate and the outlook was highly uncertain beyond the first few years.

The standing prices for standard services have therefore been set at a level that, in the context of the competitive market in which SEA Gas operates and anticipated demand for services, are designed to support long term business sustainability.

The table below provides a summary of the annual revenues generated since FY18, the last financial year prior to majority of foundation shipper agreements expiring, as a result of SEA Gas applying its pricing methodology.

Pipeline	Service	Annual Revenue (nominal \$m)				
		FY18	FY19	FY20	FY21	FY22
PCA	Foundation Shipper ¹	\$72.2	-	-	-	-
	Firm Forward Haul	-	\$60.3	\$49.4	\$46.6	\$38.6
	Storage (Standard & Premium)	-	\$7.1	\$23.5	\$25.9	\$26.7
	Backhaul	-	\$0.2	\$0.2	\$0.1	\$0.1
	Other	-	\$4.7	\$5.3	\$6.1	\$7.2
PCI	Foundation Shipper ²	\$2.5	-	-	-	-
PCI	Haulage	-	\$1.9	\$1.8	\$1.8	\$1.9
PCI	Other	-	\$0.5	\$0.5	\$0.5	\$0.6
PCA & PCI	Total	\$74.7	\$74.7	\$80.7	\$81.0	\$ 75.0

It can be seen that the decline in revenue from Firm Forward Haul services on the PCA pipeline has in essence, been offset by increases in revenue generated from other services (primarily storage) that are of value to customers and, thereby, SEA Gas’ pricing methodology has thus far proven effective in supporting business sustainability.

¹ Revenue from any enduring foundation shipper services on the PCA pipeline beyond FY18 is incorporated under the relevant service category from FY19 onwards.

² Revenue from any enduring foundation shipper services on the PCI pipeline beyond FY18 is incorporated under the relevant service category from FY19 onwards.

1. PCA Pipeline

(a) Firm Forward Haul Service

The PCA pipeline Firm Forward Haul Service (FFH) is a firm service that provides for forward flow, between receipt and delivery points, in a westerly direction.

The published offering for the FFH Service reflects a capacity booking of 10TJ/d for a term of 5 years. The standing price for this service is ~\$0.95/GJ (calendar year 2022 dollars), by reference to the considerations discussed above.

Specifically, the standing price for the FFH Service was established in 2018 at \$0.88/GJ (calendar year 2019 dollars) having regard to:

- SEA Gas' expectations of demand for contracted capacity on the PCA;
- SEA Gas' commercial interests in supporting its objective of long term business sustainability and ensuring ongoing access to capital, and the role of the FFH Service in contributing to this objective; and
- conditions relevant to the commercial context for customers, including their ability to rely on other options, including the transport of gas from other locations or the use of alternative sources of energy.

The standing price for the FFH Service has remained at this level since 2019, indexed each year on 1 January for changes in consumer price inflation as set out below.

Since 1 January 2019 (when firm capacity on the PCA pipeline first became available following expiry of some of the original SEA Gas foundation shipper contracts), SEA Gas has entered into a number of new contracts for FFH Services, both with the original foundation customers and new customers. These customers are generally informed and sophisticated shippers who chose contracting with SEA Gas over competing alternatives.

Over this time, SEA Gas has consistently been able to agree prices for newly contracted FFH Services that are similar to the standing price. These tariffs range from ~\$0.71/GJ to ~\$1.02/GJ (calendar year 2022 dollars). The variation in the range of tariffs relative to the standing price reflects a number of factors, including variations in the level of capacity contracted, the service term, peak hourly entitlements and whether the haulage service is stand-alone or part of a broader suite of services under the same contract.

The standing price for the FFH Service escalates annually on 1 January in accordance with the following formula:

$$\text{PFFHS}_n = \text{PFFHS}_{n-1} * (1 + (\text{CPI}_n - \text{CPI}_{n-1}) / \text{CPI}_{n-1})$$

Where:

PFFHS_{n-1} is the standing price for the FFH Service immediately prior to the 1 January for which the calculation is made;

PFFHS_n is the standing price for the FFH Service to apply from the 1 January for which the

calculation is made;

- CPI_n** is the CPI for the September Quarter ending immediately prior to the 1 January for which the calculation is made;
- CPI_{n-1}** is the CPI for the September Quarter ending 15 months prior to the 1 January for which the calculation is made; and
- CPI** is the Consumer Price Index, (weighted average eight capital cities, all groups index) as published by the Australian Bureau of Statistics.

(b) Standard Storage Service

The PCA pipeline Standard Storage Service is a firm service that provides for the storage of gas at a notional point on the pipeline. Separate haulage services are required in order to move the stored gas between the relevant receipt and delivery points. The published offering for the Standard Storage Service reflects a capacity booking of 30TJ for a term of 5 years. The standing price for this service is ~\$0.33/GJ (calendar year 2022 dollars).

The standing price for the Standard Storage Service is calculated to reflect the opportunity cost to SEA Gas of committing capacity on the PCA pipeline to storage rather than to haulage. The provision of storage services requires SEA Gas to sterilise pipeline capacity that could otherwise be made available for haulage services. In its current configuration, each unit of capacity made available for storage services on the PCA pipeline reduces the available haulage capacity by ~0.345 units. Accordingly, the standing price for the Standard Storage Service is ~34.5% of the standing price for the FFH Service.

Since 1 January 2019, SEA Gas has consistently been able to agree prices for newly contracted Standard Storage Services that are similar to the standing price. These tariffs range from ~\$0.24/GJ to ~\$0.47/GJ (calendar year 2022 dollars)³. The variation in the range of tariffs relative to the standing price reflects a number of factors, including variations in the level of capacity contracted, the service term and whether the storage service is stand-alone or part of a broader suite of services under the same contract.

The standing price for the Standard Storage Service escalates annually on 1 January in accordance with the following formula:

$$PSSS_n = PSSS_{n-1} * (1 + (CPI_n - CPI_{n-1}) / CPI_{n-1})$$

Where:

- PSSS_{n-1}** is the standing price for the Standard Storage Service immediately prior to the 1 January for which the calculation is made;
- PSSS_n** is the standing price for the Standard Storage Service to apply from the 1 January for which the calculation is made;
- CPI_n** is the CPI for the September Quarter ending immediately prior to the 1 January for which the calculation is made;
- CPI_{n-1}** is the CPI for the September Quarter ending 15 months prior to the 1 January for which the calculation is made; and
- CPI** is the Consumer Price Index, (weighted average eight capital cities, all groups index) as published by the Australian Bureau of Statistics.

³ The range of tariffs quoted includes Premium Storage services converted back to Standard Storage service equivalent pricing (by dividing by 1.3).

(c) *Premium Storage Service*

The PCA pipeline Premium Storage Service is a firm service that provides for the storage of gas at a notional point on the pipeline system. This service comes with inherent storage recharge and discharge rights (which are a function of the customer's storage inventory relative to their storage Maximum Daily Quantity) that provide flexibility to move the stored gas between relevant receipt and delivery points without the requirement for additional haulage services.

The published offering for the Premium Storage Service reflects a capacity booking of 30TJ for a term of 5 years. The standing price for this service is ~\$0.42/GJ (calendar year 2022 dollars).

The standing price for the Premium Storage service reflects a 30% premium on the Standard Storage Service due to the extra flexibility afforded by the inherent storage recharge and discharge entitlements.

The standing price for the Premium Storage Service escalates annually on 1 January in accordance with the following formula:

$$PPSS_n = PPSS_{n-1} * (1 + (CPI_n - CPI_{n-1}) / CPI_{n-1})$$

Where:

PPSS_{n-1} is the standing price for the Premium Storage Service immediately prior to the 1 January for which the calculation is made;

PPSS_n is the standing price for the Premium Storage Service to apply from the 1 January for which the calculation is made;

CPI_n is the CPI for the September Quarter ending immediately prior to the 1 January for which the calculation is made;

CPI_{n-1} is the CPI for the September Quarter ending 15 months prior to the 1 January for which the calculation is made; and

CPI is the Consumer Price Index, (weighted average eight capital cities, all groups index) as published by the Australian Bureau of Statistics.

(d) Back Haul Swap Service

The PCA pipeline Back Haul Swap Service is a non-firm service dependent on forward flow of the pipeline. The standing price for this service is ~\$0.56/GJ (calendar year 2022 dollars).

The standing price for the Back Haul Swap Service was established in 2018 at \$0.52/GJ (calendar year 2018 dollars) having regard to:

- SEA Gas' commercial interests in supporting its objective of long term business sustainability and ensuring ongoing access to capital, and the role of the Back Haul Swap Service in contributing to this objective; and
- conditions relevant to the commercial context for customers, including their ability to rely on other options, including the transport of gas from other locations or the use of alternative sources of energy.

The standing price for the Back Haul Swap Service has remained at this level since 2019, indexed each year on 1 January for changes in consumer price inflation as set out below.

The standing price for the Back Haul Swap Service is 58.9% of the standing price for the FFH Service and reflects the tariff payable under contracts for the service that were in place prior to the NGR Part 23 requirements coming into effect.

Since 1 January 2019, SEA Gas has consistently been able to agree prices for newly contracted Back Haul Swap Services that are similar to the standing price.

The standing price for the Back Haul Swap Service escalates annually on 1 January in accordance with the following formula:

$$PBHS_n = PBHS_{n-1} * (1 + (CPI_n - CPI_{n-1}) / CPI_{n-1})$$

Where:

PBHS_{n-1} is the standing price for the Back Haul Swap Service immediately prior to the 1 January for which the calculation is made;

PBHS_n is the standing price for the Back Haul Swap Service to apply from the 1 January for which the calculation is made;

CPI_n is the CPI for the September Quarter ending immediately prior to the 1 January for which the calculation is made;

CPI_{n-1} is the CPI for the September Quarter ending 15 months prior to the 1 January for which the calculation is made; and

CPI is the Consumer Price Index, (weighted average eight capital cities, all groups index) as published by the Australian Bureau of Statistics.

2. PCI Pipeline

Haulage Service

The PCI pipeline Haulage Service (the Haulage Service) is a second-tier firm, bi-directional haulage service. The published offering for the Haulage Service reflects a capacity booking of 10TJ for a term of 1 year. The published offering for this service reflects the duration of the capacity currently available for the pipeline and the services typically sought by customers. The standing price for this service is ~\$0.08/GJ (calendar year 2022 dollars).

SEA Gas first established the service in February 2019 after having entered into an inaugural agreement for a firm haulage service on the PCI pipeline with a non-foundation customer. The standing price for the Haulage Service was established in 2019 at \$0.08/GJ (calendar year 2019 dollars) having regard to:

- SEA Gas' expectations of demand for contracted capacity on the PCI;
- SEA Gas' commercial interests in supporting its objective of long term business sustainability and ensuring ongoing access to capital, and the role of the Haulage Service in contributing to this objective; and
- conditions relevant to the commercial context for customers, including their ability to rely on other options, including the transport of gas from other locations or the use of alternative sources of energy.

The standing price for the Haulage Service has remained at this level since 2019, indexed each year on 1 January for changes in consumer price inflation as set out below.

Since 1 January 2019, a small number of contracts for Haulage Services have been entered into, with tariffs ranging from \$0.053/GJ/d to \$0.072/GJ/d (calendar year 2022 dollars). These tariffs are lower than the standing price for the Haulage Service, as the services in question were all point-to-point, single direction services and therefore did not afford the shippers with the flexibility of bi-directional haulage and access to all of the receipt and delivery points available under the published Haulage Service offering.

The standing price for the Haulage Service escalates annually on 1 January in accordance with the following formula:

$$PHS_n = PHS_{n-1} * (1 + (CPI_n - CPI_{n-1}) / CPI_{n-1})$$

Where:

PHS_{n-1} is the standing price for the Haulage Service immediately prior to the 1 January for which the calculation is made;

PHS_n is the standing price for the Haulage Service to apply from the 1 January for which the calculation is made;

CPI_n is the CPI for the September Quarter ending immediately prior to the 1 January for which the calculation is made;

CPI_{n-1} is the CPI for the September Quarter ending 15 months prior to the 1 January for which the calculation is made; and

CPI is the Consumer Price Index, (weighted average eight capital cities, all groups index) as published by the Australian Bureau of Statistics.

3. Alternative Services

SEA Gas offers flexibility in services and pricing and would welcome the opportunity to work with interested parties to develop alternative services to those listed above in response to identified needs. It is intended that any such alternative service offerings will be published by SEA Gas once established.

SEA Gas encourages any interested party to contact SEA Gas at commercial@seagas.com.au to discuss any specific requirements.

The standing prices for the standard services are set out [here](#).