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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.

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### **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.

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### **Methodology used to establish Standing Prices**

#### *(a) Port Campbell to Adelaide (PCA) and Port Campbell to Iona (PCI) pipelines*

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

The SEA Gas PCA and PCI 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,

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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 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 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, initially, 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.

*(b) Mortlake Pipeline*

The Mortlake pipeline is fully contracted for the long term, with all pipeline capacity committed to the provision of firm haulage and storage services to a single use under a legacy agreement entered into in May 2016. Accordingly, SEA Gas is unable to provide similar services to others absent augmentation of the pipeline to fulfil the particular requirements, including the nature of services and capacity requirements, of new users. The feasibility of, cost, and time to effect any such augmentation would need to be assessed on a case-by-case basis, in response to specific requirements.

Notwithstanding the above, SEA Gas’ pricing methodology for the Mortlake pipeline is to reference the actual prices payable for each of the services available pursuant to the legacy contract in place. This is intended to provide prospective users of an idea of the services that may be available if the pipeline was to be augmented, and indicative pricing for the same.

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## 1. PCA Pipeline

### (a) Firm Forward Haul Service

The PCA pipeline Firm Forward Haul (FFH) Service 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 the FFH Service was established in 2018 at \$0.88/GJ (calendar year 2018 dollars) having regard to the considerations above and:

- 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.

Specifically, SEA Gas' standing price for the FFH Service reflects the following, all expressed in calendar year 2018 dollars:

- a target annual revenue from fixed charges set by reference to the fixed revenue from the three foundation contracts (which provided the stable, long-term revenue stream that underpinned the pipeline development) of ~\$67.4m;
- the fact that only one of the three foundation contracts, accounting for ~48TJ/d of the 314TJ/d PCA pipeline nameplate capacity, would continue beyond the end of CY18, with the other two foundation contracts, in aggregate accounting for ~266TJ/d and representing ~85% of the revenue target, allowed to expire;
- a medium term average demand forecast for the FFH Service of ~170TJ/d, reflecting the oversupply of pipeline capacity servicing South Australia of 100TJ/d or more;
- the introduction of connection point charges in SEA Gas' Standard Gas Transportation Agreement, which were forecast to contribute ~\$2.8m/a toward the fixed revenue target;
- accordingly, the remaining fixed revenue target from the FFH Service was \$54.8m, being  $(314 - 48) / 314 * (67.4 - 2.8)$ ; and
- based on the forecast demand of 170TJ/d, this equates to an average tariff of ~\$0.88/GJ.

The tariff of \$0.88/GJ (calendar year 2018 dollars) was adopted as the standing price for the published FFH Service offering of 10TJ/d for a term of 5 years.

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Since 1 January 2019 (when firm capacity on the PCA pipeline first became available following expiry of the two of the three 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, with variations reflecting 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:

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

Where:

**PFHS<sub>n-1</sub>** is the standing price for the FFH Service immediately prior to the 1 January for which the calculation is made;

**PFHS<sub>n</sub>** is the standing price for the FFH Service to apply from the 1 January for which the calculation is made;

**CPI<sub>n</sub>** is the CPI for the September Quarter ending immediately prior to the 1 January for which the calculation is made;


**CPI<sub>n-1</sub>** 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.

The current standing price for the FFH Service is the original standing price of \$0.88/GJ (expressed in 2018 dollars) as escalated in accordance with the formula above.

*(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.

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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.

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<sub>n-1</sub>** is the standing price for the Standard Storage Service immediately prior to the 1 January for which the calculation is made;

**PSSS<sub>n</sub>** is the standing price for the Standard Storage Service to apply from the 1 January for which the calculation is made;

**CPI<sub>n</sub>** is the CPI for the September Quarter ending immediately prior to the 1 January for which the calculation is made;

**CPI<sub>n-1</sub>** 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.

*(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 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.

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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<sub>n-1</sub>** is the standing price for the Premium Storage Service immediately prior to the 1 January for which the calculation is made;

**PPSS<sub>n</sub>** is the standing price for the Premium Storage Service to apply from the 1 January for which the calculation is made;

**CPI<sub>n</sub>** is the CPI for the September Quarter ending immediately prior to the 1 January for which the calculation is made;

**CPI<sub>n-1</sub>** 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 the Back Haul Swap Service was established in 2018 at a fixed monthly fee of \$1,005 plus a variable rate of \$0.52/GJ (each in 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 is ~58.9% of the standing price for the FFH Service and essentially reflects the tariffs payable under two legacy contracts for the service that were put in place in 2014 and 2017, prior to the original NGR Part 23 (subsequently replaced by NGR Part 10) 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.

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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<sub>n-1</sub>** is the standing price for the Back Haul Swap Service immediately prior to the 1 January for which the calculation is made;


**PBHS<sub>n</sub>** is the standing price for the Back Haul Swap Service to apply from the 1 January for which the calculation is made;

**CPI<sub>n</sub>** is the CPI for the September Quarter ending immediately prior to the 1 January for which the calculation is made;

**CPI<sub>n-1</sub>** 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.

The current standing price for the Back Haul Swap Service is the original standing price of \$1,005 per month and \$0.52/GJ (each expressed in 2018 dollars) as escalated in accordance with the formula above.

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## 2. PCI Pipeline

For the avoidance of doubt, legacy contracts in place account for 100% of the PCI pipeline capacity. Accordingly, absent pipeline augmentation, SEA Gas is unable to provide any of the following services to prospective users of the PCI pipeline whilst the legacy contract remains on foot.

SEA Gas encourages prospective users of the PCI pipeline to contact SEA Gas at [commercial@seagas.com.au](mailto:commercial@seagas.com.au) to discuss potential to augmentation of the pipeline to meet any specific requirements.

### (a) Haulage Service

The PCI pipeline Haulage Service (the Haulage Service) is a second-tier firm, bi-directional haulage service.


SEA Gas first established the service in February 2019, following uncontracted PCI capacity becoming available for the first time and 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 – in particular:
  - declining production at that time from legacy fields, including the near-term end of Minerva field life;
  - alternative pathways to the Victorian market (including from the PCA pipeline via the Iona gas plant and the ability to access PCI pipeline capacity through the day ahead auction from March 2019);
  - the pressure differential between the PCI and the DTS, which inhibits transportation on the PCI pipeline in an east – west direction on a firm basis;
  - the contracted capacity and supply position of shippers with enduring long-term contracts on the PCI pipeline;
- 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 is derived from the benchmark revenue from the foundation contracts. Specifically, the standing price is set at a level that would replicate the fixed revenue from one of the two PCI pipeline foundation contracts falling away, based on:

- assumed non-foundation shipper demand of 25TJ/d; and
- revenue from each of the Foundation Shipper agreements of \$61,749 per month (calendar year



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2019 dollars) for 200TJ/d of capacity and an effective term of 20 years.

Accordingly, the initial standing price for the Haulage Service was set at \$0.08/GJ (calendar year 2019 dollars).

The published offering for the Haulage Service reflects a capacity booking of 10TJ/d for a term of 1 year.

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<sub>n-1</sub>** is the standing price for the Haulage Service immediately prior to the 1 January for which the calculation is made;

**PHS<sub>n</sub>** is the standing price for the Haulage Service to apply from the 1 January for which the calculation is made;

**CPI<sub>n</sub>** is the CPI for the September Quarter ending immediately prior to the 1 January for which the calculation is made;

**CPI<sub>n-1</sub>** 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.


The current standing price for the Haulage Service is the original standing price of \$0.08/GJ (expressed in 2019 dollars) as escalated in accordance with the formula above.

As the PCI pipeline is fully contracted from 1 January 2024 to 31 December 2028, SEA Gas will be unable to offer the Haulage Service prior to 1 January 2029.

### 3. Mortlake Pipeline

For the avoidance of doubt, the legacy contract in place accounts for 100% of the Mortlake pipeline capacity. Accordingly, absent pipeline augmentation, SEA Gas is unable to provide any of the following services to prospective users of the Mortlake pipeline whilst the legacy contract remains on foot.

SEA Gas encourages prospective users of the Mortlake pipeline to contact SEA Gas at [commercial@seagas.com.au](mailto:commercial@seagas.com.au) to discuss potential to augmentation of the pipeline to meet any specific requirements.

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*(a) Firm Haulage Service*

The Mortlake Pipeline Firm Haulage Service is a firm service that provides for forward flow from the PCI receipt point to a downstream delivery point (where forward flow reflects the movement of gas from the PCI Pipeline towards the Mortlake power station).

The existing capacity currently available for the Firm Haulage Service, and the only delivery point currently available for the service, are fully contracted to an existing shipper pursuant to legacy arrangements. Accordingly, SEA Gas is unable to provide the Firm Haulage Service absent augmentation of the pipeline to fulfil the particular requirements, including the nature of services and capacity requirements, of new users. The feasibility of, cost, and time to effect any such augmentation would need to be assessed on a case-by-case basis, in response to specific requirements.

The indicative price for the Firm Haulage Service reflects a capacity booking of 150TJ/d for a term of 15 years. The indicative price for this service is \$0.23323/GJ (calendar year 2024 dollars).

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

$$PFHS_n = PFHS_b * (1 + 0.9 * (CPI_n - CPI_b) / CPI_b)$$

Where:

**PFHS<sub>b</sub>** is \$0.19/GJ;

**PFHS<sub>n</sub>** is the indicative price for the Firm Haulage Service to apply from the 1 January for which the calculation is made;

**CPI<sub>n</sub>** is the CPI for the September Quarter ending 15 months prior to the 1 January for which the calculation is made;

**CPI<sub>b</sub>** is the CPI for the September Quarter 2015, being 108.0; and


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

*(b) Storage Service*

The Mortlake Pipeline Storage Service is a firm service that provides for the storage of gas received from the PCI Pipeline for subsequent delivery.

The existing capacity currently available for the Storage Service is fully contracted to an existing shipper pursuant to legacy arrangements. Accordingly, SEA Gas is unable to provide the Storage Service absent augmentation of the pipeline to fulfil the particular requirements, including the nature of services and capacity requirements, of new users. The feasibility of, cost, and time to effect any such augmentation would need to be assessed on a case-by-case basis, in response to specific requirements.

The indicative price for the Storage Service reflects a capacity booking of 50TJ for a term of 15 years. The indicative price for this service is \$0.58853/GJ (calendar year 2024 dollars).

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

$$PSS_n = PSS_b * (1 + 0.9 * (CPI_n - CPI_b) / CPI_b)$$

Where:

**PSS<sub>b</sub>** is \$0.47945/GJ;

**PSS<sub>n</sub>** is the indicative price for the Storage Service to apply from the 1 January for which the calculation is made;

**CPI<sub>n</sub>** is the CPI for the September Quarter ending 15 months prior to the 1 January for which the calculation is made;

**CPI<sub>b</sub>** is the CPI for the September Quarter 2015, being 108.0; and

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

*(c) As Available Haulage Service*

The Mortlake Pipeline As Available Haulage Service is an as available service that provides for forward flow from the PCI receipt point to a downstream delivery point (where forward flow reflects the movement of gas from the PCI Pipeline towards the Mortlake power station). The only delivery point currently available for the As Available Haulage Service is the Mortlake power station, which is dedicated to the existing shipper pursuant to the legacy contract.

The indicative price for the As Available Haulage Service is 135% of the indicative price for the Firm Haulage Service.

#### 4. 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](mailto:commercial@seagas.com.au) to discuss any specific requirements.

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