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Ref: C081-IPX-ZTH-LE-00001

14 March 2018

Australian Energy Market Commission
PO Box A2249
Sydney South NSW 1235

RE: NT Emergency Gas - Project Reference Code GRC0052

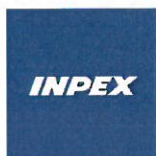
INPEX Operations Australia Pty Ltd (**INPEX**) welcomes the opportunity to provide a submission in response to the *National Gas Amendment (NT Emergency Gas Supply Arrangements Consultation Paper)* dated 7 February 2019 (**Consultation Paper**).

The Consultation Paper was drafted to discuss a National Gas rule change request submitted by the Northern Territory Government in November 2018 to the Australian Energy Market Commission (**Rule Change Request**). Consistent with guidance provided by the Australian Energy Regulator (AER) in July 2018 that this would be an appropriate course of action, INPEX supports the Rule Change Request.

Both the Rule Change Request and the Consultation Paper provide a good summary of the issues and the ways in which the two Northern Territory-based LNG projects differ from LNG projects on the east coast.

In summary, INPEX requests to be exempt from the Tranche 1 reporting to the National Gas Bulletin Board, as an LNG exporter, through the Ichthys LNG Project. Ichthys LNG is supplied exclusively from offshore gas fields and does not draw down on the domestic gas market. As gas demand in the Northern Territory is already fully met through existing contracts with other suppliers, all gas from Ichthys LNG is exported. Commercial and physical arrangements are in place to allow gas from Ichthys LNG to be supplied to the Northern Territory market as back-up in the event of an emergency.

Ichthys LNG's key international customers have long term contracts for petroleum products including LNG, LPG and condensate. It is thus likely that the publishing of sensitive commercial production information will have an adverse impact and could create a commercial disadvantage for INPEX.



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Background – INPEX and Ichthys LNG

INPEX has been involved in the Australian business community for more than thirty years. Our flagship project, the Ichthys LNG, is currently progressing through commissioning and ramp-up phases after commencing production in late 2018. Ichthys is the single largest Japanese investment globally, outside of Japan and one of Australia's largest ever resources projects. The project has been granted Major Project Facilitation (MPF) status by the Australian Government due to the magnitude of the capital investment and the input the project will have to economic growth, exports and employment.

Ichthys LNG has employed a construction workforce of more than 10,000 people in Darwin and will provide significant revenue to Federal, State and Territory governments and export revenue for the nation for more than 40 years.

Ichthys LNG was established purely as an export project and—in contrast to Gladstone-based LNG facilities—sources feed gas for LNG production exclusively from an offshore reservoir¹ with no gas sourced from the domestic market.

Background – Connection to the Northern Territory Gas Market

The connection between the Ichthys facilities and the domestic Northern Territory gas market is incidental to the primary activity of Ichthys LNG and is via a Power and Water Corporation (PWC) owned/operated lateral pipeline. This pipeline was established for the dual purposes of:

- PWC providing gas to the Ichthys facility for the commissioning of equipment²
- Enabling the Ichthys facility to provide emergency gas supply to PWC for power generation assets in the Darwin area

Supply of PWC gas via the lateral pipeline for the purpose of commissioning equipment is now largely complete and will cease by late 2019.

Emergency gas supply to PWC is not yet possible (due to certain equipment not yet operating) but should be available by late 2019. The capacity of the PWC lateral pipeline under emergency supply from the Ichthys facility is yet to be tested. However, it will be limited to a small fraction of the overall LNG facility. Furthermore, the offtake point within the facility as required to meet the domestic gas specification is at a lower pressure than the normal operating pressure of the Wickham Point Pipeline (WPP) connected to the lateral. Therefore, gas flow from the Ichthys facility into the PWC lateral pipeline will only be possible under special operating conditions for these pipelines in the Darwin area, consistent with emergency gas supply arrangements (i.e. lower operating pressures).

¹ The Ichthys gas field is located in the Browse basin approximately 220km offshore from the Western Australian coastline and is connected to the Ichthys LNG facilities in Darwin via an 889km pipeline.

² Additionally, in future it is possible that this lateral pipeline could be used to take small amounts of surplus, as available gas from PWC to be consumed in the power generation plant. It is not possible for PWC gas to be routed to the LNG liquefaction trains.



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INPEX understands the concerns expressed by PWC regarding the limited sources of alternative gas supply for the Darwin area, in the event that the primary source of supply (the Blacktip gas field) is not operating. INPEX has undertaken to make reasonable endeavours to provide emergency gas supply to PWC should it be required. Whilst details of commercial arrangements between INPEX and PWC are confidential, contract pricing is broadly consistent with economic alternatives and therefore the commercial incentives to provide emergency gas are modest.

Attached at Annexure 1 are the responses to the specific questions in the Consultation Paper most relevant to INPEX.

Should you have any questions, please do not hesitate to contact Cameron McPhie at cameron.mcphie@inpe.com.au.

Yours sincerely

A handwritten signature in blue ink, appearing to read "Bill Townsend", with a large, stylized loop at the end.

Bill Townsend
Acting Director Corporate Coordination



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Annexure 1

Box 1: COST BENEFIT OF NORTHERN TERRITORY LNG REPORTING ON THE BULLETIN BOARD

- 1) What bearing does information on the NT LNG projects upstream of the connection point with the lateral pipelines have on the domestic market? What is this information likely to be used for and who will benefit from its provision?

INPEX does not believe such information would have any relevance or bearing on the domestic market.

- 2) What drawbacks are there to the domestic market of not being provided with information on these upstream activities?

None, since the information on these upstream facilities has no material relevance to the domestic market.

- 3) Are the additional administrative costs of reporting under Part 18 likely to be significant to the NT LNG operations. Would this data be captured as part of ongoing operations?

The Ichthys facilities upstream of the connection point with the PWC lateral pipeline represents a large and complex integrated system. Whilst there is substantial raw data captured as part of ongoing operations and used for internal purposes, there would be a significant administrative burden involved in providing data appropriate for daily publishing related to these complex operations.

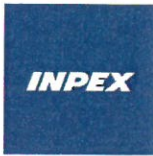
It would require additional investment in systems, processes and personnel to ensure appropriate accuracy and compliance with all reporting expectations.

(Note that this is not considered to be an issue for gas flows through the PWC lateral itself, as these would be relatively simple to provide and would already be published by PWC.)

- 4) In what respects are the NT LNG projects likely to suffer commercial disadvantages in the international market as a result of providing the information required under Part 18?

Potential exists for the Ichthys LNG Project/INPEX to suffer commercial disadvantage in the international market, particularly in relation to LNG, resulting from Part 18 reporting obligations such as production capacity outlooks³. The Ichthys LNG Project has essentially committed 100% of its design LNG output under long term sales agreements. However, in the event of production shortfall from Ichthys, affected buyers can require Ichthys LNG to source LNG from the international LNG market. Also, unlike several other LNG sellers from Australian LNG projects, Ichthys LNG does not have a portfolio of projects to facilitate coverage

³ Proposed tranche 2 reporting obligations appear even more problematic for Ichthys LNG.



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of any shortfall. These factors result in potential commercial vulnerability for Ichthys LNG in the international market if it is forced to disclose certain information publicly.

Box 2: THE CONSIDERATIONS OF THE NT LNG PROJECTS IN MAINTAINING EMERGENCY SUPPLY ARRANGEMENTS

- 1) What are the likely direct and indirect costs of the projects reporting under Part 18?

Direct costs incurred by Ichthys LNG to report under Part 18 would include investments in reporting systems and design of processes to ensure compliance and data accuracy. Additional personnel would also need to be dedicated to managing ongoing reporting including provision for leave cover.

Indirect costs would likely primarily result from potential commercial disadvantage in relation to participation in international LNG markets. For reference of scale, each LNG cargo represents approximately 4 PJ, therefore a \$1/GJ impact equates to \$4 million per cargo.

Box 3: SCOPE FOR AN EXEMPTION UNDER THE EXISTING RULES

- 1) Clarification of the location of the natural gas processing facilities within each project and the point at which gas is processed into a form which is suitable for consumption will assist in determining the data required to be reported under the existing rules.

Ichthys LNG Project was designed solely as an export project. Therefore, no additional natural gas processing facilities specific to the supply of domestic gas were included within the project.

During construction, a connection point was added to the Project from the discharge of a certain compressor within each LNG train where the gas is a suitable composition and temperature, to enable offtake of emergency gas supply. However, the pressure at this point in the liquefaction process is significantly lower than the normal operating pressure of Wickham Point Pipeline (WPP). As a result, gas will only flow through the PWC lateral into the WPP under emergency conditions (i.e. lower operating pressure). The pressure available from Ichthys would be inadequate to support flow south beyond the Bonaparte pipeline tie-in at Ban Ban Springs.

- 2) Are there any circumstances in which rule 164(2) should not allow for an exemption for any flows of gas from the LNG projects to the connection to the domestic market?

The Ichthys LNG Project intends to rely on the exemption under rule 164(2), to the extent that this is available, thereby avoiding duplicate reporting. The case for exemption relies on the insignificance of the impact of LNG operations on the



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domestic market. Only a material change in these circumstances, such as active marketing of domestic gas, should be considered as a basis for reconsidering the exemption.

Box 4: SCOPE TO EXEMPT THE PROJECTS UNDER A NEW EXEMPTION

- 1) How might the operation of the emergency supply arrangements be expected to change in the near future?

Commissioning of the remaining equipment required to enable supply of emergency gas from the Ichthys LNG Project to PWC, and the fulfillment of outstanding conditions precedent are expected to be complete by late 2019. At that point the Emergency Gas Supply Agreement between INPEX and PWC will be in effect.

There are currently no changes to the operation of emergency gas supply arrangements expected.

- 2) In the event of plans to change the operation of the lateral pipelines connecting the projects with the domestic market, to what degree should the domestic market be informed of these changes in advance?

Any significant changes to the operation of the lateral pipeline connection to the Ichthys LNG Project (e.g. linkage to an onshore gas development for Ichthys expansion) relevant to the domestic gas market would necessarily have a long lead time and high visibility through various approvals processes.

- 3) In the event that a new exemption is granted in any rule made, is there any information that would be valuable to the domestic market, beyond what would be reported by PWC and APA on the connecting pipelines, for example planned shutdowns of the upstream facilities?

INPEX does not believe there is any additional information that would have any material relevance to the domestic market.

Box 6: THE IMPACT OF ANY RULE MADE ON TRANCHE 2 BULLETIN BOARD REFORMS

- 1) How might any rule made allow for reporting requirements that would be introduced under the tranche 2 reforms?

INPEX considers that any rule change introduced as a result of this consultation should continue to apply in relation to the proposed tranche 2 reforms. In accordance with the relevant facts, the information sought under tranche 2 as it relates to the Ichthys LNG Project would have no material relevance to the domestic gas market. Meanwhile the information to be sought under tranche 2 reforms has significant potentially detrimental commercial impacts for the Ichthys LNG Project in relation to the LNG export market.