



Australian Energy Market Commission
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Submission on Draft Rule Determination – National Gas Amendment (NT Emergency gas supply arrangements) Rule 2019 – Project Code GRC0052

Power and Water Corporation (**PWC**) is pleased to provide a submission to the Draft Rule Determination (National Gas Amendment (NT Emergency gas supply arrangements) Rule 2019) dated 23 May 2019 (**Draft Rule Determination**).

PWC is established under the *Power and Water Corporation Act 1987* and is a Northern Territory Government Owned Corporation under the *Government Owned Corporations Act 2001*. PWC is effectively the gas supplier of last resort for the entire NT electricity system, and has a direct interest in the outcome of the Draft Rule Determination. The NT is reliant on natural gas for the provision of baseload power generation. The vast majority of that gas is acquired by PWC and used by its customers (such as the NT's electricity generator, Territory Generation) to generate electricity for consumption by industrial, commercial and residential consumers in the NT. Security of gas supply is therefore critical to the NT.

PWC's views on the Draft Rule Determination

PWC supports the proposed exemption of the NT LNG facilities from the Bulletin Board reporting requirements under Part 18 of the National Gas Rules (**NGR**).

Ichthys LNG and Darwin LNG have and continue to play a critical role in supplying emergency gas to the NT gas market. They have indicated that Bulletin Board reporting requirements provide a significant disincentive to maintaining those domestic supplies or entering into other domestic supply arrangements. PWC considers that any additional benefits arising out of the NT LNG producers reporting on the Bulletin Board (which are negligible) are far outweighed by the potential detriment to PWC, its customers (including baseload electricity generators) and consumers in general if the NT LNG producers decided to cease providing emergency gas to the NT market.

PWC is concerned that certain elements of the proposed draft rule (**Draft Rule**) are too narrow and restrictive to adequately preserve the commercial incentives for existing and future NT LNG producers to maintain emergency gas supply to the NT market. The Draft Rule also seeks to impose administrative burdens and costs on PWC and other parties to provide information, which outweigh any additional benefits of that information. For the reasons outlined below, PWC considers that a more flexible and less restrictive exemption would better promote the National Gas Objective.

Draft Rule is too narrow and restrictive

Overall, PWC considers that the exemption is too narrow and restrictive. Because of this, it does not adequately address the risk of the NT LNG producers ceasing to maintain their connection and emergency supply to the NT gas market.

The Draft Rule provides for the AER to withdraw the exemption at any time if certain “BB application events” occur. As outlined below, these events do not adequately allow for:

- (a) all circumstances in which emergency gas supply may be required;
- (b) the flow of gas to NT LNG producers; and
- (c) future LNG developments or changes in the operation of current emergency supply arrangements.

This creates uncertainty and practical barriers as to the application of the exemption. PWC considers that these barriers and uncertainty may potentially impact on the emergency gas supply arrangements with existing and new NT LNG suppliers. This is particularly important in light of Darwin LNG expecting to cease production in the next 2 -3 years and new arrangements needing to be put in place by PWC.

This may also act as a disincentive to developers of offshore resources landing gas in the NT for domestic use.

It is critical that the regulatory environment does not discourage producers from providing emergency gas supplies to PWC in the future. Greater certainty that essential gas supplies in the NT can be maintained at all times will ensure a stable and reliable energy system and enhance business and consumer confidence.

Fixed period exemption with monitoring and review preferred

In its initial Rule Change Request,¹ the NT government proposed a broad form of exemption that extended to LNG related facilities upstream of their connections to the NT gas market. PWC supports this proposal of a broad exemption. The exemption needs to be flexible enough to allow for changing circumstances, while still achieving the National Gas Objective. A more flexible and fit-for-purpose approach would be to grant an exemption to the NT LNG producers from Bulletin Board reporting for a fixed period (for example for 5 years). As with the derogation granted to the NT from the capacity trading provisions in the NGR, the exemption could allow for monitoring and review of its appropriateness on an ongoing basis. If circumstances and market conditions in the NT change in the future, then a more prescriptive exemption could be reconsidered through a rule change request.

Specific Comments on Draft Rule

Alternatively, if the AEMC does not determine a fixed period exemption to be appropriate, then the definition of “BB application event” should be more flexible and less restrictive. At a minimum, it should address the issues outlined by PWC below.

Definition of “BB application events” is too restrictive

The Draft Rule provides for the AER to revoke the exemption if a “BB application event” occurs. A BB application event is defined by reference to prescriptive criteria. The criteria mean that an exemption may only apply for so long as gas flows are limited:

- (a) to gas deliveries to the Ichthys LNG or Darwin LNG facilities before 31 December 2019; and
- (b) to gas deliveries from the Ichthys LNG or Darwin LNG facilities under emergency supply arrangements when there is a planned or unplanned outage of the Blacktip facilities (for the quantities and duration of that outage).

¹ NT Government request to change the NGR dated November 2018

PWC considers that the definition of BB application event is unduly restrictive, for the following reasons:

- (a) **Outage of Blacktip facilities** – The Blacktip facilities are defined as the Blacktip gas field and its associated supply infrastructure, including the Bonaparte Gas Pipeline. However, there may be circumstances in which emergency supply is required from Ichthys LNG or Darwin LNG, beyond a planned or unplanned outage of the Blacktip facilities. For example, an interruption or curtailment on other pipeline systems (including the Amadeus Gas Pipeline), or from southern gas sources (including the Dingo gas field) could lead to such an emergency.

The exemption should allow for all of the circumstances in which emergency gas supply may be required, to adequately protect against the risk of the NT LNG producers ceasing to provide such supplies. PWC therefore proposes that the definition of “BB application event” be widened to include any interruption or curtailment events affecting gas supplies or deliveries in the NT that require emergency gas to be supplied by the NT LNG producers.

- (b) **Supply of gas to NT LNG facilities** - The exemption does not allow for flows of gas from the domestic market to the NT LNG facilities beyond 31 December 2019. However, PWC may on occasion still seek to supply gas to Ichthys LNG (or other NT LNG producers) in the future if, for example, it has surplus gas that it cannot sell to the domestic gas market on commercial terms. If the Draft Rule is accepted in its current form, such supplies are unlikely to be accepted by the NT LNG facilities given the risk of the reporting exemption being withdrawn. PWC does not consider that this outcome is consistent with the National Gas Objective of promoting efficient investment in, and efficient operation and use of, natural gas services.

In circumstances where gas is sold to the NT LNG producers, this information will already be reported on the Bulletin Board by the operator of the Wickham Point Pipeline under existing reporting requirements (ie through the reporting of daily nominations, and daily receipts and deliveries on the Wickham Point Pipeline). This means that information regarding the quantities of gas delivered to the NT LNG facilities will already be available to the domestic market. There is unlikely to be any further benefit or relevance to domestic participants of the NT LNG producers separately reporting this information. PWC considers there to be no difference between these circumstances and the existing exemption available under the NGR where information relating to a BB facility will be provided by another reporting entity. For this reason, the new exemption does not need to be tied with a restriction on supplies of gas to the NT LNG producers.

Alternatively, if the AEMC does consider that such restrictions are necessary, PWC suggests that, following 31 December 2019, the exemption allows for supplies to the NT LNG facilities of up to 10 TJ of natural gas per day. This is broadly consistent with the reporting threshold that otherwise applies to all BB facilities (as defined in Part 18 of the NGR). Any supplies below 10 TJ per day should not be material or relevant to the domestic market.

Proposed PWC reporting obligation is unnecessary and onerous

Under the Draft Rule, an authorised officer of PWC is required to provide the AER with an emergency gas flow notice within 10 business days of an emergency back-up supply occurring from the Ichthys LNG or Darwin LNG facilities. The emergency gas flow notice must contain significant details of the relevant outage of the Blacktip facilities. PWC considers that this reporting obligation places an undue and unnecessary onus on PWC, and is not an efficient allocation of tasks and responsibilities. This is because:

- (a) Gas flows from the NT LNG projects will already be reported by the reporting entity for the Wickham Point Pipeline under existing reporting requirements. It is then a duplication of administrative responsibilities for PWC to report the emergency gas flow separately to the AER. If further information is required by the AER as to the reason for, and extent of, the emergency gas supply, then it would be more efficient and less costly for the AER to seek such information from relevant parties.
- (b) Preparing an emergency gas flow notice will impose a significant administrative burden on PWC, and is likely to require the provision of confidential information that is subject to obligations of confidence owed to third parties (including the operator of the Blacktip facilities). Because information relating to the emergency gas supply is already reported on the Wickham Point Pipeline, these costs will outweigh any benefits of providing the emergency gas flow notice.
- (c) It is also inappropriate for the Draft Rule to expressly refer to PWC, as it may not always be the entity responsible for maintaining emergency supply arrangements (for example, if PWC was restructured in the future).

Instead, PWC suggests the AER be given an express right to seek further information from relevant parties, as required.


Draft Rule should extend to future developments

The Draft Rule is narrowly expressed to only apply in respect of the Ichthys LNG and Darwin LNG facilities. For example, the definition of the WPP connection point in rule 143A(1) only contemplates the flow of natural gas between the Wickham Point Pipeline and either the Ichthys LNG or Darwin LNG facilities. This does not allow for any flexibility in the event that future LNG developments are established in offshore NT or Western Australia and landed in the NT. It also does not allow for future changes in the operation of PWC's emergency supply arrangements. For example, PWC has been advised that Darwin LNG will cease to supply emergency gas in the next 2-3 years once the current gas field is depleted. PWC will need to renegotiate emergency gas supply arrangements with the owners of the new gas field/s and/or the owners of the DLNG processing facilities. These may not involve the same entities or precisely the same delivery points as existing arrangements.

The Draft Rule should be broadened to allow for future LNG facilities, and for changes to existing facilities. As outlined above, the possibility of future developments is a further reason why other elements of the exemption should be broadened.

Please do not hesitate to contact me if you require further information in relation to this submission.

Yours sincerely



Tony Edmondstone
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Power and Water Corporation

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