



1 April 2016

Our Reference: APLNG – COR – 0011166  
Your Reference: GPR0003

Mr John Pierce  
Chairman  
Australian Energy Market Commission  
Level 6, 201 Elizabeth Street  
Sydney 2000

Dear Sir,

### **East Coast Wholesale Gas Market and Pipeline Frameworks Review Pipeline Access Discussion Paper**

Australia Pacific LNG (APLNG) is pleased to be able to provide this submission regarding the AEMC's East Coast Gas Market and Pipeline Frameworks Review – Pipeline Access Discussion Paper.

#### **Background**

APLNG is a coal seam gas (CSG) to liquefied natural gas (LNG) project conducted through an incorporated joint venture among ConocoPhillips, Origin Energy and Sinopec. APLNG is also a significant supplier of gas into the Queensland domestic market, currently supplying a large percentage of Queensland's needs. The business is currently increasing its gas production to supply both its ongoing domestic gas business and an export market through its LNG facility on Curtis Island, near Gladstone. The LNG facility has a capacity of 9 million tonnes per year and exports the LNG to customers in Japan and China. Our LNG exports, which commenced earlier this year, are not expected to impact the existing domestic contracts and the business has sufficient reserves to meet its LNG and domestic commitments.

APLNG continues to support the regulatory changes that will assist in the development of a competitive and transparent east coast gas market to obtain COAG's Vision and in line with the physical capabilities of the network. APLNG offers the following comments regarding AEMC's Pipeline Access Discussion Paper in the same order as in the Discussion Paper.

#### **Implementing the Initiatives**

APLNG agrees that an industry-led approach has advantages but believes that there will need to be continued regulatory oversight to help guide the process through the more difficult issues. Thus, APLNG supports an AEMC-led approach with active industry participation. This is a combination of the "Industry Council" approach (Options 3 and 4) suggested in the Paper. Some of the reforms could be difficult to implement because of the wide range of views in the industry and the necessary compromises that will have to be made. The AEMC would assist with these compromises keeping in mind the COAG Vision and if there is a need to change rules and laws to effectively implement some of the changes, having the AEMC actively guiding the process should streamline the implementation.

#### **Standardisation of Capacity Products and Contract Terms**

##### **1. Standardisation of Primary Capacity Contracts**

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The industry should work toward standardisation of primary capacity contracts including hub services and the list included in the Discussion Paper seems appropriate. As APLNG indicated in its Stage 2 Draft Report submission, an initial step could be to standardise the terms and conditions on each pipeline so that shippers can have confidence in non-discriminatory service on that pipeline. Longer term, standardisation between pipelines should be attempted although there may always be differences required for the efficient operation of each pipeline.

Hub services should also be included in the primary capacity contracts associated with each hub. To the extent that these services are included should prevent customers having to negotiate separately contract for these services.

Standardising terms of existing contracts may prove too disruptive to the industry, thus APLNG believes the standardisation should apply to all new primary and secondary capacity contracts. However if an existing primary contract has terms significantly different from the agreed future standard terms, the industry should be informed that they exist and their remaining tenure.

## **2. Receipt and delivery point flexibility**

As addressed in APLNG's previous submissions, a more transparent and liquid gas market is greatly facilitated with the ability to adjust receipt and delivery points, both in primary and secondary contracts, and at no additional cost to the extent that there is no additional cost to the pipeline owner.

This should not cause a large issue with existing allocation agreements. They may need to be modified but this should not be a major impediment as they should also be standardised in the future. In other markets, the ability to adjust receipt and delivery is easily accommodated even with allocation agreements that have to consider "daisy chain" arrangements (Producer A sells to Buyer B at a receipt point into a pipeline who sells to Buyer C who is the shipper on the pipeline).

There should be very limited reasons for a pipeline owner to reject receipts and delivery points request changes. It is recognised that changes to the receipts and delivery points could reduce the overall capacity of the pipeline, but as long as there is available capacity, this should not be a reason for rejection. It should not be a supplemental revenue source for the pipeline operator.

## **3. Standardisation of secondary capacity contracts**

APLNG hopes that the contractual terms in secondary capacity contracts would be the same as for primary capacity over time. Standardising the terms between primary and secondary contracts, at least in a single pipeline, will assist with the development of the secondary trading market as there will be no change in the service required from the pipeline operator. As addressed in APLNG's previous submissions, bare transfers will not facilitate a transparent and equitable transportation market as they are discriminatory against the secondary capacity holder. As with the primary contracts, APLNG desires that the secondary capacity contracts also include hub services.

APLNG believes a deadline should be set for the development of standard contract terms (both for primary and secondary contracts) as with most difficult issues, the work will fill the time allowed. Assuming the AEMC's implementation schedule, the day-ahead capacity auction will be introduced in early 2018. Thus, the standard contract terms will need to be finalised by mid 2017 in order to maintain the schedule, which allows about one year to complete all the terms of the contract. This seems a reasonable but not generous timeline.

# **Capacity Trading Platforms and Secondary Trade Information**

## **1. Services that could be sold through the capacity trading platforms**

APLNG agrees that the initial scope of services to be offered should be kept simple and limited to firm transportation (forward and backhaul) and hub services (compression, re-direction and balancing i.e. storage or park and loan). APLNG believes that only primary capacity holders should be allowed to offer their available contracted capacity as the pipeline operators should already have methods currently in place to sell their unsold capacity, if desired. It also seems appropriate for secondary capacity holders to be able to utilise the platform.

## **2. Method to execute trades and contractual, financial and operational elements**

Assuming the capacity contracts are standardised, APLNG supports the use of an electronic exchange as the current pipeline capacity listing services have not been successful at selling capacity to date. It makes sense to keep the capacity trading provisions in line with the GSH with regard to contract period, parcel size etc. APLNG believes that some/all within day renomination rights of the primary contract should be included with the standard secondary capacity contract otherwise the contract will not be very valuable to the market, thus APLNG supports not auctioning 100% of the primary capacity available (see renomination rights, page 6).

## **3. Single or multiple platforms**

APLNG prefers a single trading platform covering all contract carriage pipelines across the east coast assuming that would be the least cost over time.

## **4. Responsibility for operating the platform**

APLNG sees advantages and disadvantages to both pipeline operators and AEMO potentially operating the platform, assuming a single platform. APLNG's preference is for the entity that can provide an impartial service for the least cost. As APLNG favours a single platform, AEMO seems like the most likely entity.

## **5. Bilateral trades outside of the platform**

As indicated in the Paper, allowing bilateral trades outside of the platform could be discriminatory to new participants and favours incumbents. As indicated previously, APLNG believes bare-transfers are discriminatory to the new capacity holder and should be prohibited. This is particularly true in eastern Australia as most capacity is held by a few shippers who may be a competitor to the new capacity holder.

## **6. Secondary trade information reporting requirements**

APLNG supports the publication of the terms and conditions that affect the price of capacity and think AEMC's suggested list is appropriate. All bespoke arrangements that vary from the standardised terms should also be published. APLNG prefers that the identity of the parties is also reported although this is not as important as the key terms and pricing information so reporting by zonal aggregation could also work. If a party buys capacity this does not directly equate to their actual daily gas flow, therefore the market will not know exactly what a parties gas transportation volumes are on the day.

Assuming contract standardisation in the secondary market is adopted, the cost of reporting this information should be minimal after platform implementation.

## **7. When the information should be reported**

The price of transportation capacity is as important as the commodity price to determine the spot market price for natural gas at a specific location. If the spot trading market reports trades immediately after, so should the capacity market.

## **8. Services that the reporting obligation should apply**

Secondary trading of Hub and storage services should also be reported, if not initially then over time. APLNG also prefers that compression services be linked with the associated transportation capacity. The capacity of a pipeline is determined by the diameter of the pipeline and the associated compression (among other technical variables). Selling transportation capacity without some compression has limited benefits. As compression seems to be more under-utilised than the associated pipeline, particularly at Wallumbilla, it would seem logical to offer some compression services with the transportation services.

## Auction for Contracted but Un-nominated Capacity

The details of the auction design should be further discussed through an industry review process. Nonetheless, APLNG prefers the following design options for the auction:

- Multiple segments – although APLNG believes that there are limited locations where this may apply, having the option to purchase capacity on a segment of pipe may be advantageous to some participants
- Combinatorial – facilitating interconnectivity across the east coast network, a combinatorial auction will simplify multiple long haul pipeline movements. It will also provide for a more efficient supply source substitution and/or market substitution for trades as each party would have certainty of the flow path. APLNG observes that an 'exposure' problem can also happen if a party is awarded transportation capacity but not compression capacity, thus APLNG believes it is best to link these services at Wallumbilla or at least include compression into the combinatorial structure.
- First price auction – as the auction will be conducted daily, pricing strategy should be able to be refined over time to efficiently bid each day with only one price. Also there are greater benefits to allowing combinatorial bidding than having a second price auction.
- Winning bid determined by maximum profit - if under the combinatorial allocation method, this may result in less profit for one of the pipelines, but the highest overall to the industry.
- Single round auction – similar to the first price option, the auction needs to be simple to implement – over time, efficiency should develop even with a single round.
- Whole network implementation – it may be easier to start with individual pipelines, but over time the goal should be to incorporate the entire east coast network into one auction to provide transportation across the entire east coast.
- Institutional setting – the entity that can provide an impartial service for the least cost, should be selected. AEMO does seem the most impartial choice.
- Allocation of residue – Assuming AEMO becomes the auction market operator, they would be performing most of the operations (other than scheduling the gas). Allocating all the residue to the pipeline owners without a large increase in their operating costs seems like a 'wind fall' to the pipeline owners. APLNG believes that this issue needs further discussion and suggests that either a split of the residue between the market operator and the pipeline owner or all the residue should go to the AEMO.

## Implementing the Auction

### 1. Pipeline and service participation in auction

As discussed in its Stage 2 Draft Report Submission, APLNG supports limited exemptions to the obligation to conduct a capacity auction. These would include pipelines not fully contracted or those serving only a single facility. APLNG would anticipate that its pipeline would be exempt from the auction because: 1) its pipeline system is not directly connected to Wallumbilla and 2) APLNG is not currently offering liquefaction services to third parties at Curtis Island, so it is not known why any party would want access to its pipeline.

APLNG also agrees that hub services need to be included in the auction because they can be just as critical to the ability to access incremental transportation and thus improve trading liquidity. As previously discussed, APLNG prefers that some compression services are sold with the transportation capacity as both are critical to flow gas. Regarding re-direction services, APLNG desires these services be included in the auction and linked with transport capacity and compression. Re-direction services seem to be charged on all trades through Wallumbilla, regardless of the supply and delivery location and regardless of how flows are netted out. APLNG welcomes more transparency into this service and how these charges compare to actual costs in a workably competitive market. If both compression and re-direction services are linked with the transportation capacity, it may be easier to determine the amount of services to be offered in the auction otherwise a participant may acquire compression that does not fit with the transport. Setting the reserve price for both the compression



and re-direction services should be simply the marginal compressor fuel and the cost to flow through a second meter, respectively.

## **2. Determining auction parameters**

APLNG agrees that the transportation reserve price should be set at zero cost plus any marginal compression fuel utilised which would be paid in kind. APLNG would like to understand in more detail how purchasing incremental compression at Wallumbilla to assist with trading would be determined, particularly with the compression requirements for different combinations of supplies and deliveries at Wallumbilla and how marginal compression requirements would be assessed.

Thus it makes sense to make the actual auction reserve price the cost to operate the auction potentially taken as a fixed fee per transaction which would be only paid by participants using the auction.

## **3. Interaction with existing nomination and re-nomination rights**

In its Stage 2 Draft Report submission, APLNG stated that the amount of capacity to be auctioned on the day should be determined under a methodology set by the AER. Accounting for certain renomination rights in this methodology, APLNG was supporting the "Withhold some capacity in a firm day-ahead auction" option presented in the Discussion Paper. APLNG believes that the capacity included in the auction should be firm, at least initially. Existing shippers could renominate increases throughout the day (allocated on a 'first come – first served' basis, for example), but once total renominations volumes exceed the amount of capacity held back, further renomination increases would be rejected.

In reviewing the other options proposed by AEMC in the Discussion Paper, APLNG still considers that the "Withholding some capacity" option discussed above is the best option. APLNG appreciates that existing firm holders have some entitlement to renominate ahead of others based on their current capacity rights, but capacity obtained in the auction has to be firm otherwise it will cause additional issues with trading and especially with any future financial transactions. Conducting multiple auctions during the day may work in the future, but seems additionally burdensome.

Regarding curtailment order, auctioned capacity should probably be curtailed sooner than primary firm nominated capacity, however auctioned secondary capacity should at least be at the same curtailment level as volumes renominated throughout the day. Placing auctioned secondary capacity below renominated capacity would essentially deem it as-available capacity rather than firm.

Thank you for the opportunity to make this submission on the Pipeline Regulation and Capacity Trading Discussion Paper and share APLNG's views on the future gas market. If you require further information relating to our submission, please contact Deidre McEntee on (07) 3021 3303.

Yours sincerely,



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