



16 February 2016

Our Reference: APLNG – COR - 0011147
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 - Stage 2 Draft Report

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 Stage 2 Draft Report.

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 in line with the physical capabilities of the network. As such APLNG offers the following comments regarding AEMC's Stage 2 Draft Report that directly impacts its business in Queensland.

Pipeline Capacity Markets

APLNG supports AEMC's recommendations regarding Pipeline Capacity Trading to obtain COAG's Vision and offers the following comments regarding each proposed change:

1. Introduction of an auction for contracted but un-nominated capacity

Some issues/clarifications for AEMC to consider as they develop the specifics for the auction rule changes may include:

- Amount of Capacity to Auction - As the pipeline owner has little incentive to offer capacity at the short run marginal cost (SRMC), the amount of capacity to be auctioned on the day should be determined under a methodology set by the AER and monitored closely (see related comment below for pipelines that do not impose variance penalties). Correctly setting the amount of capacity to be auctioned will provide the proper incentives to both the capacity holder (knowing that the capacity will be lost if not nominated, there is more incentive for the capacity holder to sell ahead at a negotiated rate and for longer periods rather than lose the potential

revenue to the pipeline owner) and the pipeline owner (maximising potentially higher volume and revenue at SRMC or above, rather than lower/no volume at higher rates).

- **Balancing Mechanisms Allocated with Capacity** – APLNG suggests that whatever balancing mechanism (either linepack or balancing tolerances etc) that is held by the primary capacity holder is directly allocated to the secondary capacity participants. Or if terms are standardised, the balancing allowances are also standardised.
- **Consistent Nomination Cut-off Times** - With an auction process, it will assist liquidity if all Shipper nomination cut-off times on the same pipeline are standardised. If not, this could affect the value of the transport as un-nominated capacity with later cut-off times could attract a different value in the market. It could affect the ability of a replacement shipper to utilise the capacity as it might be different than the commodity market. As discussed in the Draft Report, it could be possible to harmonise nomination cut-off times as part of the harmonisation of the gas day. APLNG believes that harmonising the nomination cut-off times on the same pipeline is more important than harmonising the gas day across the east coast market, even at the expense of impacting existing capacity rights on the pipeline.
- **Actual SRMC Charging** - Setting the auction reserve price based on the actual SRMC, with appropriate adjustments for actual compressor fuel and allowing for periodic adjustments when needed, creates the best balance between accuracy and ease of implementation.
- **Compression Capacity** – To the extent possible, APLNG hopes that compression capacity that is mandatory for certain deliveries particularly into/out of Wallumbilla can be included in the auction with the secondary transportation capacity. Wallumbilla compression often seems to be the ‘bottleneck’ and even though it is fully contracted, it seems to be under-utilised.
- **Lack of Daily Variance Charges** - Not all pipelines have daily variance charges where a pipeline can charge a fee when a Shipper’s nominations at either a receipt or delivery point are significantly different from actual received or delivered volumes (this is different than imbalance charges which relate to receipts being different than deliveries). Thus, will there be a mechanism that prevents current capacity holders from over nominating expected flow to retain capacity when their transportation agreements do not include variance charges?
- **Level of Service** - The level of service (curtailment priority) for capacity purchased under the auction should be further reviewed and should be standardised throughout the industry. Perhaps as a further incentive to potential capacity purchasers, negotiated arrangements agreed prior to the auction should be equal in priority to existing firm capacity holders, whereas capacity secured through the auction would be secondary in priority to existing capacity holders.
- **Limited Auction Exceptions** - APLNG believes that all multiple shipper pipelines including those under 15-year coverage exemptions should be required to conduct an auction. If after a certain timeframe of conducting the auction, there is no successful bid, this requirement could be relaxed.
- APLNG agrees that pipelines servicing a single facility should be exempt from the mandatory auction requirement.

2. Mandatory secondary capacity trading platforms

APLNG agrees with all the components of this recommendation regarding requirements for the pipeline owner to operate a capacity trading platform and the publication of all trade information including but not limited to all price-related terms. APLNG would like AEMC to

consider the following issues/clarifications as they develop the specifics for the capacity trading platform rule changes:

- Bare Transfer – As noted in previous submissions, APLNG supports not allowing existing shippers to “bare transfer” their rights in the secondary capacity market.
- Single Pipe Standardisation - APLNG supports the standardisation of terms and conditions for transportation capacity across any pipeline and believes the first and more important goal should be to have standard 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.
- Flexible Receipts and Delivery Points - An exception to the standardisation of terms should be the ability to adjust receipts and/or delivery points as long as the pipeline is under-utilised and subject to the physical constraints of each pipeline. Allowing this flexibility will further increase trading liquidity of the secondary capacity market. A good example of how this can be implemented can be found in the US capacity release market and the concept of secondary firm transportation capacity for volumes being transported on a path different from primary firm transport (defined as entering the pipeline at the original receipts points and leaving the pipeline at the original delivery points). Secondary firm capacity has a priority below primary firm capacity. Because of the changing location of US gas reserves over time, only a small volume of gas would still be utilising primary firm capacity on any older US pipeline and this provides more flexible access to any pipeline. All secondary firm transportation volumes still have a higher priority than all interruptible transport.
- Primary vs. Secondary Standardisation - APLNG agrees that it is not necessary to standardise the primary capacity market prior to launching the secondary trading market, although it would be helpful, even if existing GTAs need to be grandfathered. To achieve the Vision, the secondary market should be a standard product otherwise it would be difficult to know exactly what is being auctioned.
- Pre-arranged trades – Pre-arranged trades should be allowed so long as other market participants have a certain period to improve on the terms when posted on the platform (either based on incremental volume or increased price) or as indicated from the US market, the trade is for a short time period. As indicated in the Draft Report, all types of trades should be published to provide market intelligence and confidence in non-discriminatory access.

3. Publication of actual priced-related terms for primary capacity trades

APLNG supports this recommendation and supports the view that a wide range of contract terms and conditions can impact price or contain discriminatory conditions. These might include balancing requirements, nomination cut-off times, compression/hub services and even the right to change flow multiple times during the gas day even with a reasonable endeavours basis. Providing these details to the market may be the closest initiative to achieve non-discriminatory access over time without a significant change to the regulatory regime.

Wholesale Gas Trading Markets – Comments on Northern Hub only

APLNG agrees with the further development of a Northern Hub at Wallumbilla that continues to evolve with the market. As noted in the Draft Report, the current method to deal with delivery quantity trading variances may not be adequate for the future development of the Wallumbilla Hub, particularly if financial products are to be successful. Definitive balancing and pooling arrangements should be developed by each pipeline or, as a secondary alternative, by the hub operator and these arrangements should be standardised.

APLNG's preference for access to Wallumbilla services would be for them to be included with the transportation capacity, where possible, so that separate arrangements would not have to be secured. Hub services could be accessed along with transport rights in the capacity auction rather than separately secured.

APLNG also believes that the current fees for trading and hub services should be published with the transportation information outlined for the transportation auction and with the publication of actual price-related terms in primary capacity agreements, outlined above. As there is limited or no competition for some of these trading and hub services, it may be appropriate for them to be reviewed by the AER on a regular basis.

Information Provision Report

APLNG supports broadening the purpose of the Bulletin Board with an amendment to the NGR and also supports expanding the coverage of information. However, the bulletin board coverage should link to information that is required to support COAG's Vision for development of a liquid wholesale market and not information that is either available elsewhere or desired for long term planning.

Nonetheless, with regard to the specific items for the expanded coverage of the Bulletin Board suggested in the Draft Report, below are APLNG's comments and concerns:

1. Information on Producer's Upstream Activities

- Like other Queensland producers, APLNG reports its 2P reserve estimates semi-annually to the Queensland Department of Natural Resources and Mines (DNRM) at a field level and these are public documents. APLNG has a strong preference that any new NGR utilise this same public information source so that there is not duplicative reserve reporting work. This will avoid any confusion that separate reports and different report timing could involve and avoids added cost to Queensland producers with no benefit to market participants.
- If market participants believe that existing ASX or other state/territory reserve reporting criteria are not adequate or transparent, this should be handled directly and not through an additional reporting responsibility to the gas bulletin board.
- APLNG does not believe that there is a benefit to market participants if producers were required to report their uncontracted reserves for the following reasons:
 - Reserves do not directly equate to production as they depend on price assumptions and specific development plans.
 - Price assumptions and development plans are commercially confidential information.
 - Particular to shallow coal seam gas production is the relatively short cycle between drilling and production, thus CSG producers are better able to adjust drilling activity to meet their forecasted demand profile.
 - In a liquid transparent market, a company does not have to own reserves to be a buyer or seller of gas, thus any company could have gas for sale independent of owning reserves.
- Regarding exploration activities, APLNG agrees with the AEMC that producers should not be obliged to report their exploration activities as these activities do not link to the COAG Vision and are available from other data sources.

2. Assets Used in the Provision of Hub Services

APLNG agrees that more information should be reported on the status of Wallumbilla compression which will provide important information required to trade at Wallumbilla. Where possible, compression services should be tied directly to the transportation services to which they relate and this compression service should have the same reporting obligations currently expected of Bulletin Board facilities, including those in the Enhanced Information for Gas Transmission Pipeline Capacity

Trading rule change. As liquidity develops, it would also be helpful to document the previous day's flow of gas through the hub including all the gas exchanges/net-outs.

3. Information on Large User Demand

APLNG generally supports the need for some additional reporting requirements. APLNG offers the following comments regarding the proposed recommendations for reporting for large gas users and specifically the LNG facilities:

- Competition in the LNG Market - The Draft Stage 2 Report states -

"the publication of an LNG's proponent's pipeline nominations is unlikely to have an effect on competition in the LNG market because the proponents have already sold most of their LNG under long-term contracts and any spot sales will take some time to reach the market". (Information Provision Report – bottom of page 30)

APLNG is not sure why the AEMC believes that the output of the 3 east coast LNG facilities will not have an impact on competition in the LNG market whether sold on a long or short term basis. As of January 2016, the 3 Curtis Island facilities are among 36 operating LNG facilities in the world and will represent approximately 10% of the total worldwide demand once all 3 are fully operational. APLNG believes that publishing the daily pipeline volumes and short and medium term capacity outlook could potentially have an impact on competition in the LNG market. Publishing this information should be delayed as proposed for other large end users with sensitive commercial information.

- LNG Capacity Reporting Requirements – the east coast LNG Producers are currently seeking authorisation from the Australian Competition & Consumer Commission (**ACCC**) to engage in certain maintenance discussions and arrangements (authorisation application reference, A91516-91517) and as part of the application process, a set of draft information disclosure/publication conditions has undergone a full public consultation process and is before the ACCC for consideration (**Authorisation Conditions**). APLNG recommends that the Authorisation Condition be considered and adopted in principle (to the extent they apply to the proposed coverage and frequency of reporting) by the AEMC in any recommendations for both planned and unplanned capacity outlook reporting obligations.
- Capacity changes not impacting the domestic market - More clarity and consideration needs to be reviewed regarding the expectation of how a material intra-day change in capacity should be reported and the impact of reporting changes to production and pipeline facilities which may not impact the domestic market.

The 3 CSG to LNG projects constructed in Queensland are the first projects of their kind in the world and the project operators continue to optimise their operations. Each project has some ability to utilise linepack and to turn down some production to accommodate smaller upsets in operations and thus attempt to minimise the impact to the domestic market. Rather than reporting material intraday changes to all our production and LNG facilities, APLNG believes a better way would be for the 3 LNG projects to report only material intraday changes to their pipelines nominations accessing the domestic market. This would allow a project not to report an intraday change if it could be accommodated utilising line pack or production turn-down capability while still providing appropriate signals of the gas availability to the market.

- Duplication of reporting – APLNG reports its pipeline nomination from meters on Curtis Island. Any change in capacity affecting the LNG facility will also require a similar change to the pipeline nomination as there is no other place for the gas, thus this is a duplicative reporting obligation.

Please contact Origin Energy Limited if you have any queries regarding management of confidential information relating to APLNG within that organisation. 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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