



22 October 2015

Our Reference: APLNG - COR - 0010837

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

**Re: East Coast Wholesale Gas Market and Pipeline Frameworks Review  
Stage 2 – Pipeline Regulation and Capacity Trading Discussion Paper**

Dear Sir,

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 – Pipeline Regulation and Capacity Trading 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, which will receive and process natural gas. The LNG facility has a capacity of 9 million tonnes per year and will export the LNG to customers in Japan and China. The commencement of gas exports in 2015 are not expected to impact the existing domestic contracts in place 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. As such APLNG offers the following comments regarding AEMC's Pipeline Regulation and Capacity Trading Discussion Paper.

**Approach A Discussion – Transaction Costs Primary Barrier**

APLNG thinks that implementing the items identified in the Discussion Paper under Approach A will help to decrease transaction costs for capacity trading on all multiple shipper pipelines on the east coast. These include:

- Standardising terms and conditions for transportation across any pipeline and across the east coast transportation grid
- Encouraging capacity auctions
- Providing transparency of capacity trades including bulletin board posting of the traded capacity amount, receipt and delivery points, term and price
- Ability to voluntarily surrender unrequired capacity back to the pipeline

APLNG believes that the following additional items would assist with capacity trading liquidity and should also be implemented to potentially lower transaction costs:

- So long as the pipeline is under-utilised, AEMC should further encourage pipeline owners to allow flexible receipt and delivery points
- Capacity should only be transferred to the new shipper utilising a novation of transportation rights, rather than a bare transfer, where the original capacity holder

is still involved in the daily operations. Exact shipping volumes should be confidential between each current shipper and the pipeline owner, and the original capacity holder should not be involved in the new transport arrangement.

These provisions should all be implemented as soon as possible. If after implementation of these measures in Approach A, additional access and liquidity does not develop, we believe that more intervention will be required. The development of the specific recommendations under Scenarios B and C should also be completed simultaneously with the work required for Approach A and thus specific plans could be implemented promptly if the desired market outcome is not being achieved.

#### **Approach B Discussion – Improve Incentives of Capacity Holders**

If high transaction costs are not the main barrier to a more liquid capacity trading market, incentives for either/both capacity holders and pipeline owners need(s) to be addressed. Firstly, any provisions in an existing GTA that potentially restricts either a shipper's or a pipeline owner's ability to trade unutilised capacity should be phased out quickly.

As presented in the Discussion Paper, there are many issues to work through and resolve with any of the potential compulsory acquisition methods outlined, including a detailed understanding of the physical limitations of the transportation system, such that the ultimate plan could take some time to fully develop. However, if capacity utilisation rates are not increased during this development period with the additional changes from the Enhanced Information Rule Change and from Approach A, the ultimate plan for compulsory acquisition of capacity should be implemented after review of the details with industry.

Regarding APLNG's preferred reallocation mechanism, any one of the described congestion management mechanisms could work. APLNG observes that the Oversell and Buyback mechanism is more market based and reduces the need to set limits on the level of capacity re-allocation, thus it would seem to affect existing property rights the least.

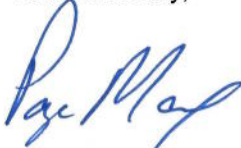
#### **Approach C Discussion - Improve Incentives of Pipeline Owners**

As above, any provisions in existing GTAs that potentially restrict a shipper's or a pipeline owner's ability to trade capacity should be phased out quickly. In addition, APLNG also believes that AEMC should investigate the work necessary to change the economic regulation of pipelines where multiple shippers are involved. With the government's vision to create a liquid facilitated gas market, pipeline access at a reasonable market-driven cost is one of the major steps to creating a "level playing field" for all participants.

As with the development of Approach B, this Approach should be considered in measured detail. However, if capacity utilisation and trading are not improved during this development period, the appropriate balance between Approach B and C should be determined and implemented. APLNG will want to provide input and review the specific recommended changes under Approach B and C in more detail before implementation to ensure they address all of the concerns and long term objectives for the East Coast gas market.

Thank you for the opportunity to make this submission on the Pipeline Regulation and Capacity Trading Discussion Paper and share our 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,



**Page Maxson**  
Chief Executive Officer  
Australia Pacific LNG Pty Ltd