

21 May 2020



Our Reference: APLNG – COR - 0014332

Attention: Daniela Moraes
Australian Energy Market Commission
Level 15, 60 Castlereagh Street
Sydney NSW 2000

Via email: daniela.moraes@aemc.gov.au

Dear Ms Moraes

Submission on Draft Report for the AEMC's 2020 Biennial Review of Gas Markets Liquidity

Australia Pacific LNG (APLNG) welcomes the opportunity to make a submission in relation to the AEMC's Draft Report (**Draft Report**) on its Biennial Review of Gas Markets Liquidity (**Liquidity Review**). APLNG supports a streamlined regulatory framework that provides an efficient gas system and competitive market, with market liquidity an essential foundation.

APLNG, based in Queensland, is one of Australia's leading natural gas production companies, supplying a significant percentage of east coast Australia's domestic gas needs. In FY19, APLNG provided approximately 30 per cent of gas supply (195 petajoules) to the east coast market and has gas supply contracts with local industries and businesses out to 2030 and beyond.

APLNG agrees with the Draft Report's findings that liquidity has increased over the past two years, especially at the Wallumbilla Gas Supply Hub (**GSH**). However, APLNG also notes the finding that liquidity in some parts has not increased significantly and there continues to be significant opportunity to increase liquidity across the whole market.

Barriers to increased liquidity

APLNG agrees that the cost of, and access to, firm pipeline capacity remains a challenge. Whilst the Day Ahead Auction (**DAA**) has assisted in providing additional capacity to shippers, this capacity is short-term and lower priority than firm capacity. Given APLNG's role as a gas marketer, it has firm commitments to supply gas to customers, and consequently, requires firm transportation arrangements. In APLNG's experience, existing long-term contracts for significant capacity (with large volumes of capacity remaining uncommitted day-to-day) and uncontracted capacity on key pipelines are contributing toward an inefficient and illiquid market. APLNG notes the pipeline regulation reform work currently underway and supports the review objective to streamline the regulatory environment and provide greater information transparency around pipeline transportation costs.

The other barrier identified in the Draft Report is a lack of flexibility in tradable products in comparison to bilateral physical contracting. Most of the gas volume is still transacted through bilateral agreements, due to the flexibility of terms relative to the GSHs.

Future reforms

APLNG agrees with the AEMC's view that it might be too early to assess the impact of some recent reforms on market liquidity. However, APLNG's view is that market liquidity is a key factor in addressing some of the current market inefficiencies. Importantly APLNG believes it is critical that the pace of liquidity improvement is increased, and encourages the AEMC to continue to identify additional issues for reform (on an ongoing basis in addition to the biennial review) to ensure continuous improvement across the gas market and in achieving the COAG Energy Council's Gas Market Vision.

In relation to the Draft Report, APLNG supports the following items for future review and potential reform:

- ***Recommend review of facilitated markets' structures***
APLNG would support reviewing the structure of the east coast facilitated markets (GSHs, STTMs and DWGM) with the objective to better align the market structures. Currently, the misaligned rules and differing operational structures act as a barrier to new participants and contribute to regulatory and administrative costs. APLNG believes stronger alignment of market structures would improve efficiencies and liquidity.
- ***Support an assessment of Brisbane Short Term Trading Market (STTM)***
As part of a review of facilitated markets' structures, APLNG suggests that an assessment be undertaken to consider how best to enhance the structure of the Brisbane STTM and the Wallumbilla GSH to improve liquidity.
- ***Support review around utilisation of the Capacity Trading Platform (CTP)***
Although APLNG agrees that the use of the Day Ahead Auction (DAA) has been positive, APLNG acknowledges the CTP has had limited uptake. APLNG considers it important to address the key reasons why the CTP is not being utilised more broadly in accessing under-utilised transportation capacity, including those identified by the AEMC (fees, cheaper option of DAA, bilateral contracting alternatives and locational swaps). Such a review would ensure the CTP is best placed to function as intended and complement the operation of the DAA. Greater utilisation of the CTP would result in increased trading of under-utilised capacity on a long-term basis (compared to DAA). This also allows for shippers to recoup a portion of costs in relation to their under-utilised capacity.
- ***Support review of cost recovery mechanism for DAA***
The fees associated with the DAA are higher than anticipated and APLNG believes that this may be a barrier to additional trade of secondary transportation capacity. APLNG supports a review of the cost recovery regulatory regime set out in the National Gas Rules for the DAA.
- ***Support ongoing financial product development***
The current market for trading financial products is limited. APLNG supports the development of policies and products (for example, the ASX's Wallumbilla futures contract) that will support growth in this market. APLNG believes a robust market for financial products (such as futures) evidences a mature and well-functioning liquid market for gas. Additionally, improved accessibility to financial products and the increasing presence of brokers on the GSHs would bring a greater number of non-physical participants to the markets, in turn increasing liquidity.
- ***Recommend additional notional trade points for enhanced flexibility***
In APLNG's view, the lack of notional trade points or pooling across different pipelines limits flexibility and increases daily balancing requirements. APLNG would recommend considering options to provide additional notional trade points or balancing options which would facilitate greater bilateral market liquidity. In particular, the addition of the Culcairn and Wilton trade points to the gas supply hub, as well as other swap products, would improve access to southern markets.

Thank you for this opportunity to make a submission. If you have any questions, or would like to discuss this submission further, please contact Susan Moore on (07) 3028 5111.

Yours sincerely



Warwick King
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Australia Pacific LNG Pty Limited