



23 December 2021

Our Reference: APLNG - COR - 0014703

Delivered via e-mail to: gas@industry.gov.au

To whom it may concern,

Response to the consultation paper Options to advance the east coast gas market

Australia Pacific LNG Pty Limited (APLNG) welcomes the opportunity to provide a response to the Department of Industry, Science, Energy and Resources on options to accelerate development of Wallumbilla Gas Supply Hub and improve the pipeline capacity trading framework.

APLNG, based in Queensland, is one of Australia's leading natural gas production companies. It is an incorporated joint venture between ConocoPhillips, Origin Energy and Sinopec. Origin Energy is the upstream operator and ConocoPhillips is the downstream operator of APLNG. APLNG is recognised as Queensland's largest gas producer.

APLNG remains committed to Australia's domestic gas market, and during CY 2021, supplied approximately 30 per cent of the east coast gas market demand. APLNG also has gas supply contracts with local industries and businesses out to 2030 and beyond. APLNG continues to be committed to supplying the east coast gas market, engaging with customers, and working with the Federal Government to enhance the role of gas as a major contributor to the economic development of Australia and its energy future.

The roadmap contemplated in the consultation paper presents the opportunity to provide regulatory certainty for Australia's east coast gas producers who continue to ensure the market is well supplied with competitively priced gas to support jobs in Australia's energy intensive industries. As such APLNG looks forward to a roadmap which identifies policy reforms and plans the further development, consultation, and potential implementation of these reforms. We believe it is also important for the roadmap to provide sufficient time for recent regulatory initiatives to develop and be factored into the decisions of market participants.

APLNG's overarching position is that for the market to increase its efficiency and provide participants with greater confidence that prices reflect market fundamentals, market-led solutions driven by commercial outcomes are required. Regulation should only be considered when competitive market outcomes are demonstrated to be unworkable.

It remains APLNG's strong view that removing the barriers to exploration and production of new gas close to sources of demand will provide gas to domestic users at the lowest price over the long-term.

Should you have any questions or would like to discuss this submission further, please contact Mark Hunter, Interim GM Commercial at mark.hunter@aplng.com.au

Yours Sincerely

A handwritten signature in black ink, appearing to read "Nick McKenna".

Nick McKenna
Chief Executive Officer
Australia Pacific LNG Pty Limited

Attachment A: Options to advance the east coast gas market – stakeholder feedback template

Submission from Gas Task Force

This template has been developed to assist stakeholders to provide feedback on the consultation paper *Options to advance the east coast gas market*, which explores the following main elements:

- Key issues and barriers to performance, participation and liquidity of the Wallumbilla Gas Supply Hub, and potential policy options
- Key issues and barriers to effectiveness of the pipeline capacity trading framework, and potential policy options
- Broader issues and options which could enable greater liquidity and participation through related enabling frameworks

Stakeholders are strongly encouraged to use this template, so that due consideration can be given to the views expressed by stakeholders on each issue. If you wish to provide additional feedback outside the template, please reference the relevant question to which your feedback relates wherever possible.

Chapter 2: Rationale for undertaking consultation

Section 2.4 What are the objectives of Energy Ministers?

Question 1: Do you have any comments about the rationale for undertaking consultation? Does the rationale broadly cover the issues that you face in your interaction with the gas market?

Feedback 1:

'*Options to advance the east coast gas market*' (the consultation paper) identifies that there have been several recent reviews into the trading frameworks for both wholesale gas markets and pipeline capacity. These have been undertaken by market bodies, including AEMC, ACCC and AER, in addition to recent consultations by DISER. APLNG notes that we have already commented upon most, if not all the matters raised by the current consultation paper through our prior submissions to each of these bodies. To that end, we have focussed our responses to matters that are new or are of particular importance to APLNG. With respect to issues that APLNG faces during its interaction with the east coast gas market, APLNG's responses to the prior reviews referenced in the consultation also remain relevant.¹

APLNG generally supports policy which stimulates competition and investment through encouraging or facilitating market-led and commercially driven investment opportunities and trading solutions. However, we note that several recent initiatives and policy changes—for example, relating to the Day Ahead Auction (DAA), Capacity Trading Platform (CTP), Wallumbilla Gas Supply Hub (GSH), enhanced transparency measures, changes to pipeline regulation and the new voluntary code of conduct—have not been in place long enough to achieve their intended objectives. To build confidence in the policy framework underpinning

¹ APLNG 2020, *Submission on 'Draft Report for the AEMC's 2020 Biennial Review of Gas Markets Liquidity'*, accessed 29/11/2021.

APLNG 2021, *Submission to 'ACCC review of upstream competition and the timeliness of supply - Attachment 1'*, accessed 30/11/21.

APLNG 2021, *Submission on 'ACCC review of the LNG netback price series'*, accessed 16/12/2021

APLNG 2019, *Submission on 'Framework for the consistent reporting of natural gas reserves and resources – Consultation Paper'*, accessed 16/12/2021

the industry, the roadmap should focus on areas of improvement that will enable existing mechanisms to achieve their intended outcomes more effectively.

We consider that a policy shift toward increased regulatory burden or cost for market participants due to the matters raised in this consultation paper could create substantial uncertainty around future investments, security of existing investments and contracts (both gas supply and related supply chain), and public policy priorities generally. Our responses to the questions raised in the consultation paper are focussed on providing a regulatory regime that is stable and encourages investment.

Question 2: Are there any issues which have not been identified which Energy Ministers should consider in the context of undertaking these workstreams?

Feedback 2:

Paragraph 2.1 of the consultation paper refers to southern gas supply depletion and in the absence of new supply sources in these areas, southern markets requiring supply to be sourced from either other states or through LNG import terminals.

It is widely recognised that an important element of meeting demand efficiently is to unlock additional supply and to ensure gas is available close to where it is required. The consultation paper and the related focus of the Government's Gas Fired Recovery and National Gas Infrastructure Plan workstreams, appears too narrow to address the need for new southern supply. APLNG continues to emphasise the importance of increased domestic supply by encouraging state governments to remove restrictions on exploration and development to ensure sufficient new gas is developed and made available at the locations where it is required.

Question 3: Do you have any comments about the proposed objectives of this work?

Feedback 3:

No response.

Chapter 3: Consultation focus 1: Wallumbilla Gas Supply Hub

Section 3.1 What are the potential problems?

Question 4: Do you agree with the problems that have been identified for Wallumbilla GSH and what effect do you think they could have on meeting the objectives outlined in Chapter 2.4?

Feedback 4:

APLNG continues to support an assessment of how to best enhance the structure of Wallumbilla GSH and Brisbane STTM to improve liquidity² and reduce barriers to market participation.

While the improvements to liquidity and potential adjustments to market structure outlined in the consultation paper may deliver benefits to users of the Wallumbilla GSH, we have identified several additional changes that should be considered. These are outlined in response to question 46.

However, notwithstanding the potential merit of reforms—both those in the consultation paper and the ones we have identified—the main obstacles to developing liquidity and alleviating customer concerns regarding certainty of supply and price, are transport costs and constraints, and the proximity of new supply sources to demand.

² APLNG 2020, *Submission on Draft Report for the AEMC's 2020 Biennial Review of Gas Markets Liquidity*, accessed 29/11/2021.

The path forward should support a well-developed approach to market reform that incorporates broad and detailed consultation and risk mitigation to avoid unintended consequences.

Question 5: Are there any other problems that you think should be considered? If so, please set out what they are, what effect they may be having on liquidity at Wallumbilla GSH, and how these problems could be addressed.

Feedback 5:

See response to question 46.

Question 6: Are there structural issues regarding the nature of supply and demand for gas in Australia which could impact the success of reforms aimed at increasing liquidity of gas markets?

Feedback 6:

See response to question 46.

Section 3.2 How could these problems be addressed?

Section 3.2.1 Anonymised delivery

Question 7: What benefits could anonymised delivery offer for gas market participants which could assist in achieving the objectives in Chapter 2.4? What do you think the costs and benefits of implementing such an option would be to your business in terms of your participation in the Wallumbilla GSH?

Feedback 7:

APLNG considers that the ability to trade anonymously could benefit some hub users, some of the time. It is possible that anonymised delivery could also lead to an increase in market liquidity, competition, and investment in the gas market.

Question 8: What do you believe would be the most appropriate design for an anonymised delivery model at Wallumbilla GSH?

- a) Is a model which emulates the CTP most appropriate for anonymised delivery of gas traded through the GSH?
- b) What balancing regime represents the best trade-off of complexity and benefit to liquidity?
- c) Would implementation via a Rule change or bilateral agreement be more preferable in terms of achieving the NGO?

Feedback 8:

For gas to be delivered anonymously, a third-party would need to take possession of the gas when it enters the hub and redistribute it according to the agreements in place.

However, the title of gas is accompanied by the risk of supplying off-spec gas—something the third-party would have no control over.

It is reasonable that the third-party would need to be compensated for taking on this risk and/or the cost of indemnification, as well as any costs associated with delivering off-spec gas.

APLNG supports a detailed consideration of the cost benefit analysis associated with the various balancing regimes identified in the consultation paper to determine how this risk could be managed. To ensure the market remains cost-reflective and provides appropriate market signals to users, the balancing regime

costs should be assigned on a user-pays basis and not socialised across all volumes, trades, or participants of the hub.

Question 9: In terms of an implementation roadmap, what importance would you place on addressing this issue and over what timeframe?

Feedback 9:

No response.

Section 3.2.2 Streamlining prudential requirements

Question 10: Do you think there is likely to be a net benefit in harmonising prudential requirements across the east coast facilitated gas markets? What effect do you think this will have on your business, and suppliers and users more generally?

Feedback 10:

APLNG supports the aggregation of prudential requirements under a single umbrella entity, where a party may have multiple registered trading entities and require prudentials for each entity individually. This may lead to more participation across the various markets, driving efficiency and improving competition.

This could also be applied across trading platforms, so long as the umbrella entity's combined activity remains within the footprint of its prudential limit.

Question 11: Do you think the introduction of the ASX physical delivery futures product will alleviate the current concerns around collateral requirements of forward-dated products? If not, please explain why.

Feedback 11:

APLNG supports the development of products that stimulate growth in the market³.

One of the benefits of an ASX Wallumbilla futures contract, if targeted correctly, would be to allow parties to transact gas trades further into the future, backed by a physical requirement to deliver the traded gas. The option to procure gas for longer periods of time and to cover full contract years/periods will provide supply certainty and confidence to users who require physical gas deliveries to run their business, thereby encouraging user participation and market liquidity.

Question 12: Which option for sharing prudential requirements do you consider would be likely to offer best value for money? Are there other options that should be considered?

Feedback 12:

No response.

Question 13: In terms of an implementation roadmap, what importance would you place on addressing this issue and how quickly do you think it needs to be addressed?

Feedback 13:

No response.

³ APLNG 2020, *Submission on Draft Report for the AEMC's 2020 Biennial Review of Gas Markets Liquidity*, accessed 29/11/2021.

Section 3.2.3 Market making

Question 14: Do you think a market making regime could make the Wallumbilla GSH better suited to your gas trading needs? Is a market making regime necessary in order to develop liquidity at Wallumbilla GSH or is this better achieved through other means?

Feedback 14:

The consultation paper speaks to two different concepts for a market making regime and recognises that the benefits of the two concepts are broadly similar, but the risk, cost, burden and implementation complexity are different.

The first concept raised in the paper is a voluntary, commercially driven and product focussed market maker role.

The second concept is a mandatory, non-commercial, regulatory driven and potentially product-ambivalent market maker role.

Taking account of the limited and mixed international learnings, and the current status of Wallumbilla GSH, APLNG offers that it is not clear whether a market maker regime would develop further liquidity. Our review of the proposal and international applications of similar initiatives indicate that the impact (and therefore the sequencing/timing) of introducing one or more market makers into a market can generally be correlated with the extent to which the market is 'ready'. That readiness is fundamentally a product of the solidity and efficiency of the design of the market, and the ability of its participants to engage therein.

We anticipate that an industry roadmap will, in the first instance, address the solidity and efficiency of the design and operation of Wallumbilla GSH. If market-led, commercially driven products do not organically eventuate to fill the potential void, consideration of whether the market should be subject to further policy reform or regulation with respect to market making undertakings would follow.

We appreciate that the consultation paper speaks to a roadmap for delivery to Government, and that this is a relevant consideration in that respect. However, we do not support a regime which would introduce mandatory market making obligations.

Question 15: What form of market making regime do you think would be most appropriate for achieving the objectives in Chapter 2.4?

- a) What parties would be most appropriate to be market makers (and in what markets e.g. physical, financial)? Should this be voluntary or mandatory in terms of participation?
- b) How do Energy Ministers ensure that there is minimal adverse impact to participants selected as market makers in such a regime? Are there elements of the design of market making regime that could assist in minimising the implementation cost?
- c) What role (if any) could energy market bodies and/or governments play in facilitating a regime at Wallumbilla GSH?

Feedback 15:

We do not support a regime which would introduce mandatory market making obligations. For further commentary please refer to question 14.

Question 16: Does a market maker within the ASX physical futures product sufficiently reduce the need for an alternative market making regime for Wallumbilla?

Feedback 16:

No specific response however, APLNG notes that this is an example of a non-compulsory, market-led and commercially driven investment opportunity and acknowledges that this future product has been taken into consideration as part of the development of the proposed roadmap.

Question 17: In terms of an implementation roadmap, what additional work is required to consider the merits of market making regimes and to assess the cost and benefits of different designs?

Feedback 17:

No response.

Section 3.2.4 Virtual hub design

Question 18: What benefits do you think a virtual hub for Wallumbilla GSH could introduce and why? Do you think it could make it easier for your business to trade gas?

Feedback 18:

APLNG continues to support an assessment of how to best enhance the structure of Wallumbilla GSH and Brisbane STTM to improve liquidity⁴ and reduce barriers to market participation.

However, the implications of incorporating a virtual hub encompassing multiple trading locations into Wallumbilla GSH, would need to be assessed in detail to identify potential risks and trade-offs, inform the decision-making process and avoid unintended consequences, particularly regarding key design issues. For example, the attributes identified in question 19, geographic boundaries, platform for operation and responsibility for operation.

Question 19: Do you have views on the design details that would need to be considered in designing a virtual hub, for instance which form of carriage model or balancing regime would be most appropriate?

Feedback 19:

As noted in APLNG's response to question 18, there is a substantial body of work required to develop concepts associated with the proposed notion of a virtual hub at Wallumbilla GSH and to incorporate it into the current Wallumbilla GSH trading structure and arrangements.

Question 20: What level of regulation should be imposed upon the hub operator? And what activities should be regulated as part of this? Should consideration be given to an independent hub operator?

Feedback 20:

No response.

Question 21:

Regarding the idea of expanding a virtual hub to encompass the SEQ trading location and the Brisbane STTM:

- a) What additional benefit would this provide your business, and the gas market generally, compared to a virtual hub covering Wallumbilla alone?

⁴ APLNG 2020, *Submission on Draft Report for the AEMC's 2020 Biennial Review of Gas Markets Liquidity*, accessed 29/11/2021.

- b) What are the major risks associated with this proposal, particularly considering management of existing contracts and congestion?
- c) Would a liquid trading hub be an adequate replacement for the mandatory Brisbane STTM?

Feedback 21c

APLNG expects that this question would be given significant consideration as part of DISER's future work to explore the concept of incorporating a virtual hub into Wallumbilla GSH.

Question 22: In terms of an implementation roadmap, are there other considerations which should be considered for future consultation and assessment, if this option was to be investigated further?

Feedback 22:

APLNG considers that while some of the initiatives can be implemented simply and quickly, and are almost standalone, others will require detailed analysis to discern how best to proceed. We expect the implementation roadmap to discern between these different types of initiatives and to acknowledge the importance of correctly sequencing both their investigation and execution.

Section 3.2.5 Other options considered

Question 23: Do you agree with the initial analysis of these other options? Do you think there is merit in exploring these options further in order to assess whether they could contribute to meeting the objectives outlined in Chapter 2.4?

Feedback 23:

No response.

Question 24: Are there additional options which should be considered by Energy Ministers in more detail?

Feedback 24:

No response.

Chapter 4: Consultation focus 2: Pipeline capacity trading frameworks

Section 4.1 What are the potential problems?

Question 25: Do you agree with the problems that have been identified with pipeline capacity trading frameworks and what effect do you think they could have on future liquidity growth in the east coast gas market?

Feedback 25: The capacity trading platform (CTP) was introduced so that shippers could trade secondary capacity ahead of the nomination cut-off time.⁵ As observed in the consultation paper, it has had almost no usage to date. APLNG suggests that a clear understanding of why trade on the CTP has not developed should underpin any further regulatory interventions to capacity trading. Greater utilisation of the CTP would result in increased trading of under-utilised capacity on a long-term basis (compared to the DAA). It would also allow for shippers to recoup a portion of costs in relation to their under-utilised capacity⁶.

⁵ AEMO 2021, *About Pipeline Capacity Trading (PCT)*, accessed 17/12/2021

⁶ APLNG 2020, *Submission on Draft Report for the AEMC's 2020 Biennial Review of Gas Markets Liquidity*, accessed 29/11/2021.

It is important to appropriately balance the need for change within the system, with the need for market participants to have long-term certainty⁷ and to allow time for recent reforms to flow through to future investment decisions and contracts. Given the long-term nature of many capacity agreements, the introduction of the DAA and CTP is only just beginning to be integrated into decisions by market participants.

APLNG's view is that a shortage of primary capacity is contributing to high transport costs and limited accessibility. Secondary trading and the facilitation of secondary trading will not compensate for the lack of uncontracted capacity currently observed.

Question 26: Are there any other problems that you think should be considered? If so, please set out what they are, what effect they may be having on pipeline capacity liquidity, and how these problems could be addressed.

Feedback 26:

APLNG generally agrees with the matters identified in section 4.1.1. However, we do not consider the matters discussed in sections 4.1.2 to 4.1.4 to have comprehensively captured the challenges facing pipeline capacity trading frameworks.

Scope for secondary capacity trading may continue to decline. Pipeline contracts for existing pipelines are increasingly for shorter periods of time. Buyers have line-of sight on the capacity they need and aren't contracting for volumes more than those amounts.

The long-term contracts (10-15 year) that under-wrote pipelines initially are unlikely to be replaced with like-for-like agreements—we anticipate that the new 'long-term' will be closer to five years, and agreements will be tailored to meet buyer-specific needs for that period.

The issues captured in the consultation paper will not address the underlying demand for primary capacity.

Question 27: Do you agree that these identified problems are relevant to meeting the objectives in Chapter 2.4? If not, please explain why.

Feedback 27:

No response.

Section 4.2 How could these problems be addressed?

Section 4.2.1 Reviewing fee structures and levels

Question 28: Do the fees charged by AEMO for participation in pipeline capacity trading act as a barrier to further growth in usage? How could this be alleviated?

Feedback 28:

No response.

Question 29: To what extent should pipeline operator fees be reformed in order to increase the efficiency of the market, noting the options outlined above?

⁷ APLNG 2020, Submission to the '[COAG Regulation Impact Statement for consultation - Options to improve gas pipeline regulation](#)', accessed 30/11/2021

- a) Do you agree with the AER's initial findings that the fee structures imposed by pipeline operators did not represent a substantial barrier to trading?
- b) Would an increased level of regulation on pipeline operator fees be warranted in order to better improve market outcomes? Are there any risks which could arise from this approach?

Feedback 29:

No response.

Question 30: In terms of an implementation roadmap, what importance would you place on addressing this issue and how quickly do you think it needs to be addressed?

Feedback 30:

No response.

Section 4.2.2 Reviewing bidirectional pipelines restrictions

Question 31: Are there specific pipelines for which access to backhaul capacity is an issue for participants?

- a) Would an interruptible backhaul auction product on bidirectional pipelines such as the one described above be feasible? If not, please explain why.
- b) Is there a need to strengthen the conditions by which a pipeline can be made bidirectional? What risks could eventuate through a higher barrier to reclassification of pipelines?

Feedback 31:

APLNG's understanding of this issue is that the purpose of the DAA is to ensure that contracted but unutilised capacity is available to any other shipper who wishes to bid on the spare capacity. In the case of bidirectional pipelines, that may result in imbalances between what is contracted and nominated in each direction.

On a bidirectional pipeline, if an imbalance occurs, there may be uncontracted firm, as-available or interruptible services available that shippers can contract to use. As gas can move in either direction, shippers are not limited to back-haul capacity—they can nominate a volume and service point independent of other shippers' gas movements.

Putting that uncontracted capacity onto the DAA does not seem to be consistent with the intent of the DAA. Investigation of the changes considered in section 4.1.3 should be underpinned by broad and detailed consultation and risk mitigation to avoid unintended consequences.

Regarding the definition of 'bidirectional pipeline', APLNG's view is that the current definition is clear. A pipeline must be able to physically flow in both directions.

Question 32: In terms of an implementation roadmap, is there a preferred approach or other considerations which should be considered for future consultation and assessment, if this option was to be investigated further?

Feedback 32:

No response.

Section 4.2.3 Alleviating issues around auction timing

Question 33: Would shifting forward the nomination cut-off time within the gas day present any difficulties? How might this impact the certainty for gas users to nominate for the next day?

- a) Would the benefit in shifting forward the nomination cut-off time, and consequently the DAA, be sufficiently material to justify change?

Feedback 33:

The consultation paper identified two issues with the current nomination cut-off time: its interaction with the STTM and the late nature of the DAA nomination timing. APLNG does not support a change to the current nomination cut-off time.

Moving the DAA ahead of the STTM could have the unintended consequence of delivering less secure, firm capacity, rather than more.

Firm capacity holders who also participate in the STTM nominate their pipeline capacity requirements based on the scheduling outcomes of the STTM. Holding the DAA prior to the STTM participant bid/offer cut-off time will result in firm capacity holders potentially needing to renominate their firm capacity once the outcome of the STTM scheduling is known.

This may lead to instances where a non-firm shipper acquires firm capacity ahead of the STTM scheduling in the DAA, only to lose that capacity after the STTM, when the original firm capacity holder requires and renominates their capacity. This could result in high-risk outcomes for participants if they are then unable to meet their scheduled market requirements.

Even if the sequencing of the DAA and STTM remains the same, APLNG expects that moving the DAA nomination time forward would increase the likelihood of renominations. Currently, shippers have two hours from the time of the STTM scheduling confirmation cut-off time to issue and/or confirm supply commitments (for integrated parties), and then to balance their respective portfolio and determine shipping outcomes. These are then nominated to pipeline operators. Any less time than this will place firm capacity holders at risk of needing to renominate their capacity after the DAA process has concluded.

APLNG views that the DAA is intended to provide capacity as firm as possible and that the system underpinning it should be designed to minimise the need for changes post DAA scheduling, whilst allowing firm capacity holders as much flexibility as possible to utilise their capacity in responses to seasonal demand fluctuations and portfolio requirements.

There are likely to be more efficient solutions—such as the automated nomination process contemplated in question 34 and developing an app-based interface for the DAA—which would facilitate access by smaller participants, without imposing additional burden and costs on incumbent capacity holders.

Question 34: Are there thoughts on the usefulness of an automated nomination process for auctioned capacity in order to alleviate timing concerns from smaller participants? How might this be best implemented?

Feedback 34:

As noted in response to question 33, APLNG considers that this would be an efficient option to alleviate timing concerns from smaller participants.

Question 35: In terms of an implementation roadmap, what importance would you place on addressing this issue and how quickly do you think it needs to be addressed?

Feedback 35:

Regarding the automation of the nomination process, APLNG considers this to be a near term reform opportunity that could improve access to the DAA without imposing costs on other market participants.

Section 4.2.4 Reviewing firmness of auction product

Question 36: Should the firmness of the auction product as initially recommended by the GMRG be revisited, given the outcomes of the auction and use of the CTP?

- a) What risks could shifting to a hybrid auction introduce (e.g. impact on investment signals)? What measures could be put in place to limit any impacts?

Feedback 36:

APLNG views that it is important to look at each reform's impact on the supply chain, as well as how it affects the DAA or use of the CTP.

APLNG's concern is that the product being contemplated in section 4.2.4 could have implications for firm capacity holders, which would need to be carefully thought through. For example, the ability to manage portfolio risks and to mitigate the physical risks associated with generating, processing, and transporting gas.

That said, such a product might warrant further consideration to identify potential risks and trade-offs, inform the decision-making process and avoid unintended consequences.

Question 37: In terms of an implementation roadmap, what additional work is required to consider the merits of reviewing the firmness of auction products?

Feedback 37:

No response.

Section 4.2.5 improving the usefulness of the Capacity Trading Platform

Question 38: Could the usefulness of the CTP be improved through a simplified product offering or coordinated trading mechanism for secondary capacity? How could simplification best be achieved?

Feedback 38:

No response.

Question 39: Would increasing access to primary capacity products on pipelines through the CTP result in a more efficient gas market, and improve flexibility for shippers and buyers? Is this an attractive alternative to bilateral contracting for short-term primary capacity?

- a) What products could be made available? Is the CTP the most appropriate platform to make these products available? If not, please explain why.
- b) How could pricing for these products be set? How could any incentives for economic withholding be addressed?

Feedback 39:

Improving primary capacity products on pipelines through CPT could result in a more efficient gas market.

- a) We would like to see weekly and monthly products be made available through the CPT—for example, a week of capacity or a month of capacity.
- b) No response.

Question 40: In terms of an implementation roadmap, what additional work is required to consider the merits of trading primary capacity products on the CTP?

Feedback 40:

No response.

Section 4.2.6 Other options considered

Question 41: Do you see potential benefit in any of these other options which would help to achieve the objectives outlined in Chapter 2.4 and may warrant further exploration?

Feedback 41:

No response.

Question 42: Are there additional options which have not been explored or identified here and should be considered by Energy Ministers in more detail?

Feedback 42:

No response.

Chapter 5: Other enabling framework reform options

Section 5.1 Third-party access to gas infrastructure

Question 43: Do you think there is currently an issue with third-party access to gas facilities other than pipelines? Would a regulatory access regime for these facilities lead to better outcomes for the gas market and support achievement of the Energy Ministers' vision?

- a) What types of facilities should be the focus of a third-party access regime (if any)? To what extent are the issues associated with these facilities similar to or different from the issues considered in the Pipeline RIS?

Feedback 43:

APLNG supports a streamlined regulatory framework that provides an efficient gas system and competitive market.⁸

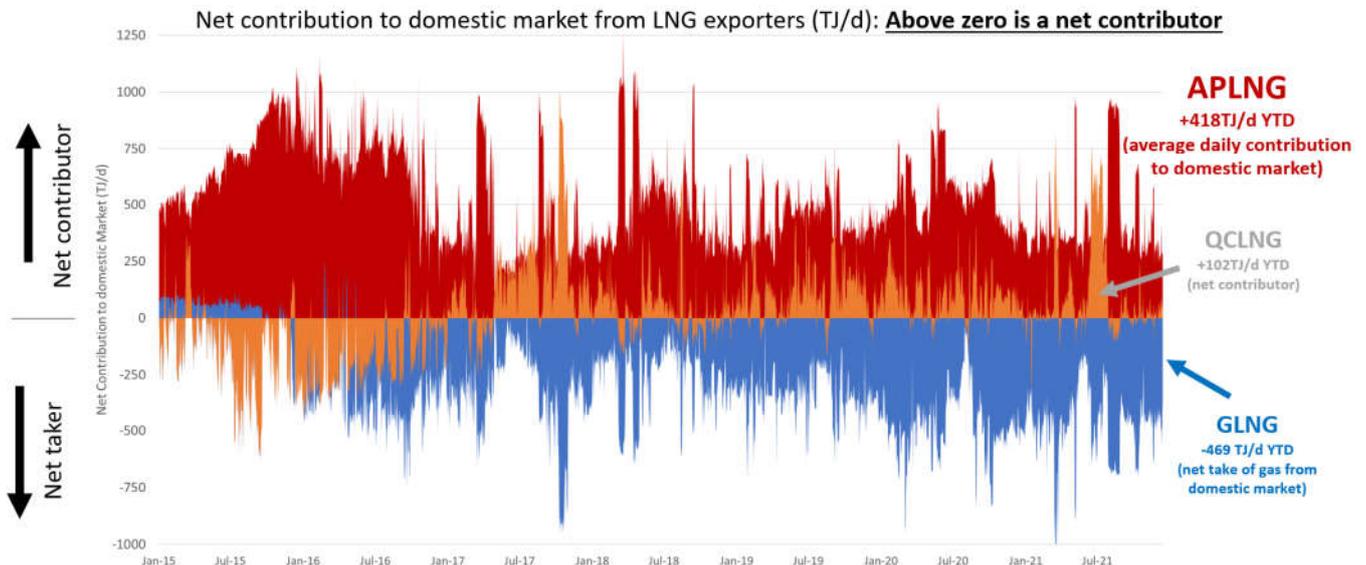
APLNG has constructed and sized its upstream gas production infrastructure and downstream LNG facilities, including pipelines, gas and water processing facilities, LNG processing, storage and loading facilities, to meet its contracted domestic gas and LNG (export gas) supply obligations.

Domestically, APLNG currently supplies around 30 per cent of the total east coast domestic gas market demand via numerous short-term and long-term gas supply agreements with some agreements out to 2040. APLNG has significant supply commitments under these domestic gas supply contracts and its LNG

⁸ APLNG 2020, *Submission on Draft Report for the AEMC's 2020 Biennial Review of Gas Markets Liquidity*, accessed 29/11/2021.

supply contracts. These arrangements were agreed based on APLNG’s gas supply and the capacity of its infrastructure access.

APLNG is the leading net contributor to east coast market



Source: Wholesale Gas Market – Upstream Production (by Owner) minus LNG Demand, Energy Edge GMAT

APLNG continues to plan for the development and production of its resource base, which underpins its existing commitments and ongoing efforts to remain a material contributor to the domestic east coast gas market. Based on current development plans, there are no opportunities for long-term firm third-party access in the foreseeable future. Should APLNG eventually find itself in a position where its development plans no longer require the full use of its infrastructure, APLNG anticipates that it would engage in good faith engagement with bona fide interested third parties who wish to take a share of and/or toll through APLNG’s infrastructure on competitive terms.

This type of arrangement also ensures that infrastructure can be fully optimised, as APLNG or other infrastructure owners retain autonomy for infrastructure operation and maintenance, and the resourcing of access agreements can be clearly assigned and recovered via the negotiation of those arrangements.

Notwithstanding the lack of spare long-term, firm capacity, APLNG is both a buyer and supplier of short-term third-party access. Market forces and market-led solutions allow for optimised infrastructure capacity utilisation. Introducing new regulations may have the unintended consequence of overly complicating or adding undue cost or burden to the market.

Based on its experience in the market, APLNG does not consider that a regulated third-party access regime is necessary. Market forces and market-led solutions allow for optimised infrastructure capacity utilisation, and support additional supply developments and efficient, competitive market outcomes. The introduction of a new regulatory framework for third party access to the infrastructure described, particularly LNG facilities, will not improve the issues associated with trading at the Wallumbilla GSH or increase use of the pipeline capacity trading framework.

Question 44: Are there alternatives to implementing a third-party access regime for this kind of infrastructure, such as an independent body like AEMO or governments owning and/or operating infrastructure such as storage or compression?

Feedback 44:

APLNG considers that there are market-led alternatives to implementing a third-party access regime, including joint venture agreements, farm in/out agreements, access/processing agreements and gas sales/purchase/swap agreements. Over the past five plus years, there have been several partnerships between different sized businesses.⁶

APLNG considers that publicly funded or managed infrastructure would need to consider:

- its impact on incumbent service providers, particularly to ensure it is not duplicating existing services, but is delivering new access infrastructure (i.e. new routes or services)
- equal access terms for all market participants
- future access rules and how to balance demand between current and future users.

Question 45: In terms of an implementation roadmap, what additional work is required to consider whether access regulation should be extended to other forms of gas infrastructure? What risks exist with regards to the introduction of any regulatory regime?

Feedback 45:

APLNG does not generally support new forms of regulation that mandate access to gas and LNG infrastructure. APLNG would support a roadmap which recognises that third party access to gas and LNG infrastructure should be market led and commercially driven.

Section 5.2 Improving contracting practices to support greater on-screen trading and liquidity

Question 46: What do you consider to be the main benefits of off-screen bilateral contracting arrangements (for example, under an MSA) as compared with on-screen trading through the Wallumbilla GSH?

- a) Are there any contracting practices associated with the Wallumbilla GSH that you consider currently act as a disincentive to on-screen trading?
- b) What further procedural, regulatory or contractual changes would encourage increased on-screen trading through Wallumbilla GSH and would support your gas portfolio needs?

Feedback 46, 46a and 46b:

Bilateral contracts offer users certainty and flexibility, agreement specific-trading terms and periods, bespoke contract options, a broader range of products and the option to link prices to indexes. Excluding the cost of negotiation and execution, bilateral swaps also have no transaction fees, which contributes to their utility. APLNG has noted the advantages of bilateral contracting to both buyers and sellers in our earlier submissions.⁹

APLNG considers that these attributes reflect the ability of bilateral contracts to be adapted to the unique circumstances of each transaction, rather than a deficiency in the Wallumbilla GSH per se. Wallumbilla GSH does not currently provide these options, nor does it need to provide the same flexibility as bilateral contract trading. To attempt to do so risks over-complicating and crowding out current levels of market-based trade. However, there are opportunities to improve how the hub operates.

⁹ APLNG 2020, *Submission on Draft Report for the AEMC's 2020 Biennial Review of Gas Markets Liquidity*, accessed 29/11/2021.

As noted in Chapter 2, the consultation paper presents a range of potential adjustments. There is also a high degree of overlap between the ideas posed. Some of the more substantial changes considered effectively envelop and would achieve several of the of smaller options also examined.

Under the current structure of Wallumbilla GSH the following list of adjustments would enable more flexible and fit-for-purpose trades, without the disadvantages associated with some of the reforms outlined in the consultation paper. Some suggestions have been identified in earlier APLNG submissions.¹⁰

- Streamline the process for bringing new trade locations and/or pooling across different pipelines into the Wallumbilla GSH (in particular, the Culcaim and Wilton trade points).
- Facilitate location swaps.
- Introduce a broader range of product types—for example, bespoke time periods and volumes less than 0.5TJ.
- Allow two different counterparties to be on the buy and sell leg of a spread trade.

These types of changes will create room for smaller customers to access gas on the Wallumbilla GSH, lead to an increase in the total volumes being traded and may improve access to the southern markets.

Another relatively low-cost potential improvement would be the development of a mobile app, rather than relying on desktop software. This may improve accessibility for smaller market participants that are unable to maintain trading desks.

A more substantial reform which could have potential benefits would be to eliminate the low-pressure trade point and have all trades conducted at the high-pressure trade point. Gas is currently offered at either low or high pressure from Wallumbilla GSH. This can lead to parties being required to pay a surcharge on trades when there is not sufficient volume to clear all trades at the low-pressure trade point. Moving all trades through the high-pressure point guarantees a known cost of trade and would improve the simplicity and accessibility of the Wallumbilla GSH for small users. It could also result in cost deviations (for example, due to the need to increase compression) being a known cost for those on the low-pressure side.

Question 47: How important is it to you to ensure confidentiality of commercial terms like price and volume when trading? To what extent would the option to anonymise delivery of gas at Wallumbilla GSH (outlined above) address confidentiality concerns?

Feedback 47:

Other markets ensure day-of-trade anonymity, with price and volume tranches made available the day after. A similar regime should apply to Wallumbilla GSH.

Question 48: Are there are regulatory or other barriers preventing the entry into the market, or effective operation, of brokerage service providers?

Feedback 48:

No response.

Section 5.3 Potential government support for infrastructure

Question 49: Do you think that government support for infrastructure would be an appropriate means of helping achieve the objective of more liquid trading in capacity/gas?

¹⁰ APLNG 2020, *Submission on Draft Report for the AEMC's 2020 Biennial Review of Gas Markets Liquidity*, accessed 29/11/2021.

- a) Is there a risk that government support could crowd-out and displace private investment?
- b) Is there a role for the market bodies or government as independent owners or operators of infrastructure, including as an independent operator of the Wallumbilla GSH?

Feedback 49:

Government support for investment would need to take into consideration the investment made by incumbent infrastructure owners as it could have the unintended consequence of crowding out, displacing, or disrupting the project returns of existing private investment.

Section 5.4 Access to regional pipelines

Question 50: Do you see regional pipeline access as an issue that requires addressing as part of achieving the Energy Ministers' objectives?

- a) Does the ACCC's proposed capacity surrender mechanism represent an appropriate means of addressing regional pipeline access issues?
- b) Do you have comments on the other potential options which have been explored above? If so, please explain.

Feedback 50:

DISER's paper cites the ACCC's usage of 'regional pipelines' to refer to both smaller transmission pipelines and laterals off major arterial pipelines, which are used to supply gas to users in regional areas.¹¹ The consultation paper is concerned that due to a concentration of capacity being wholly or mainly contracted to single retailers, there may be barriers to new retailers or C&I users getting access to these pipelines.

The paper identifies that this issue is separate to the problems considered through the Pipeline RIS.

APLNG supports there being a clear and effective regulatory framework to stimulate competition, optimise unutilised capacity and promote customers' access. The regulatory regime should incentivise pipeline owners/capacity holders with unused capacity to offer capacity on market competitive terms to all market participants. We would caution against a regime of forced relinquishment, where contract capacity is being utilised.

Where that doesn't exist, it is important to test the status quo to determine whether regulatory intervention will correct the perceived deficiencies. In light of the significant, impending policy changes for the transport segment of our industry, we would suggest that further intervention is explored carefully, that a full suite of policy and regulatory options are considered and that existing contractual positions are appropriately valued in the final decision-making matrix. The regime needs to remain predictable to retain investor confidence.

Question 51: In terms of an implementation roadmap, what importance would you place on addressing this issue and how quickly it needs to be addressed?

Feedback 51:

No response.

¹¹ DISER 2021, *Options to advance the east coast gas market*, accessed 17/12/2021