



ConocoPhillips Australia Operations Pty Ltd  
ABN 28 141 253 787

Level 1, 33 Park Road  
Milton, QLD, 4064  
PO Box 1243  
Milton, Qld, 4064  
Phone 61 (0) 7 3182 7302

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Department of Industry, Science, Energy and Resources  
Via the Consultation Hub  
gas@industry.gov.au

Ms Michelle Croker, Head of Division, Gas Taskforce

**RE: Options to advance the east coast gas market: Consultation on the Wallumbilla Gas Supply Hub and pipeline capacity trading framework – November 2021.**

Thank you for the opportunity to make a submission to the consultation on the Wallumbilla Gas Supply Hub and pipeline capacity trading framework – November 2021: Consultation Paper.

#### Background

For over twenty years ConocoPhillips, through its Australian subsidiaries (collectively referred to generally in this letter as “ConocoPhillips Australia”) has demonstrated its commitment to developing energy resources in Australia by investing over AU\$20 billion in operated and joint venture projects in the country. ConocoPhillips Australia is a 37.5 percent joint venture participant and downstream operator of Australia Pacific LNG. APLNG currently supplies approximately 30% of the annual east coast Australian gas market. ConocoPhillips Australia also has an 80 percent interest in and operatorship of the exploration T/49P permit in the Otway Basin. Through this Otway Basin permit and with significantly more investment, which is not without risk, we have the potential to develop resources that will further supply the Australian east coast gas market.

ConocoPhillips is one of the world’s largest independent exploration and production companies and offers this submission from the perspective of a dedicated, long term Australian energy investor and a global leader in oil and gas exploration, production, and marketing. This submission builds on ConocoPhillips Australia’s February 2021 submission to the Department of Industry, Science, Energy and Resource’s Gas Fired Recovery 2021 Plan consultation paper.

#### Support for Open Gas Market Trading / Hubs

We support the Energy National Cabinet Reform Committee’s efforts to encourage a transparent gas market through increasing liquidity at the Wallumbilla Gas Supply Hub (GSH). Delivering an open, transparent and liquid gas trading market through the GSH will improve competition for all participants, including end users. Our experience trading in global trading markets, often cited as models for the GSH, suggest that liquidity requires time to develop based on regulatory settings which enable multiple supporting factors, including efficient market operation and greater industry and end-user participation.

#### Possible Challenges

Alternatively, in our experience when governments and regulators intervene in ways that impede market efficiency, they impact investor confidence and discourage new projects and entrants. In some of the successful systems with which we’re familiar, the focus is often on incentivising and encouraging suppliers and end users to participate in the short-term and long-term market at hubs such as GSH to build confidence in gas availability. Regulatory options which prescribe third-party access to infrastructure such as gas processing, compression and LNG production facilities risk inefficiencies and threaten the sanctioned business models which underpin their construction and operation. This is particularly the case for operators of specifically designed and planned facilities at full capacity, underpinned by long-term development plans, significant capital investment decisions, involving integrated operational models across the value chain, and underwritten by long-term supply commitments as well as ongoing efforts to remain a material contributor to the east coast market. To this end, ensuring production of LNG export volumes is fundamental to honouring the foundation contracts that underpinned the final investment decisions for major producers such as APLNG.

Market-led solutions and commercially negotiated alternatives compared to implementing regulated third-party access arrangements (including joint venture arrangements, farm in/out agreements and processing arrangements) are more effective in utilising any spare capacity in gas infrastructure and already provide for effective measures to support additional supply, increasing liquidity and efficient market outcomes. The processing of third-party gas and its implications are best evaluated by the proponent, the operator, and the joint venture participants who own, operate and maintain the facilities as described above. The alternative, namely implementing third party access regimes for upstream gas and downstream LNG facilities appears disconnected from the various stakeholders' ability to trade gas through the GSH or access and use the pipeline capacity trading framework, which are understood to be key objectives of the consultation.

In relation to the other potential options being considered in the consultation paper concerning the GSH and pipeline capacity trading framework, ConocoPhillips Australia offers the following comments.

The market-making regime concept should be further considered once the other market design concepts have been settled and given time to take effect and their impacts on liquidity have been considered. ConocoPhillips Australia encourages incentivising and facilitating market-led participation, but does not support mandatory market maker regimes which have not proven to be effective.

#### Pipeline Capacity and Virtual Hubs

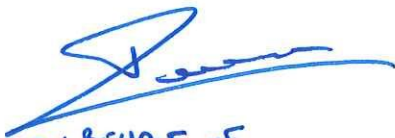
ConocoPhillips Australia does not support and would caution against the proposed pipeline capacity surrender mechanism where incumbent shippers could be made to release utilised contracted pipeline capacity to allow capacity to be onsold. This concept of greater utilisation and reduction of transport costs regarding transport capacity is being considered more appropriately in relation to capacity that is un-utilised in relation to the capacity trading platform considerations in the consultation paper. We support incentivising pipeline owners and capacity holders with un-utilised capacity, to make capacity available on market competitive terms to all participants.

In relation to the development and incorporation of virtual hub design concepts, ConocoPhillips Australia supports continued and detailed engagement to understand and consider the key design concepts being considered to ensure the continued development of the GSH and improved market outcomes.

The key design elements will need to carefully consider the costs, benefits and potential consequences associated with this proposed concept and how they balance against each other. This is particularly important regarding any removal of existing transport requirements (where positions are not traded out of) and the impacts on liquidity and increased costs associated with increased hub operator activities, regulation, balancing regimes etc. Whilst the consultation paper does discuss some aspects of the key design issues requiring further consideration, the current design and trading arrangements regarding the GSH should be retained to ensure growth in liquidity can continue to develop (as it has been doing since the GSH's inception) under the current contract carriage and voluntary net pooling arrangements.

Thank you for your consideration of our submission. Please contact James Mathews at [james.mathews@conocophillips.com](mailto:james.mathews@conocophillips.com) if you require any further information.

Yours sincerely,



ON BEHALF OF

Khoa M. Dao

President

ConocoPhillips Australia Operations Pty Ltd.