



13 April 2017

Gas Market Reform Group
c/o Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

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

Dear Dr Vertigan, Ms Van der Lee and Ms Lowe:

Re: Gas Pipeline Information Disclosure and Arbitration Framework - Implementation

Australia Pacific LNG (APLNG) welcomes the opportunity to provide comments on the Gas Pipeline Information Disclosure and Arbitration Framework, Implementation Options Paper (**Options Paper**). We also refer to our submission to the COAG Energy Council dated 8 February 2017 (**February Letter**) in relation to the draft National Gas (South Australia) (Pipelines Access — Arbitration) Amendment Bill (**Draft Bill**) and note that a revised Bill was tabled in the South Australian Parliament on 29 March 2017 (**Revised Bill**).

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 the largest producer of natural gas in eastern Australia and is strongly committed to both its Queensland and LNG customers. From 2017 onward, APLNG has contracted over 1,400 PJ of gas with long term Queensland customers with contracts continuing well beyond 2030.

APLNG has reviewed the Options Paper and would like to offer the following comments:

1. Information Disclosure – Support for Option 3

In our February Letter, we submitted that the enhanced disclosure and transparency recommended by Dr Vertigan was a fundamental policy principle and should be enshrined in the Bill. While that submission was not adopted in the Revised Bill, we maintain our support for that principle.

Of the five information disclosure options presented in the Options Paper, APLNG considers that Option 3 would best enable a shipper to assess the reasonableness of terms offered by a pipeline operator. APLNG appreciates the additional reporting burden that this places on pipelines even those with reasonable terms of service, however this additional work should impact mainly the initial set up of the reporting and be more automated for the years following. APLNG does not support Option 2 because it creates the potential risk that a shipper may erroneously calculate expected cost of service terms, spend time negotiating based on these assumed terms, then potentially enter arbitration only to find out through the arbitration process that the actual cost of service (assuming Arbitration Principle Option 2b is adopted) was closer to the original terms originally offered by the pipeline operator.

APLNG has an additional proposal in respect of Option 3. Option 3 requires pipeline operators who expect changes in demand or expenditure in the coming year to publish a statement indicating these changes. Due to the need for long term planning, APLNG believes this should include more than just the coming year, i.e. a 5 year forecast period.

2. Information Disclosure - Other Issues

- a) All the financial information required should be published on each owner's website in a standard format available to the public. It would make sense that an AER guideline should be prepared to assist with this standardisation to ease use.
- b) Standard shipper's access request, including securing available capacity services through existing infrastructure should all be a part of the pipeline owner's expected business of maximising throughput. If a shipper's access request requires expenditure by the pipeline operator (i.e. new receipt or delivery point, expanded capacity etc), then the pipeline owner should be able to recover their costs.
- c) APLNG submits that the AER is the most appropriate body to oversee the exemption mechanism in respect of both information disclosure and arbitration.
- d) We further submit that the AER should be responsible for assuring that information disclosure obligations are being met.

3. Arbitration Mechanism – Support Option 3

APLNG supports Conventional Arbitration with additional protections and partial transparency as outlined in Option 3. This allows the arbitrator to consider and determine a range of service issues (not limited to price) with a certain amount of flexibility and the ability to access administrative and technical support. We would support the development of an arbitration guide by the AER to assist in providing a consistent approach to arbitrations.

We support the short timeframes outlined in Option 3 to move from initiation of arbitration to a determination. In order for arbitration to provide an effective and credible threat of intervention, it will be important that the risk of delay in going to arbitration does not outweigh the potential benefits. For the outlined timeframes to be achieved in practice, it will be necessary for there to be sufficient available arbitrators with the appropriate qualifications and experience.

4. Exemptions from information disclosure and arbitration

APLNG supports GMRG's proposal that 1) non-scheme pipelines not providing third party access and 2) non-scheme single shipper pipelines should be exempt from the information disclosure and arbitration provisions as they provide a defined purpose that should not require arbitration. We also maintain the view expressed in our February Letter that "greenfields" pipelines (subject to a no-coverage period) should also be exempted. As pointed out in the Options Paper, greenfield pipelines currently are included in either 1) or 2) above, however for consistency APLNG believes that pipelines which are subject to a 15-year no coverage determination should be expressly exempted from information disclosure and arbitration requirements as they are a special sub-division of non-scheme pipelines that are not obligated to provide third party access.

APLNG's LNG mainline is a critical part of its project infrastructure and is solely operated for the benefit of the project with regard to pressures, flow profiles/line pack and gas specification. APLNG's significant investment in the pipeline was based on it being available for the exclusive use of the project. This need for exclusivity was the main reason that APLNG pursued the 15 year no-coverage determination for this pipeline. While there is some protection afforded through the proposed exemption of "non-scheme pipelines not providing third party access", we submit that much needed certainty would be provided by exempting pipelines subject to a 15-year no coverage determination from both the arbitration and information disclosure provisions of the Revised Bill and the Rules..

5. Arbitration Principles - Support Option 2b

While we support the additional principles set out at the end of section 5.2, we consider that the actual cost of service should be the benchmark for pricing principles. We propose that the arbitrator could consider any foundation contracts recently agreed following a competitive process provided that such consideration does not override the cost of service benchmark (noting that foundation contracts will not necessarily be comparable to contracts on existing pipelines).

APLNG is pleased to be afforded the opportunity to provide these comments. Should you have any questions or would like to discuss this submission further, please contact Deidre McEntee, on (07) 3021 3303 or deidre.mcentee@aplng.com.au .

Sincerely



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