RULE

Australian Energy Market Commission

CONSULTATION PAPER

NATIONAL GAS AMENDMENT (NT EMERGENCY GAS SUPPLY ARRANGEMENTS) RULE 2019

PROPONENT

NT Government

07 FEBRUARY 2019

INQUIRIES

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ABOUT THE AEMC

The AEMC reports to the Council of Australian Governments (COAG) through the COAG Energy Council. We have two functions. We make and amend the national electricity, gas and energy retail rules and conduct independent reviews for the COAG Energy Council.

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1 INTRODUCTION

In November 2018 the Northern Territory government submitted a rule change request to the Australian Energy Market Commission (AEMC or Commission). The rule change request seeks to introduce changes to the National Gas Rules (NGR) that would exempt LNG related facilities in the Northern Territory (NT or Territory), upstream of their connections to the NT gas market, from provisions within part 18 of the NGR requiring them to be registered as Bulletin Board participants. This would exempt the facilities from reporting information on their operations on the Bulletin Board on an ongoing basis.

Following the Commission's East Coast review in 2016 and the 'Improvements to the Natural Gas Bulletin Board' rule made by the Commission on 26 September 2017, gas facilities are required to be registered on the Bulletin Board based on a minimum size threshold of 10 TJ/d. NT facilities, which were not connected to the east coast gas markets and therefore exempt from reporting requirements under part 18 of the NGR, are now required to be registered participants by 6 May 2019, following the completion of the Northern Gas Pipeline in January 2019, which connects the NT market to the rest of the east coast gas market.

The Northern Territory government sought formal advice from the Australian Energy Regulator (AER) on the application of part 18 to the NT LNG projects, Darwin LNG and Ichthys LNG. The AER provided guidance in July 2018 that the new rules classified the pipeline connection between the projects and the domestic market as Bulletin Board pipelines and in addition, interconnected upstream facilities that also exceed the reporting threshold, are Bulletin Board facilities that are required to report under Part 18 of the NGR. In this advice the AER acknowledged that the circumstances surrounding the Territory LNG producers may appear unique and required a particular interpretation under the NGR and NGL. The AER recommended the most appropriate course of action would be determined through a rule change process.

The two NT LNG projects differ in a number of ways from their LNG counterparts in the east coast gas market:

- gas supply is sourced in both cases from a single field offshore. The projects currently source no gas for LNG from the domestic market
- the physical connection with the domestic market is limited to a small fraction of the overall capacity of the projects, and is used primarily for the provision of gas supply in the event of emergencies or as back-up supply when the primary source of gas to the Territory, the Blacktip gas field, is not operating
- information pertaining to the upstream operations of the projects on a day to day basis may have little bearing on the domestic market on days where there is no flow of gas along the lateral pipelines into the domestic market
- gas flows from the projects can only reach the wider domestic gas network via the Wickham Point Pipeline. Where emergency or back-up gas flow does occur, this will be reported on the Bulletin Board due to reporting requirements on the lateral pipelines and on the Wickham Point Pipeline.

The rule proponent argues that the imposition of the additional reporting requirements on the projects may have detrimental impacts on consumers. With the additional administrative cost for the projects of reporting on the bulletin board and the potential detriment to their negotiations in the international LNG market, the NT LNG producers may find the commercial benefits of this supply no longer outweigh the costs. Emergency supply is provided under commercial agreements which can be renegotiated or terminated.

If the emergency supply arrangement was terminated, alternative back-up supply would need to be sourced in order to provide the Territory with the same security of supply. This may cost more than the current arrangements and the additional cost may be passed through to consumers. In addition, alternative sources of back-up supply may not provide the same security of supply and reliability as production facilities associated with the two LNG plants are currently able to provide the domestic market.

The rule change proposes changes to the NGR to provide an exemption for the NT LNG projects based on the unique nature of their emergency supply connection with the domestic market.

This consultation paper has been prepared to facilitate public consultation on the rule change request and to seek stakeholder submissions. Submissions are to be lodged online or by mail no later than 14 March 2019.

This paper:

- sets out a summary of, and a background to, the rule change request
- identifies a number of questions and issues to facilitate the consultation on this rule change request
- outlines the process for making submissions.

2 BACKGROUND

2.1 The East Coast Review

The AEMC's East Coast review (2016) recommended extensive changes to the Gas Bulletin Board registration and reporting requirements. These were endorsed by the Energy Council.

Two tranches of rule changes were recommended:

- The first tranche (blue box in Figure 2.1) did not require law and regulation changes and were the subject of the 'Improvements to Natural Gas Bulletin Board' rule change request and determination, completed in 2017.
- The second tranche (orange box in Figure 2.1) requires law and regulation changes because it imposes requirements on entities and on information not currently permissible under the NGL. Tranche 2 has yet to be implemented.

Figure 2.1: Summary of existing and new reporting requirements on the Bulletin Board

The following provides a summary of existing and new reporting requirements:

	Pipeline	Hub compression	Production	Storage	Integrated storage	Large users	LNG	Reserves
General information								
Nameplate rating	Existing	New	Existing	Existing	Existing	Proposed	Proposed	N/A
Planned asset retirements and expansions	New	New	New	New	New	Not required	Proposed	N/A
Detailed facility data (location)	Existing	New	Existing	Existing	Existing	Proposed	Proposed	N/A
Details of contracted shippers	Existing	New	Not required	Not required	Not required	N/A	N/A	N/A
Previous day data								
Daily disaggregated receipt/delivery point[1]	New	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Daily production/consumption	N/A	N/A	Existing	N/A	N/A	Proposed	Proposed	N/A
Daily storage volume	N/A	N/A	N/A	Existing	Existing	N/A	N/A	N/A
Daily injections and withdrawals	N/A	N/A	N/A	Existing	Existing	N/A	N/A	N/A
Daily compression volume	N/A	New	N/A	N/A	N/A	N/A	N/A	N/A
Forecast and nominations								
Nominations (D)	Existing ★	New	New	Existing	Not required	Not required	Not required	N/A
Intra-day renominations (D)	Existing ★	New	New	Existing	Not required	Not required	Not required	N/A
Forecast nominations (D+1 to D+6)	Existing ★	New	New	Existing	Not required	Not required	Not required	N/A
Capacity outlooks								
Short term capacity outlook (daily)	Existing	New	Existing	Existing	Existing	Not required	Proposed	N/A
Medium term capacity outlook	Existing	New	Existing	Existing	Existing	Not required	Proposed	N/A
12 month outlook for uncontracted capacity[2]	Existing	New	Not required	Existing	Existing	N/A	N/A	N/A
Material intra-day changes to capacity	New	New	New	New	Not required	Not required	Proposed	N/A
LCA flag (D to D+2)	Existing	New	N/A	N/A	N/A	N/A	N/A	N/A
Other								
Secondary platform capacity data[3]	Existing		N/A	N/A	N/A	N/A	N/A	N/A
2P reserves (annual)[4]	N/A	N/A	N/A	N/A	N/A	N/A	N/A	Proposed

1 Currently pipeline operators must provide daily aggregated receipt and delivery point data and monthly disaggregated receipt and delivery point data.
2 Provided monthly for the next 12 months.
3 Reported weekly for the previous week.
4 2P reserves must be updated if an update is reported to the ASX or a government within the year.
★ Currently these are reported by delivery point only. It is recommended that these be expanded to include receipt points. Also, pipeline nominations and forecasts are to be aggregated before publication.

KEY: New; Existing; Proposed; Not required; N/A

Source: AEMC

2.2 Tranche 1 reforms – Improvements to Natural Gas Bulletin Board rule change

On 26 September 2017 the Commission made the final rule on 'Improvements to the Natural Gas Bulletin Board'.

This rule obliges certain gas facilities to be registered on the Bulletin Board based on a minimum threshold rather than the previous zonal model which was based on whether pipelines carry gas into or out of particular gas zones. The rule also simplified exemption criteria.

The previous production and demand zone model meant facilities in NT, parts of north Queensland and regional areas of NSW, Victoria and SA were not required to comply with the reporting obligations.

As a result of the removal of the zonal model and the shift to a minimum threshold reporting requirement of 10 TJ/d and above for transmission pipelines, production facilities and storage facilities are now required to report under the Bulletin Board if connected to the wider market.[1]

Remote Bulletin Board facilities, defined as those that are not connected directly or indirectly to the East Coast gas market, are exempt from registration and reporting requirements until such time as they are connected. The exempt facilities initially include those located in the NT and in north Queensland. The exemption related to the NT expires 90 days after the Northern Gas Pipeline (NGP) is commissioned because the NGP connects the NT to the east coast gas market.

The NGP was commissioned on 3 January 2019, the NT application date was set for 3 April 2019 and as a result NT facilities are required to be registered by 6 May 2019.[2] The AER has advised both NT LNG projects in writing that it does not intend to take action on potential non-compliance with Part 18 while this rule change application is pending.

2.3 Data required to be reported under the Improvements to the Natural Gas Bulletin Board rule change

The Bulletin Board Procedures[3] and Pipeline Aggregation Methodology[4] published by AEMO provide a summary of the information that would need to be published by the NT facilities upstream of the connection point with the domestic market.

1 In the Commission's draft determination on the Regulation of covered pipelines rule change proposal, all covered ("scheme") pipelines will be required to report on the Bulletin Board whether or not they meet the reporting threshold but the reporting threshold will still apply to non-scheme pipelines. All of the relevant pipelines in this rule change are non-scheme pipelines so the reporting threshold will still apply post the making of the final rule for the Regulation of covered pipelines. https://www.aemc.gov.au/rule-changes/regulation-covered-pipelines

2 NGR s.143(10(a)) and s.150(2).

3 Australian Energy Market Operator 2018, BB Procedures Version 8.0, April,https://www.aemo.com.au/-/media/Files/Gas/Natural_Gas_Services_Bulletin_Board/Site-Content/GBB-Documents/Guides-and-Procedures/BB-Procedures-v8.pdf

4 Australian Energy Market Operator 2018, BB Pipeline Aggregation Methodology Version 1.1,November,https://www.aemo.com.au/-/media/Files/Gas/Natural_Gas_Services_Bulletin_Board/Site-Content/GBB-Documents/Guides-and-Procedures/BB-Aggregation-Methodology.pdf

- Standing data including:
    - facility operator and contact details
    - detailed facility information
    - name plate rating
    - storage capacity
    - maximum injection and withdrawal capacity
    - pipeline directional capabilities
    - production facility capacity
    - gas day start times
    - registered state.
- Short term pipeline and production capacity outlook.
- Medium term pipeline and production capacity outlook.
- Pipeline receipt and delivery nominations for day D.
- Forecast pipeline receipt and delivery nominations for D+1 to D+6.
- Actual flow data, daily production and storage information, published on D+1.

2.4 The Northern Territory LNG projects

The LNG projects located in the NT, Darwin LNG and Ichthys LNG, operate differently to their counterparts located in Gladstone. Production is sourced entirely from offshore fields that are in large part dedicated to the supply of the LNG projects. Table 2.1 provides a summary of the two projects.

The physical link with the domestic market is by virtue of emergency lateral pipelines connecting the projects with the Wickham Point Pipeline (WPP). One lateral connects Darwin LNG and one lateral connects Ichthys LNG. Power and Water Corporation (PWC) owns and operates both laterals.

Commercial agreements for emergency back-up supply exist between each of the two projects and PWC. A single commissioning gas sales agreement exists between PWC and Ichthys LNG.

Table 2.1: Northern Territory LNG project details

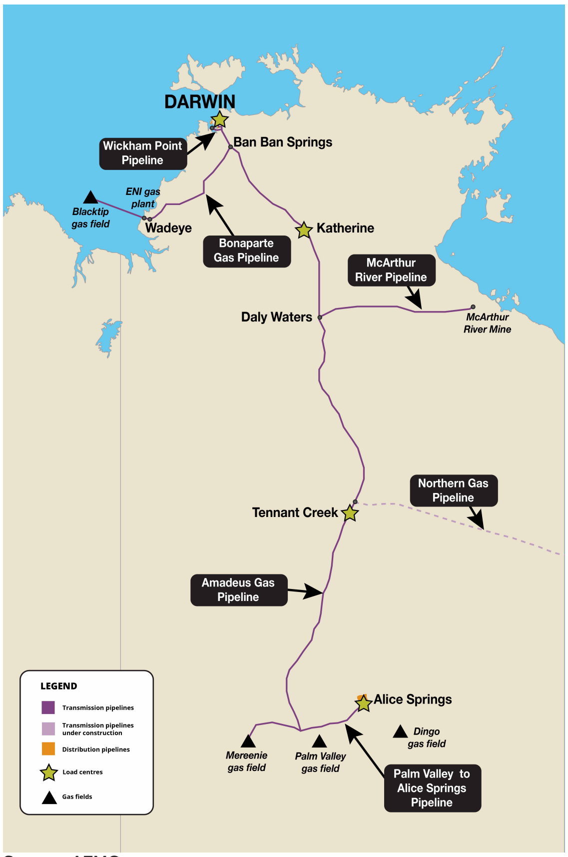
	DARWIN LNG	ICHTHYS LNG
Size	3.7 mmtpa (approx. 200 PJ per annum)	8.9 mmtpa (approx. 490 PJ per annum)
Plant Location	Wickham Point, Darwin	Wickham Point, Darwin
Offshore field location	Bonaparte Basin, Joint Petroleum Development Area (JPDA)	Browse Basin, Western Australia
Ownership	Conocophillips (Operator)	Inpex (Operator) 62.245%,

	DARWIN LNG	ICHTHYS LNG
	56.94% Santos 11.5%, Inpex 11.38%, ENI 10.99%, Tokyo Timor Resources 9.19%	Total 30%, CPC 2.625%, Tokyo Gas 1.575%, Osaka gas 1.2%, Kansai Electric 1.2%, JERA 0.735%, Toho Gas 0.42%
Commissioned	January 2006	November 2018
Project End Date	2022 (based on expiry of back-up gas supply agreement)	Unknown

2.5 The Northern Territory gas market

Historically, the NT has had a small and isolated domestic gas market (Figure 2.2), developed primarily to support gas fired generation and located mostly around the Darwin Katherine region and a smaller market in Alice Springs.

Figure 2.2: The Northern Territory gas market



Source: AEMC

The market uses approximately 25 PJ per year or about 68 Terajoules (TJ) per day on average.[5] The Northern Territory owned PWC is responsible for securing adequate gas supplies for electricity generation and industry and has had an implicit obligation to ensure security of supply.[6]

Security of gas supply is particularly important to the NT as a result of the dependence on natural gas for the provision of baseload power generation. The NT gas market sources up to 90 per cent of supply from one field, Blacktip. A temporary reduction in gas supply from this field presents a significant risk to the provision of power in the NT.[7] In the event of a temporary reduction in gas supply from the field, diesel back-up, supply from the Amadeus basin and linepack,[8] can all be used as back-up sources of supply, however these sources are insufficient to meet the Territory's needs during an extended loss of gas supply.

2.6 Physical and commercial links between the NT LNG projects and the Northern Territory gas market

The gas supply from the NT LNG projects is provided via connection to the domestic market through lateral pipelines that connect the projects with the Wickham Point Pipeline (WPP) operated by APA.[9] The emergency lateral pipelines are sized to meet the needs of the domestic market and to match the capacity of the Wickham Point Pipeline which can transport up to 90 TJ per day. The Wickham Point pipeline is a registered Bulletin Board facility under part 18 of the NGR.

5 Rule change request p.9.

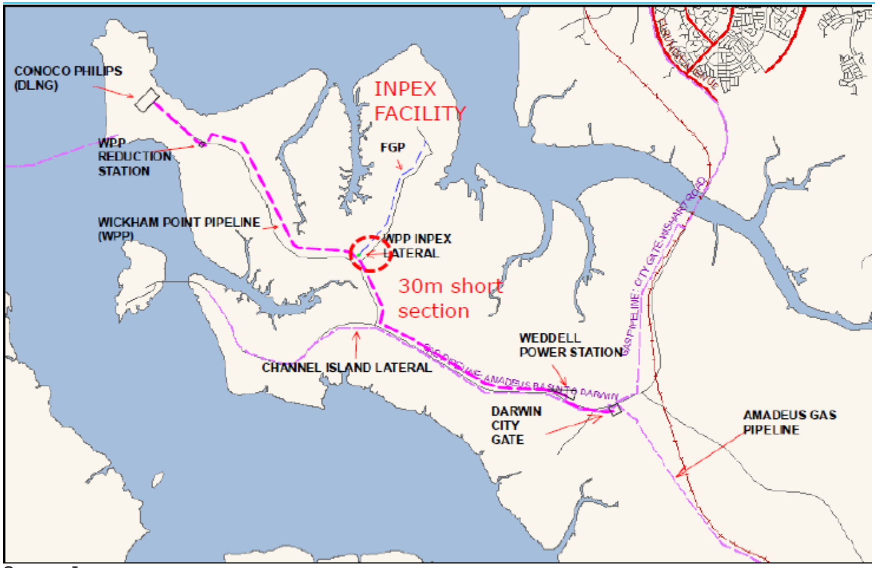
6 Rule change request p.3.

7 Rule change request p.7.

8 Linepack refers to the volume of gas that can be stored in a gas pipeline. Typically this type of storage has a limited duration.

9 https://www.aemc.gov.au/energy-rules/national-gas-rules/gas-scheme-register/nt-wickham-point-pipeline

Figure 2.3: Location and physical links of Northern Territory LNG projects with the domestic market



Source: Inpex

Both Darwin LNG and Ichthys LNG have contracts in place with PWC to provide gas supply primarily for emergencies. In the case of Darwin LNG this agreement is expected to expire in 2022.[10]

Darwin LNG currently has no physical capability to receive gas from the domestic market, it can only provide supply.[11] Ichthys LNG has the physical capability to both receive gas (for on site power generation), and supply gas to the domestic market.[12]Table 2.2 provides a summary of flow capability into and out of the domestic market from the two projects.

Ichthys LNG has sourced some commissioning gas from PWC during the build up to commercial operations.[13]

Ichthys LNG is able to buy gas from the domestic gas market, however, the proponent understands that the economics of exporting gas from the NT gas market to Ichthys LNG mean that it is only likely to occur as a last resort for a wholesaler who has contracted for the gas and has been unable to secure a purchaser in the NT gas market.[14]

10 Rule change request p.7.

11 Rule change request p.8.

12 Rule change request p.8.

13 Commissioning gas is normally used to test the operation of the plant before full production of LNG commences.

14 Rule change request p.8.

Table 2.2: Flow capability into domestic market

	DARWIN LNG	ICHTHYS LNG
Supply into domestic market	Yes. Emergency and back-up supply	Yes. Emergency and back-up supply
Receipt from domestic market	No.	Yes. Current commissioning gas sales to plant. Future spot gas sales physically feasible.

3 DETAILS OF THE RULE CHANGE REQUEST

The rule change request from the Northern Territory Government proposes to amend the National Gas Rules (NGR) such that those LNG related facilities upstream of their connections to the NT gas market and which may soon be captured by registration and information provision requirements within Part 18 of the NGR, are exempt from such provisions.

The Territory Government considers these rule changes are necessary to preserve the commercial incentives for Territory LNG producers to maintain their connections to the NT gas market and to continue with the emergency back-up gas supply agreements which underpin security of gas supply in the NT.

Copies of the rule change request may be found on the AEMC website, www.aemc.gov.au.

3.1 Rationale for the rule change request

In the rule change request, the Northern Territory Government provides the rationale for the rule change. The proponent states that part 18 of the NGR as amended by the 'Improvements to the Natural Gas Bulletin Board' rule change is not fit for purpose for the NT.

The proponent claims that the LNG projects located in the NT operate differently to their east coast counterparts. The projects source gas from offshore, not from the domestic gas market, and engage in limited trade with the domestic gas market and no trade with any participant in the east coast market. The proponent maintains the Territory LNG producers have entered into emergency back-up supply arrangements with PWC to supply gas to the NT "in the event of an interruption to supply".[15]

As such, the benefits of providing information on the activities of the plants to the domestic market would be negligible, according to the proponent.

In the proponent's view, the reporting requirements under part 18 impose a heavy administrative burden that the LNG projects will have to bear. Further, the provision of this operational data may also put the LNG producers at a commercial disadvantage in the international LNG market.

The connection points for these facilities are, for Darwin LNG, the flange connection between the boundary of Darwin LNG and the APA operated Wickham Point Pipeline, and for Ichthys LNG, the point at which the lateral pipeline from the Wickham Point Pipeline to Ichthys LNG crosses the boundary between the Inpex and PWC properties.[16]

As a consequence of the new reporting obligations, the proponent maintains the NT LNG facilities may choose to cease providing emergency back-up gas supply to the domestic market. This emergency gas supply is critical to the NT gas and electricity market, given the dependence of power on gas as a source of supply, and the low diversity of supply sources

15 Rule change request p.4.

16 Rule change request p.1.

with almost 90 per cent of the Territory's domestic gas requirements sourced from the offshore Blacktip field, according to the proponent.[17]

3.2 Proposed solution

The Northern Territory government requested that changes be made to the NGR such that LNG related facilities upstream of their connections to the NT gas market, and which may soon be captured by registration and information provision requirements within part 18 of the NGR, are exempt from such provisions to the extent the facilities are:

- principally operated as part of a LNG operation; and
- connected to the NT gas market solely through a pipeline facility at the location of the LNG producing operation.

The rule change would result in all LNG related facilities upstream of the connection point, to be exempt from such provisions.

The rule change request does not include a proposed rule.

3.3 Contribution to the NGO

Benefits

The proponent argues the proposed rule change would contribute to the price, reliability and security of supply elements of the National Gas Objective by virtue of preserving the commercial incentives for the Territory LNG producers to continue with the emergency back-up gas supply arrangements currently in place.

In this context, consumers of natural gas include gas fired electricity generators.

In the opinion of the proponents, the rule change is necessary to preserve the commercial incentives for Territory LNG producers to maintain their connections to the NT gas market and continue with the emergency back-up gas supply agreements which underpin security of gas supply in the NT.

In the proponent's view, preservation of the emergency back-up supply arrangements between the Territory LNG producers and PWC would safeguard the NT's currently strong gas supply reliability and security for the benefit of consumers. Without the emergency back-up supply arrangements with the Territory LNG producers, the NT's security of supply would transition from an expected 'N-2' redundancy from late 2018 to having insufficient back-up supply for any prolonged interruption to gas supplies from the Blacktip gas field.[18]

The proponent suggests that alternative higher cost emergency back-up measures would need to be pursued by PWC or the Northern Territory government to achieve at least N-1 redundancy (one back-up source). Potential measures include contracting supply from existing or new gas fields, investment in increased diesel storage and generation capacity, or

17 Rule change request p.3.

18 N-1 and N-2 denotes the level of redundancy in the system. N-1 means one source of supply can be unavailable and there is still adequate supply, N-2 means two sources of supply can be unavailable and there is still adequate supply.

funding the upgrade of the Northern Gas Pipeline to provide for bidirectional gas flows. According to the proponent, each of these options may entail higher costs for PWC and, subject to these costs being passed through, ultimately higher costs for gas consumers.

Costs

The proposed rule change, in the view of the proponent, is not anticipated to have any adverse consequences for any party.

The proponent maintains that information relevant to the NT gas market such as flows at the connection point with the NT market would be reported by another party, the owner or operator of the emergency pipelines (PWC) and by the operator of the connecting WPP (APA), negating any reporting requirements by NT LNG producers.

On the other hand, irrelevant information related to the production and transport of gas from offshore facilities to the Territory LNG facilities would not be reported or published. In the proponent's view this would help to streamline the administration of the Bulletin Board and improve the relevance of the Bulletin Board to NT gas market participants.

3.4 Process for this rule change

The proponent requested that the Commission use the 'fast track' rule making process under section 305 of the National Gas law (NGL) given:

- as required by section 305(1)(b)(1) of the NGL, the Territory Government has made the request on the basis of a recommendation for the making of a Rule contained in a Ministerial Council of Energy (MCE)[19]directed review – the 'East Coast Wholesale Gas Market and Pipeline Frameworks Review' (the East Coast Review)
- as required by section 305(2)(b) —
  - the request reflects, or is consistent with, the relevant recommendation contained in the MCE directed review
  - there was adequate consultation with the public by it on the context of the relevant recommendation during the MCE directed review.

The Commission has decided not to progress this rule change request under its fast-track rule change process as it does not consider that adequate prior public consultation has occurred on the issues raised in the rule change request regarding Bulletin Board reporting by the NT LNG plants and associated facilities in the context of the East Coast Gas Review.

A fast track process was requested by the proponent to have a rule in place prior to the NT LNG facilities having to be registered on the Bulletin Board. However, subsequent to the rule change request, the AER has provided written advice to both projects that it will not take action on potential non-compliance with Part 18 while the rule change application is pending.

As a result the Commission has determined that a standard rule change process will apply.

19 The MCE is referenced in the AEMC's governing legislation and is a legally enduring body comprising the Federal, State and Territory Ministers responsible for energy. On 1 July 2011, the MCE was amalgamated with the Ministerial Council on Mineral and Petroleum Resources. The amalgamated council is now called the COAG Energy Council.

4 ASSESSMENT FRAMEWORK

In assessing the rule change request, the Commission is proposing to use a similar framework to the one used in the Improvements to the Natural Gas Bulletin Board rule change given the issues in relation to the achievement of the NGO are similar.

The NGO is set out in section 23 of the National Gas Law and states:

> "The objective of this Law is to promote efficient investment in, and efficient operation and use of, natural gas services for the long term interests of consumers of natural gas with respect to price, quality, safety, reliability and security of supply of natural gas."

The Commission will consider the trade-offs between the benefits to the domestic market of information in regards to the facilities associated with the NT LNG projects that are upstream of their connection point with the domestic market, versus the direct and indirect costs of providing this information. These costs will encompass both the costs the NT LNG projects might incur in the process of providing the information and, in the event the NT LNG projects cease emergency supply to avoid those costs, the resultant impact and costs on the domestic gas and electricity markets as a result of this action were it to occur.

Benefits

In relation to the benefits of additional information, the Commission will assess whether the information on the operations of the plants upstream of the connection point that would be provided under the application of part 18 to the NT LNG facilities, is likely to:

- reduce transaction costs, including search costs for domestic market participants
- reduce information asymmetry that may otherwise impede efficient exchange between domestic market participants
- enable more informed decision making by domestic participants, enabling efficient operational, commercial and investment decisions and appropriate risk management.

The extent to which the additional information will achieve these aims will be considered in the context of the impact on all consumers of natural gas, in respect of price, reliability and security of supply.

A key question in relation to the information from the NT facilities is how relevant the information will be to the different participants in the domestic gas market, in relation to both the price and volume of gas supplied in the domestic market. The Commission will assess how useful this information will be both when there is emergency or back-up supply to the domestic market and when there is no emergency or back-up gas supply to the domestic market. The Commission will also assess the extent to which, where this information is useful, it will be provided by other entities required to report on the Bulletin Board.

Costs

In relation to the cost of providing this information, the Commission will consider:

- the direct costs of information collation and provision, including the materiality of these costs and the degree to which the rule change may help participants to avoid them
- the indirect costs of information provision, in relation to the impacts on the cost and security of gas supply to consumers, particularly to gas fired generation in the NT, from the potential withdrawal of emergency back-up gas supply by the NT LNG projects
- the efficient allocation of tasks and responsibilities, allowing for low cost compliance, enforcement, and accountability. The Commission will consider the degree to which data is pertinent to the domestic market and is already available through the reporting of other entities
- the balance between transparency and confidentiality. Some information is justifiably confidential. The provision of such information may alter otherwise efficient operational and investment decisions by market participants.

5 ISSUES FOR CONSULTATION

Taking into consideration the assessment framework, a number of issues have been identified for initial consultation. Stakeholders are encouraged to comment on these issues as well as any other aspect of the rule change request or this paper, including the proposed assessment framework.

This chapter outlines issues in relation to:

- the cost benefit trade off of applying part 18 to the NT LNG projects
- the considerations of the NT LNG projects in maintaining emergency supply arrangements
- scope to exempt the NT LNG projects from part 18 reporting requirements under the existing rules
- scope to exempt the NT LNG projects on the basis of a new exemption
- issues arising from the offshore location of the production facilities
- the impact of any rule made on the application of the tranche 2 bulletin board reforms.

5.1 The cost benefit trade off of applying part 18 to the NT LNG projects

The LNG projects in Darwin operate differently to their east coast counterparts in terms of the source of their gas supply and their degree of interaction with the domestic market. Gas supply used in LNG production is sourced entirely from offshore fields. The operations of the projects, upstream of the connection point with the domestic market, may have little or no bearing on the domestic market.

Where the operations do have a bearing, via gas flows to PWC, these flows are covered by reporting on other pipelines, in this case the lateral pipelines owned by PWC and the single pipeline connecting them to the domestic network, the WPP, operated by APA.

Reporting of upstream production data and offshore pipeline flows may provide little information that is useful to the domestic market. Most of the time, this data will relate to gas flows wholly within the projects and will have no bearing on the volume of gas supplied into the domestic market, which is governed by the capacity of the lateral pipelines, the contract terms of gas supply and the needs of PWC for gas supply when it occurs. While offshore field shutdowns might have a bearing on the ability of the two projects to supply gas, the net flow into the domestic market would be reported on the WPP.

This contrasts significantly with the east coast LNG projects where changes to field production data and the pipeline flows associated with it, may have a direct bearing on the domestic market. The upstream operations of the east coast LNG projects are more closely entwined with the domestic gas market, given their onshore location and the historical contracts established with the domestic market.

The information required to be reported under part 18 by the projects is significant, covering standing data (such as capacities), forecast nominations and actual flows. There will be additional costs associated with providing this information even if some of the information is already collected for internal use by the projects.

The proponent in the rule change request has claimed that the competitive position of the NT LNG producers in the international LNG market may be adversely affected by revealing their position and affecting any negotiations to obtain LNG from other sources to meet their sales commitments. The proponent drew attention to conclusions made previously by the Commission that there were potential commercial detriments to the LNG producers from the publication of information but that these were justified because of the integration of these facilities with the domestic market.[20] The proponent asserts that in the context of the NT gas market, this potential detriment is not outweighed by the negligible benefits from the publication of this information.

BOX 1: COST BENEFIT OF NORTHERN TERRITORY LNG REPORTING ON THE BULLETIN BOARD

1. What bearing does information on the NT LNG projects upstream of the connection point with the lateral pipelines have on the domestic market? What is this information likely to be used for and who will benefit from its provision?
2. What drawbacks are there to the domestic market of not being provided with information on these upstream activities?
3. Are the additional administrative costs of reporting under Part 18 likely to be significant to the NT LNG operations. Would this data be captured as part of ongoing operations?
4. In what respects are the NT LNG projects likely to suffer commercial disadvantages in the international market as a result of providing the information required under Part 18?

5.2 The considerations of the NT LNG projects in maintaining emergency supply arrangements

The supply of gas from the NT LNG projects to the domestic market is covered by commercial agreements between the projects and the wholesaler of natural gas in the Territory, PWC. Where the commercial incentive no longer exists for the counterparty to provide this service, this may undermine ongoing supply under the agreement.

The incentive to continue supply depends on the loss of revenue that is currently being earned under the emergency gas supply arrangements versus the incremental cost and commercial detriment of preparing and publishing the information required under Part 18. The Commission is seeking more information on the cost benefit trade off but recognises the projects will make their own assessment in the event they are required to report under Part 18.

20 Rule change request p.9.

Replacement emergency supply is now feasible via the Northern Gas Pipeline following commissioning of the pipeline in January 2019. However, the pipeline is not currently configured to flow in both directions, and so an additional cost would have to be borne in providing emergency back-up gas supply to the NT via the pipeline.

BOX 2: THE CONSIDERATIONS OF THE NT LNG PROJECTS IN MAINTAINING EMERGENCY SUPPLY ARRANGEMENTS

1. What are the likely direct and indirect costs of the projects reporting under Part 18?
2. Is the replacement cost of emergency or back-up supply likely to be that much greater than existing agreements?
3. What is the cost of upgrading the NGP to enable flow into the NT gas market?
4. If the NGP is upgraded for bi-directional flow, is this supply less reliable than supply from the LNG projects, if so why?

5.3 Scope to exempt the NT LNG projects from part 18 reporting requirements under the existing rules

The offshore production of the NT LNG projects, unlike their east coast counterparts, is dedicated almost entirely to the production of LNG for sale in the international market, not for the production of natural gas for sale domestically. Under this interpretation, the NT LNG production facilities may not be required to register as a BB facility under section 223 of the NGL.

The location of the gas processing facilities in relation to the infrastructure upstream of the connection point with the domestic market may have a bearing on the extent of the natural gas flows that would be required to be reported on the Bulletin Board. Natural gas under the NGL means a substance that is suitable for consumption.[21] Unprocessed gas upstream of a processing facility that is not yet in a state suitable for consumption and injection into a Bulletin Board registered pipeline, may not be required to be reported under Part 18 of the NGR.

Flows of natural gas from the LNG projects into the lateral pipelines that connect with the domestic market via the WPP connection may be covered under rule 164(2) in the NGR which allows an exemption where the information required is already reported by another entity. In this case the gas flows will be reported by the operators of the emergency lateral pipelines (PWC) and the operator of the WPP (APA).

However, the AER provided guidance to the Northern Territory government in July 2018 that the new rules classified the emergency pipeline connection between the projects and the domestic market as Bulletin Board pipelines and in addition, interconnected upstream facilities that also exceed the reporting threshold, may be captured by part 18 of the NGR.

21 NGL s.2

BOX 3: SCOPE FOR AN EXEMPTION UNDER THE EXISTING RULES

1. Clarification of the location of the natural gas processing facilities within each project and the point at which gas is processed into a form which is suitable for consumption will assist in determining the data required to be reported under the existing rules.
2. Are there any circumstances in which rule 164(2) should not allow for an exemption for any flows of gas from the LNG projects to the connection to the domestic market?

5.4 Scope to exempt the NT LNG projects on the basis of a new exemption

To create an exemption based on the emergency nature of the flow between the projects and the domestic market requires consideration of a number of matters. Gas flows between the projects and the domestic market may be provided in the event of emergencies, but also in the event of planned maintenance to the Blacktip field, for commissioning gas sales into Ichthys LNG and might be considered in future for additional sales of spot gas into Ichthys LNG from the domestic market, even if, as the proponent suggests, these are only as a last resort on the part of the wholesaler.

In terms of the remoteness of the facilities from the domestic market, the AER has previously advised that under the current rules the projects are not remote by virtue of the physical connection with the domestic market. The use of the connection for emergency supply only, assuming this is the case, is not sufficient grounds for an exemption.

However, a new exemption specific to the NT LNG projects and their particular circumstances could specify that upstream of the connection point with the emergency lateral pipelines the facilities are remote as a result of:

- the lack of relevance of information on activities upstream of the connection to the domestic market, and where the information is relevant in the case of actual flow to the domestic market it will be provided by other entities
- the limited capacity of the existing linkage
- the limited use of that linkage.

Flow on the lateral pipelines owned by PWC connecting to the projects would be reported by PWC. Changes to the availability of gas under the emergency agreements, in so far as they are advised to PWC (for example due to offshore shutdowns in the NT LNG projects), might then be required to be reported by PWC in summary form such that any information that might be pertinent to the domestic market is still provided, but at lower cost.

Information beyond these emergency flows, for example in relation to offshore production all year round, may be unwarranted. Gas flows into the domestic market on days involving emergency flow would be reported on the emergency lateral pipelines owned by PWC and in collated form on the WPP pipeline, operated by APA.

BOX 4: SCOPE TO EXEMPT THE PROJECTS UNDER A NEW EXEMPTION

1. How might the operation of the emergency supply arrangements be expected to change in the near future?
2. In the event of plans to change the operation of the lateral pipelines connecting the projects with the domestic market, to what degree should the domestic market be informed of these changes in advance?
3. In the event that a new exemption is granted in any rule made, is there any information that would be valuable to the domestic market, beyond what would be reported by PWC and APA on the connecting pipelines, for example planned shutdowns of the upstream facilities?

5.5 Issues arising from the offshore location of the production facilities

Darwin LNG's Bayu Undan resides in the Joint Petroleum Development Area (JPDA) 250km south east of East Timor and 500km north west of the NT.

Ichthys LNG's gas field lies in the Browse Basin in Western Australian waters in block WA-285-P, 220 km offshore WA.

BOX 5: OFFSHORE JURISDICTION ISSUE

1. Are there any issues in relation to the location of the offshore facilities that the project team should be aware of in making a rule?

5.6 The impact of any rule made on the application of the tranche 2 bulletin board reforms

The impact of the approach used should be considered in terms of the effect on the application of tranche 2 reforms, currently under consideration, in relation to the extension of the Bulletin Board reporting requirements to LNG and large user facilities.

These reforms would require the reporting of LNG production and sales data to the BB.

BOX 6: THE IMPACT OF ANY RULE MADE ON TRANCHE 2 BULLETIN BOARD REFORMS

1. How might any rule made allow for reporting requirements that would be introduced under the tranche 2 reforms?

6 PROJECTS ADDRESSING RELATED ISSUES

Subsequent to the AEMC's east coast review and following a request in March 2017 by the then Prime Minister for the ACCC and Gas Market Reform Group (GMRG) to work together to advise on options to improve transparency across the gas supply chain, on 21 December 2018 the ACCC and GMRG released a joint paper recommending 18 measures to improve the transparency of the east coast gas market.

In addition to the outstanding tranche 2 recommendations made in the east coast review (law and regulation changes still pending), the ACCC and GMRG made a number of other recommendations.

At the December 2018 COAG Energy Council meeting, the Energy Council tasked the Senior Committee of Officials with developing a package of measures, including amendments to the National Gas Law, Regulations and Rules, to progress the tranche 2 reforms and the recommendations made by the GMRG and the ACCC in the joint paper.

The final package of measures will be brought to the COAG Energy Council for endorsement by the end of June 2019. Details of the consultation process on the measures will be announced in early 2019. It is anticipated that the measures will be in place by April 2020.[22]

22 http://www.coagenergycouncil.gov.au/publications/energy-council-web-text-%E2%80%93-accc-gmrg-recommendations-east-coast-gas-market-transparency

7 LODGING A SUBMISSION

Written submissions on the rule change request must be lodged with Commission by 14 March 2019 online via the Commission's website, www.aemc.gov.au, using the "lodge a submission" function and selecting the project reference code GRC0052.

The submission must be on letterhead (if submitted on behalf of an organisation), signed and dated.

Where practicable, submissions should be prepared in accordance with the Commission's guidelines for making written submissions on rule change requests.[23] The Commission publishes all submissions on its website, subject to a claim of confidentiality.

All enquiries on this project should be addressed to Russell Pendlebury on (02) 8296 0620 or russell.pendlebury@aemc.gov.au.

23 This guideline is available on the Commission's website www.aemc.gov.au.

ABBREVIATIONS

AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
Commission	See AEMC
GMRG	Gas Market Reform Group
MCE	Ministerial Council on Energy
NEL	National Electricity Law
NEO	National electricity objective
NERL	National Energy Retail Law
NERO	National energy retail objective
NGL	National Gas Law
NGO	National gas objective
NGP	Northern Gas Pipeline
PWC	Power and Water Corporation
WPP	Wickham Point Pipeline