



19 May 2017

Our Reference: APLNG – COR – 0011504
Your Reference: GPR0002

Mr John Pierce
Chairman
Australian Energy Market Commission
Level 6, 201 Elizabeth Street
Sydney 2000

Dear Sir

**Review of the Victorian Declared Wholesale Gas Market
Assessment of Alternative Market Designs**

Australia Pacific LNG Pty Ltd (APLNG) is pleased to be able to provide this submission regarding the AEMC's Declared Wholesale Gas Market (DWGM) Assessment of Alternative Market Designs (the Paper). APLNG is an incorporated joint venture among ConocoPhillips, Origin and Sinopec, with respective shareholdings of 37.5 per cent, 37.5 per cent, and 25 per cent. An estimated \$30 billion has been invested to date by APLNG in developing one of Australia's leading coal seam gas to liquefied natural gas businesses and we expect to invest a further \$2 billion per year for the life of the project. APLNG supplies a large percentage of Queensland's domestic needs as well as exporting LNG under contract to China and Japan.

APLNG continues to support regulatory changes that will assist in the development of a competitive and transparent wholesale east coast gas market to achieve COAG's Vision and the National Gas Objective (NGO). APLNG agrees with the AEMC's observations that the current DWGM does not meet these objectives and, without the full participation of the Victorian gas market, the maximum benefits of the Vision and the NGO will not be fulfilled.

AEMC's DWGM Final Draft Report included recommendations that would have made the DWGM more competitive and it is disappointing that these were not supported by market participants. The resulting Paper recommends more study and potential incremental changes to the existing design. APLNG is reluctant to comment on a preferred option for the gas trading or the capacity options presented in the Paper as we continue to support the entry–exit model recommended in the AEMC's DWGM Final Report. However, APLNG would like to make the following points regarding the Paper and the future of the DWGM:

1. DWGM is too complex and not transparent

With its AMDQ capacity allocated from historical customer use and the multiple types of ancillary payments and resulting uplift charges, the current design of the DWGM is not only too complex and lacking transparency, but it is very difficult for new participants to join. Some of the alternatives for trading and capacity proposed in the Paper only add to that complexity and lack of transparency. As agreed by many current market participants, "the DWGM works" but it has limitations. This process favours the current market participants and leads to a lack of diversity within the DWGM. If the incremental market design changes are proposed to the current design which must be first reviewed and then implemented, a slow implementation process will continue to benefit the current suppliers and retailers, but unfortunately to the detriment of Victoria's gas consumers. This will perpetuate the isolation of the Victorian market from the remainder of the east coast so that the current market participants will continue to dominate the DWGM.

2. Victorian gas supply is declining

AEMO's Victorian Gas Planning Report published in March 2017 states that Victoria's offshore gas production is declining, both overall and for peak day. Just as important is that this report indicates that actual peak day system demand has not decreased overall, because residential winter demand in Victoria has offset industrial load decline. With the current onshore moratorium on drilling in Victoria, it would seem in the best interests of all Victorian gas consumers to diversify their supply options and sources and invest in a market design that provides the best interface with the rest of the east coast market. Gas from Queensland and South Australia would not need to be transported to Victoria, but could displace some of the Victorian gas being transported to New South Wales and South Australia. More options will also be available to supply Queensland gas south once the Gas Market Reforms currently being discussed are implemented. This is why APLNG believes Victoria's gas consumers are entitled to a more updated and transparent gas market design to allow for a wider range of market participants.

3. Timing of reforms

Given recent regulatory changes, including the proposed Peak Gas Supply Guarantee mechanism currently being drafted by AEMO and to be implemented by the end of 2017, it would be unfortunate if reforms that would improve integration of the DWGM with the rest of the east coast market were not developed contemporaneously. Changes to the DWGM market design need to keep pace with, and be considered alongside, all of the reforms to the east coast market occurring much more quickly.

4. Entry – Exit is proven design

Victoria's Declared Transmissions System (DTS) is well suited to a virtual, nodal market design versus a point to point design. An entry-exit model is a proven and successful model and the continual balancing aspect should assist liquidity. In reviewing the submissions to the Draft Final Report regarding the entry-exit concept, many of the comments/issues could be attributed to a lack of understanding of how the system works. APLNG recognises that separating commodity rights from transport rights does add some complexity for market participants. This happens to be the inherent cost of having an accurate and transparent commodity price. APLNG continues to support a capacity auction to align DTS transport availability as closely as possible to the Northern Hub. As most of the larger DWGM participants are also participants at the Wallumbilla Gas Supply Hub, this transition should be less of an issue.

Thank you for the opportunity to make this submission on the Declared Wholesale Gas Market Draft Assessment of Alternative Market Designs and share APLNG's views. If you require further information relating to our submission, please contact Deidre McEntee, Senior Gas Commercial Negotiator, (07) 3021 3303.

Yours sincerely



Warwick King
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Australia Pacific LNG Pty Limited