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25 May 2019

The Australian Energy Commission
Via online submission portal

Submission to GRC0047 – The Northern Gas Pipeline Derogation

The Australian Pipelines and Gas Association (APGA) to makes this submission to the Commission's consideration of a rule change proposal regarding the derogation of the Northern Gas Pipeline.

APGA's members build, own and operate the gas transmission infrastructure connecting the disparate gas supply basins and demand centres of Australia, offering a wide range of services to gas producers, retailers and users. APGA, as the peak body representing Australia's gas transmission industry and an active participant during the last two decades of gas market reform, has an excellent understanding of the investment environment for gas infrastructure, the National Gas Law and the National Gas Rules.

Role of gas and pipelines

The latest government figures show that natural gas provides more energy to the economy that electricity did. In 2016/17, Australia wide, natural gas provided 910 PJ of energy to electricity's 820PJ.

All of that natural gas is delivered safely and reliably Australia has 38,000km of high-pressure gas transmission pipelines, with a replacement value over $50 billion.
It is this historical investment that has led to the evolution of a pipeline network across eastern Australia's gas markets, promoting basin-on-basin competition and leading to the emergence of trading hubs in the demand centres of Eastern Australia. It is this network that is facilitating the next evolution in trading and increased flexibility across these markets.

Importantly, this investment has occurred across a mix of regulated and unregulated assets and has been facilitated through bilateral negotiation and contracts, as envisaged under the regime established in the National Gas Law.
Pipeline investment is critical to maintaining this supply of energy and securing new and competitive sources of gas supply. The investment made by pipeline companies supports gas supply, electricity generation, industrial manufacturing and residential heating and cooking for all Australians.

The need for this investment is widely recognised and are true for the entire energy sector in this time of structural change. In its December 2018 Interim Report of its ongoing Gas Inquiry, the ACCC stated

Gas users' longer-term concerns about prices in the east coast gas market could be alleviated if there is timely investment in gas development and key infrastructure

The Energy Users Association of Australia, as part of this process, has stated:

We welcome moves to increase competition and encourage additional investment in all aspects of the domestic gas supply chain.

Investment decisions require long-term thinking and commitments, often over 20 to 30 years. The stability and robustness of the regulatory framework is a significant contributor to a positive environment in which to make those decisions.

The National Gas Objective recognises this. "**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 need for efficient investment in paramount, without investment the other aspects of the National Gas Objective lose significant meaning.

<u>Pipelines are service providers</u>

The gas transmission companies of Australia are all service providers. None have vertically integrated production or retail businesses. Pipeline owners work actively to provide the capacity and services that market participants need.

Ultimately, pipeline companies know the ongoing success of the pipeline industry is contingent on the ongoing success of our customers. In the new environment of increased gas prices, pipelines are working with customers to deliver outcomes that minimise transportation costs, maximise flexibility and help customers stay in business.

<u>Competition for new infrastructure</u>

The Australian gas market is relatively small, the fact that the building of three LNG facilities in Queensland have tripled the entire demand of the East Coast of Australia is evidence of this.

The opportunities to build new infrastructure are limited and competition is fierce. The costs of building a pipeline are largely inflexible – the steel will be bought from a handful of international mills regardless of who is building it, the same contractors will compete for the construction project regardless of who is building it and the approvals process is the same regardless of who is building it.

Pipeline project proponents are left to compete with each other on capital risk, which comes down to two important aspects:

How slowly a proponent is willing to recover its costs which directly influences the foundation tariff.

How much recontracting risk a proponent is willing to take with directly influences the length of the foundation contract.
There is no doubt that that process secured the best possible access conditions for the NT Government and the access principles agreed to by Jemena ensure other users of the NGP will enjoy the same efficient service conditions.

This conclusion is supported by the Energy Users Association of Australia, who state it their submission:

We recognise that the NGP tariff structure was the outcome of a competitive tender process and that it is not unreasonable to assume that the access principles, including tariffs, are an accurate reflection of an efficient cost level.

It is simply not possible for the further application of Part 23 of the National Gas Rules to provide for an enhanced outcome for users of the NGP. Further, the access principles in place for the NGP also cover the processing facility and its services. Given the regulatory regime of the NGL and NGR does not extend to processing facilities, this is evidence that the access principles actually offer enhanced protections for users of the NGP.

In conclusion
APGA supports the AEMC's draft decision. In addition to adding additional complexity to the operation and use of services of the NGP, changing the NGR as a result of this rule change proposal would damage the environment for future investment, which may well be the proponents intention.

Jemena assumed an unprecedented level of risk when winning this project given the initial foundation contract offered by the NT Government only covered 30% of the total capacity built. This willingness to take such a risk to invest in infrastructure that benefits Australia must be encouraged.

A stable and robust regulatory framework, immune from frivolous and vexatious change, is essential to support efficient investment and the AEMC's draft decision, in maintain the stability and robustness of the NGR, achieves this also and thus further achieves the NGO.

APGA is happy to provide further information if useful. Please contact our National Policy Manager, Andrew Robertson, on (02) 6273 0577 or arobertson@apga.org.au for further assistance.