QGC
A BG Group business

NATIONAL GAS AMENDMENT (GAS DAY HARMONISATION) RULE 2016
SUPPLEMENTARY SUBMISSION
AEMC REFERENCE: GR0036

QGC welcomes the opportunity to provide a supplementary response to the National Gas Amendment (Gas day Harmonisation) Rule 2016 (**the Rule Change**) Consultation Paper, released by the Australian Energy Market Commission (**AEMC**). We recognise this is one step towards developing a truly national gas market and over the longer term will assist in promoting trading and liquidity across the integrated system.

As noted in our earlier response (April 2016), in terms of our business, if the costs of these changes are not evenly shared across the market, it is very unlikely that the benefits would outweigh the direct costs. Since our initial response, we have undertaken more detailed analysis of the direct costs and implications for our business of changing the Gas Day that applies to the Wallumbilla Gas Supply Hub and the Short-term Trading Markets (STTM) to 6am (Eastern Standard Time). This analysis identified the costs involved at modified QCLNG's measurement devices to be approximately $10 Million AUD, which we believe far outweigh the benefits currently identified for the proposed Rule Change.

Given the issues raised, we encourage the AEMC to reconsider whether this issue should be progressed at this point in the development of the East Coast Gas Market and to consult with industry further to determine the placement of this proposal in the context of the broader package of Gas Market reforms. In summary our key points include:

- The integrated nature of the QCLNG project and direct linkages (contractual and physical) to the domestic market gives rise to unique network system balancing requirements and means that the entire system must operate on the same “Gas Day”.

    1. This is to allow for the orderly balancing, allocation and invoicing/settlement processes. As is the case in other energy markets (e.g. the National Electricity Market (**NEM**)), this is underpinned by a detailed metering system that is configured to measure gas flow over a defined period (i.e. accumulation).

    2. If this time period for measurement was to change for the domestic component of our portfolio, this would need to flow through to the entire QCLNG network system. As such it was a deliberate decision to align the QCLNG system to the 8am to 8am “Gas Day” in Queensland.

    3. From our understanding this does not necessarily apply to the rest of the East Coast Gas Market where production, transport and downstream activities are not part of a vertically integrated gas supply chain (i.e. production is distinct from transport and downstream).

- If QGLNG is required to meet all the costs involved then the costs significantly outweigh the benefits. We have approximately 2760 devices that would need to be adjusted. Based on a high level assessment we estimate the costs would be in the order of $10 Million AUD. This includes making the necessary adjustments to the Well Head meters and would represent a substantial project.

- At this point, optimistically we expect the project to take 4-6 months, after financial approval to complete. A full scoping study (involving relevant consultants) is necessary to provide more definitive views on the costs and timeframes.

    1. This is due to the complex metering, the vast scale of infrastructure to be adjusted and the distances between locations. QGC does not have all the internal resources or the relevant expertise to carry out the work and would need to engage external specialists.

    2. We would anticipate other producers in Queensland to experience similar issues and associated costs.

- If pipeline owners adjust the Gas Day on the pipes where we have supply contracts, our system would need to change. Otherwise, we could not appropriately invoice domestic customers and allocate gas and revenues to Joint Venture (**JV**) Partners and other Group entities (we have a complex corporate structure across the project).

    1. This requires all "Fiscal Meters" (at Custody Transfer Points), which have daily measurement clocks, to be reset to the new time. Otherwise invoicing and allocations could not be performed satisfactorily and verified, which would not be acceptable from an audit perspective nor to our customers and JV partners.

    2. Each day production levels from the Well Heads must be balanced against the relevant fiscal meters to enable the appropriate gas and revenue allocations to JV Partners that own the tenements. As such the Well Head and Fiscal Meters need to be aligned in terms of Gas Day. Otherwise we would anticipate significant disputes would emerge.

    3. Furthermore, these arrangements are consistent with the requirements in the Petroleum & Gas Act (Qld) (**the P&G Act**), which stipulates the need for accurate metering (gas and water). As such to be fully compliant with the P&G Act, the Well Head meters would need to change (to allow for verification of the fiscal meters) and enable accurate allocations that can "sit below" the fiscal meters.

- If the proposed Rule proceeds, we would need to manage the balancing issues anticipated during the period that the meters are progressively changed. These issues could be managed for a very short period (i.e. for a number of months), but this not a sustainable arrangement and we would expect issues regarding energy invoicing and allocations during this period (which ultimately would lead to additional administrative costs that have not been factored into our cost estimate).

- We would also incur the costs of progressing contract variations with our customers and other commercial parties. QGC's contracts are set on an 8am Gas Day and it cannot without agreement of the counterparty change the Gas Day to 6am. Maintaining the technical and contractual position out of alignment creates considerable commercial risk in balancing the contractual gas obligations of QGC. Negotiation and Legal Amendment documentation will be required and the cost involved is estimated at $100,000-$200,000 (AUD).

- If the proposed Rule was to proceed, as these costs are substantial and likely to be incurred by a small number of parties, compensation would be appropriate. As the broader market is likely to benefit, these costs should be equitably shared across the overall market.

- QGC is an active participant in the broader East Coast Wholesale Gas Markets and Pipeline Frameworks Review (**the Review**) and through this process indicated priority should be placed on implementing initiatives that will materially improve liquidity such as the auction for contracted, but un-nominated capacity. Although QGC is not currently a regular participant in trading activities outside of Queensland markets, we are moving towards greater participation in the southern markets and have not seen any evidence to suggest that the misalignment of Gas Days is truly a barrier to trade across jurisdictions (and can actually provide operational benefits).

Further insight into these issues is included in the attached appendices:

Appendix 1 - An overview of QGC's metering arrangements (Confidential)

Appendix 2 - The detailed estimation of the metering changes (Confidential)

Appendix 3 - Commercial and operational impacts for the QCLNG project (Confidential)

The following appendices (1-3) are supplied on a Commercial-in-Confidence basis containing intellectual property of QGC and should not be supplied outside the AEMC unless the permission of QGC is obtained. QGC reserves the right to request the return of this documentation and information if the AEMC is compelled or wishes to publish the materials marked ("confidential") where QGC has not provided its prior approval.

Overall QGC considers this issue is more complex and costly than initially considered and requires further industry consultation before a decision is made regarding the start time and whether it remains a priority issue for the AEMC. QGC would welcome the opportunity to discuss any of the matters raised in this response and in particular, we would appreciate the opportunity to discuss our costs estimates in more details. Any enquires can be directed to Ms Erin Bledsoe erin.bledsoe@bg-group.com (07) 3364 2621.