

# Response to AER Discussion Paper

Bulloo Interlink Greenfield Incentive Application

29 August 2025



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## 1. Overview

On 23 May 2025, APA Bulloo Interlink Pipeline Pty Ltd (a wholly owned entity of APA Group) submitted a greenfields incentive determination application (APA's application) to the Australian Energy Regulator (AER) for its proposed pipeline, the Bulloo Interlink.<sup>1</sup>

As highlighted in the application, the Bulloo Interlink is a critical part of APA's East Coast Gas Grid (ECGG) expansion plan that is aimed at increasing the security of gas supply.

APA expects that significant investment will be required across the ECGG over the coming decade to support the energy market transition with the Australian Energy Market Operator (AEMO) forecasting increased future demand from gas-fired power generation (GPG) in the national electricity market (NEM).

With gas supplies from southern basins expected to decline, there is a need for additional gas supplies to cater for demand, including for GPG. APA believes these shortfalls are best addressed by increased supply from northern gas fields, such as the Beetaloo and Surat/ Bowen basins. The Bulloo Interlink is designed to address these projected shortfalls by providing additional pipeline capacity to transport gas to the southern demand centres.

The AER released its *Greenfields incentive determination: Bulloo Interlink Pipeline: Discussion Paper* (Discussion paper) on the 8 August for consultation.

The Discussion paper effectively summarises APA's application and poses questions for stakeholders to inform the AER's determination. These address the matters the AER must have regard to under section 112 of the National Gas Law (NGL), noting that this is the first time the AER has considered a greenfields incentive determination since the gas pipeline reforms were made to the NGL in 2023.

APA's application addressed these factors in detail so for this submission, APA has responded directly to the AER's questions and focussed on providing additional clarity where possible.

To be clear, APA is still in the process of seeking to establish customer contracts for capacity on the Bulloo Interlink. The AER will be aware that market uncertainty has meant customers are not committing to long term contracts, but APA believes this can be resolved with the Commonwealth Government Market Review focused on the prospect of gas shortfalls and looking to solutions for these concerns.

However, it does mean that this investment is likely to carry a high degree of commercial risk.

A greenfields incentive determination does not resolve all potential risks, in fact it only ensures that there is no prospect of scheme regulation being imposed for at least 15 years after the investment has been made. However, removing this risk is a positive step and provides some regulatory certainty to enable the APA Board to make its final investment decision (FID).

Government guarantor mechanisms may also be necessary, in parallel with reforms to gas markets, to support timely investment where market signals are not yet sufficient. This would help to alleviate the revenue uncertainty associated with long-term investment, particularly in the short term when long-term domestic supply arrangements may not have eventuated.

<sup>1</sup> APA, *Application to the AER for a greenfields incentive determination for the Bulloo Interlink*, 9 July 2025

## 2. AER approach

When commissioned, the Bulloo Interlink will be a non-scheme pipeline independent of whether the AER accepts APA's application for a greenfields incentive. The greenfields incentive determination only ensure that the AER does not conduct a form of regulation review and decide to make a scheme pipeline determination for the 15 year period.

In making its determination, the AER is required to consider the future effects of regulating the pipeline as a scheme pipeline or non-scheme pipeline. We note that in either instance, the Bulloo Interlink will be required to:

- publish information on service availability and actual prices payable<sup>2</sup>,
- comply with the access negotiation framework<sup>3</sup> and
- dispute resolution processes<sup>4</sup>.

The key difference in the form of regulation is whether regulated pricing is applicable or not and the AER approach will focus on this.

APA is pleased to note that the Discussion paper considers other issues relevant to the analysis, including the key question of whether the Bulloo Interlink would be constructed without a greenfields incentive determination and what that would mean for the long-term interest of consumers.

### 2.1 Relevant markets

1. *What are your views on our approach to defining the relevant market for the greenfields incentive determination?*

APA agrees with the AER that the relevant market for the purposes of this determination is the supply of gas to southern markets or demand centres. This aligns with APA's application.

### 2.2 Market trends

2. *What feedback do you have on the trends discussed in this chapter and how they may impact the potential use of the Bulloo Interlink when it is built and within the 15-year horizon of the proposed determination?*
3. *What other trends in relevant markets may currently, or in the next 15 years, impact the supply of services and potential use of the Bulloo Interlink?*

APA provided its detailed view of future gas demand and supply in the east coast energy market in the APA application. This accords with the information and discussion outlined in the AER Discussion paper.

With supplies from southern basins expected to decline, there is a need for additional gas supplies to cater for demand, especially for gas-fired power generation (GPG). As identified by the AER, this market demand suggests there is a compelling case for bringing additional gas supply from the existing and emerging northern supply fields with AEMO identifying in its Gas Statement of Opportunities (GSOO)<sup>5</sup>:

- peak day and seasonal gas shortfalls in the future, and
- investments in gas production, storage and pipeline capacity being urgently needed to reduce the risk of these shortfalls.

<sup>2</sup> Part 10 of the NGR

<sup>3</sup> Part 11 of the NGR

<sup>4</sup> Part 12 of the NGR

<sup>5</sup> AEMO, 2025 GSOO, March 2025 p10.



APA's ECGG expansion plan<sup>6</sup> confirms that it believes that northern gas supplies such as the Beetaloo, Surat and Bowen Basins will play an important role. The Bulloo Interlink is predicated on moving gas between these northern basins to southern markets.

However, supply options are varied and the range of alternatives presented in the Discussion paper highlight the uncertainty around the future state.

The Discussion paper notes the potential for alternative gas supplies including:

- a range of southern supply projects in Victoria in the Otway, Gippsland, Cooper and Bass basins, and
- the Narrabri Gas Project, in the Gunnedah Basin in northern NSW.

These projects will transport gas to market using other gas pipelines and will provide real alternatives to the Bulloo Interlink and northern gas sources which underline the uncertainty surrounding the market at this time.

The prospect of LNG import terminals are also a tangible alternative to transporting gas via pipelines to the southern states and may impact the demand for pipeline services on the Bulloo Interlink in the future. Development of LNG import terminals continue to be considered in Port Kembla, Adelaide and Geelong.

To meet the forecast demand for gas in the southern states, it is likely that a combination of these future developments will proceed with the market focussed on developing the most competitive options.

APA would highlight that it sees the trend of increasing GPG having a significant impact on supply options as well as on gas demand. The use of Gas Storage Bottle pipeline solutions that provide on-site or local gas storage options that cater for peaky GPG demand profiles is readily increasing with APA viewing these Storage Bottles as complementing the ECGG expansion, including the Bulloo Interlink.

4. *How do you think the Bulloo Interlink may impact the construction of the LNG import terminals that are proposed to serve the east coast gas market?*

As indicated above, LNG import terminals are an alternative to transporting gas via pipelines to the southern states.

The Discussion paper highlights that the construction of the Bulloo Interlink may influence developers when deciding whether to build these LNG import terminals. This may be correct if the Bulloo Interlink can efficiently and competitively transport gas supplies to southern markets below the prices being offered by the alternative sources, such as LNG import terminals.

This would be an efficient market outcome.

## 2.3 Pipeline description

The pipeline description<sup>7</sup>, for the Bulloo Interlink contained in APA's application is unchanged and the fundamental aspects of the pipeline, its location and purpose, are unlikely to materially vary and impact the AER's Determination.

APA will inform the AER as required<sup>8</sup> if there are any amendments during this process.

<sup>6</sup> APA, [APA's East Coast Gas Expansion Plan](#), 24 February, APA website

<sup>7</sup> NGL, s103.

<sup>8</sup> NGL, s104.

## 3. Promotion of access to pipeline services

5. *Do you have any comments on the key issues affecting our consideration of the promotion of access and efficient costs for the Bulloo Interlink?*

APA's application addresses the key issues being considered by the AER, namely that:

- access to pipeline services will not be affected by a greenfields incentive determination,
- APA is incentivised to attract user contracts on the new pipeline,
- the terms and conditions of these services is constrained by the many alternatives to using the Bulloo Interlink, and
- the direct costs of scheme regulation are minimal, but the indirect costs would be significant if the Bulloo Interlink cannot proceed.

6. *What is the likelihood of the Bulloo Interlink proceeding in the presence or absence of a greenfields incentive determination? How should this inform the AER in deciding whether to make this determination?*

APA is pleased to note that the Discussion paper has considered the question of whether the Bulloo Interlink would be constructed without a greenfields incentive determination.

APA's application was clear, and it remains the case that:

- the capacity on the Bulloo Interlink is not yet contracted given the market uncertainty around upstream gas supplies,
- the investment is likely to carry a high degree of commercial risk,
- making the pipeline a scheme pipeline after it is commissioned would affect the timing and profile of the return on investment, approach to service offerings and consideration of future capital expenditure, and therefore
- APA will need confidence that the regulatory status of this pipeline will not change if it is to reach FID.

We would highlight that APA is pursuing a wide range of actions that would further mitigate its commercial risks.

7. *How might scheme regulation on the Bulloo Interlink deter efficient investment in pipeline services in the relevant market?*

In the absence of a greenfields incentive determination, a scheme pipeline determination could potentially be made at any time, meaning that the Bulloo Interlink could become subject to scheme regulation.

APA's position is that scheme regulation can potentially affect:

- the way in which services are defined and offered to customers,
- the timing and profile of expected returns on the pipeline,
- the allocation of costs between services and tariff structures, and
- the treatment of future capital expenditure especially expenditure which may need to be undertaken ahead of demand.

Post-investment imposition of regulation exposes a business to downside demand risk but limits the ability of the service provider to capture any benefits associated with upside demand risk. The impact of this truncation of returns needs to be considered in any initial investment.

In order to make an efficient investment, without compensating for the potential regulatory truncation of returns, a greenfields incentive determination is required.

It is noteworthy that the AER's scenario discussion reinforces the need for the current greenfields incentive. On pages 31-32 of the Discussion Paper, the AER paints a picture in which a scheme pipeline determination results in a reduction in tariff once the subject pipeline becomes a scheme pipeline. This is precisely the risk APA seeks to address through this application – that APA may invest non-redeployable capital in needed pipeline capacity on the strength of short term bilateral contracts with customers, only to have the AER issue a scheme pipeline determination, resulting in a reduction in tariffs, after capital has been sunk. This risk of this scenario significantly undermines the ability to attract capital to this project.

8. *Do you think that a shorter than the default 15-year operative period of the determination would better balance investment incentives with market power concerns?*

As stated above, a greenfields incentive allows for the investment in a pipeline without needing to consider the risk and cost of truncated returns over the period of the determination.

Consequently, reducing the operative period of the determination will reduce this protection and require the increased risk to be considered when making the investment and in contractual terms and conditions.

## 4. Form of regulation factors

The Bulloo Interlink is designed to link demand and supply in the East Coast gas market and, as a new pipeline investment, will promote access to pipeline services.

The AER must consider whether the form of regulation factors are likely to provide an effective constraint on the exercise of any market power in respect of the services provided by the Bulloo Interlink, namely facilitating the supply of gas to southern states.

### 4.1 Barriers to entry

*9. What are your views on barriers to entry for a competitor to provide alternative pipeline services to the Bulloo Interlink?*

Further to the Discussion Paper, APA agrees with the AER that the relevant market for the purposes of this application to be the supply of gas to southern markets<sup>9</sup> – that is, a competitor could provide an alternative to pipeline services provided by the Bulloo Interlink, rather than alternative pipeline services. The effect on the Bulloo Interlink is ultimately the same.

In this regard, AEMO's 2025 GSOO (Table 1) identifies several future supply, transportation and storage options to address southern market shortfalls, including:

- New South Wales (Port Kembla) from 2026,
- South Australia (Outer Harbor) from 2027,
- Victoria (Geelong – Viva or Vopak) from 2028,
- Uncertain northern supply (delivered through the Bulloo Interlink), and
- 2C Southern Supply and renewable gas.

AEMO identifies that these projects could defer the southern market shortfall to varying extents.

On the question of barriers to entry, APA acknowledges that all these projects (including the Bulloo Interlink) face the common barriers of access to significant amounts of investment capital, environmental requirements (some projects have already cleared this hurdle), and commercial support through customer contracts. However, APA also submits that the very fact that these projects have been proposed and promoted is indicative that the project proponents do not see these barriers to entry as insurmountable.

However, the Bulloo Interlink faces a barrier that these projects do not face – the possibility that the AER may, on its own initiative, make a scheme pipeline determination on the project, changing the underlying economics that attracted capital to the project. In this respect, the Bulloo Interlink project faces an additional regulatory barrier to entry relative to the competing alternate projects.

*10. Do you expect that the Bulloo Interlink will face competition during the next 15 years, and if so, how might this impact access negotiations?*

APA fully expects that the services provided by the Bulloo Interlink will continue to face competition over the next 15 years.

As discussed, the Bulloo Interlink project will provide an additional 100 TJ/day of capacity to deliver northern gas to southern markets. AEMO's 2025 GSOO (Figure 4) forecasts southern market peak day shortfalls in excess of 900 TJ/day in winter 2029<sup>10</sup>. The additional supply made available by the Bulloo Interlink will be insufficient to meet these future peak demand shortfalls – these shortfalls will inevitably need to be made up by other projects within the 15 year time frame. Once these projects are in play, the value proposition created by the additional Bulloo Interlink capacity will compete directly with these other projects.

<sup>9</sup> AER discussion paper, p15.

<sup>10</sup> See data for Figure 4 in AEMO, 2025 Gas Statement of Opportunities – report figures and data



This competitive environment will constrain the ability of the Bulloo Interlink to exercise any market power as it does at this time.

## 4.2 Network externalities

11. Do you have views about if, and how, APA's pipeline network (the ECGG) could influence its ability to exercise market power on the Bulloo Interlink?

The APA application proposed that multi-asset services, including the Bulloo Interlink, will not give rise to network externalities as the Bulloo Interlink will still be able to be bypassed by users either through gas swap arrangements or alternative supply sources. In addition, we note that the current services and contracts with users on the connected pipelines will not be directly impacted; that is, the gas transportation route (and whether it includes the Bulloo Interlink) will not affect the current tariffs.

See also the discussion on ring fencing provisions below.

## 4.3 Network externalities between gas services and other market services

12. Does APA's provision of any non-gas services (i.e., electricity, diesel or hydrogen) provide it with an incentive to exercise market power, or otherwise provide services to related businesses on more favourable terms, in the supply of services on the Bulloo Interlink?

As outlined in the AER Discussion Paper, APA provides a range of non-gas services and owns and operates a portfolio of transmission electricity interconnectors, gas-fired generators (such as Diamantina Power Station), and wind and solar farms (such as the Darling Downs Solar Farm and the Badgingarra Wind Farm). APA also provides an asset management services business catering to these asset types.

One of the key legislative changes to the NGL in March 2023 was the application of the ring-fencing provisions to all pipelines, regardless of scheme or non-scheme status. Key provisions acting to constrain a pipeline's ability to exercise market power are:

- s133 (Preventing or hindering access),
- s147 (Prohibition on associate contracts that substantially lessen competition) and
- s148 (Associate contracts must comply with the competitive parity rule).

Section 33 also requires APA to lodge all associate contracts with the AER within 5 business days of execution. The AER would be promptly aware were APA to engage in any potential exercise of market power related to its provision of non-gas services.

Moreover, the requirement for the SWQP and MSP to comply with interconnection principles (NGL s136) also removes any barriers for another service provider to effectively bypass either or both pipelines.

In the context of the AER Annual Compliance Order, service providers must also report:

- (item 2) any claims that the Service Provider has prevented or hindered access to services on the pipeline,
- (item 4) any interconnection requests,
- (item 7) publication of prescribed transparency information,
- (item 8) a list of associates that take part in a related business or provide pipeline services, and
- (item 12) any new or varied associate contracts.

APA considers that these ring fencing provisions, and the AER's compliance monitoring of them, provide an effective barrier to any exercise of market power.

#### 4.4 Countervailing market power

13. *To what extent do you think users will have countervailing market power (including bargaining power) in negotiating access to the Bulloo Interlink? Is this countervailing power limited to only certain classes of users?*

The AER Discussion paper highlights 22 concurrent users of the MSP and SWQP as of 4 July 2025 and we agree with the assumption that these users are the type of customer likely to use the Bulloo Interlink in the future.

We also note the AER's view that only the largest incumbent users have some degree of countervailing market power. APA believes the users identified are sufficiently large and concentrated to hold significant countervailing market power.

APA considers that these users can credibly bypass the Bulloo Interlink as they usually have a range of options for servicing their portfolio, including supply arrangements from multiple gas basins, swap arrangements and capacity on different pipelines. The availability of these alternatives means that these shippers have significant countervailing power in negotiating new transportation arrangements.

That the Bulloo Interlink is a new pipeline with limited contracted capacity (i.e., demand for firm transport services is currently low) further increases the credible countervailing market power of users.

In addition, it is recognised that the bargaining power of these large users has increased in recent years due to the extensive publishing of pipeline information including service availability information, extensive cost data, and the average and individual prices paid by customers.

#### 4.5 Substitutes and elasticity of demand for pipeline services

14. *Do shippers currently have viable substitutes (alternatives) that could fully or partially replace the need for pipeline services on the Bulloo Interlink (e.g. alternative pipelines and gas sources, gas swaps, AEMO's Day-Ahead Auction, alternative fuel sources)? Do you consider the availability of these (or new) alternatives will materially change over the next 15 years (e.g., LNG import terminals)?*

15. *If you think there are full or partial substitutes for the use of the Bulloo Interlink, to what extent do you think they will be able to effectively constrain any market power APA may have in provision of pipeline services on the Bulloo Interlink?*

The relevant market for the purposes of this application is the supply of gas to southern markets – that is, a competitor could provide an alternative to the pipeline services provided by the Bulloo Interlink, rather than alternative pipeline services.

When the market is taken in this context, there are a wide range of viable substitutes for supplying southern gas markets. The AER has identified in its Discussion paper a number of these alternatives including:

- increased production in Victoria through gas projects Otway, Gippsland, Cooper and Bass basins,
- other gas projects such in the Gunnedah basin,
- imported gas by way of LNG import terminal projects close to southern demand centres, and
- increased investment in gas storage near southern demand centres.

The alternatives are clearly in competition with the services provided by the Bulloo Interlink as they provide prospective users and end users viable options. If priced competitively, APA is unable to exercise any potential market power, such as restricting capacity or seeking material increases in tariffs. Noting, APA has strong commercial incentives to move quickly to meet customer demand and contract for gas transportation services on the pipeline.

Even when procuring gas supplies that could utilise the Bulloo Interlink, the user is not limited to firm transportation services on the pipeline and has alternative methods of transport.

APA's application details many of them including:

- locational gas swaps which exclude the use of the pipeline,
- the increasing use of AEMO's Day-Ahead Auction where the available auction capacity is governed by users' supply of spare firm capacity and prices for securing this capacity are usually cleared at \$0/GJ,
- secondary capacity trading amongst users where a shipper may offer capacity to other prospective shippers and remove the need for those shippers to contract with the pipeline, and
- the Capacity Trading Platform, itself operated by AEMO.

The AER has recognised these alternatives to firm gas transportation but has to date considered them as partial substitutes.

APA proposes that there does not need to be a single complete substitute for firm pipeline transportation for there to be a constraint. This broad range of substitutes, the range of customers accessing them and the frequency of use indicate that these partial substitutes act as a real constraint on the ability for a pipeline to exercise market power.

In practice, a customer can use multiple partial substitutes to effectively avoid or reduce reliance on the pipeline. The effectiveness of this has been clearly demonstrated with the proliferation of intermediaries, such as brokers. Brokers are trading companies that facilitate spot trading of gas and secondary trading of transportation capacity. They assist smaller shippers to make the best use of the options available and allow shippers to employ multiple strategies simultaneously to meet their gas needs.

## 4.6 Substitutes and elasticity of demand for gas

*16. Are there currently any substitutes (alternatives) for gas (such as electricity, diesel, biomethane, etc.) available that could fully or in combination replace the need to use the Bulloo Interlink? Do you consider any substitutes for gas will emerge in the next 15 years?*

As indicated in the GSOO 2025, the projected demand for gas in the southern markets will remain relatively stable in the long term and this is largely underpinned by the increasing need for gas for GPG. There are no substitutes for gas usage by generation and industrial loads in the short-term.

However, state government policies are substituting electrification for gas in the case of residential customers and small to medium enterprises.

## 4.7 Other relevant factors

*17. Are there any other matters that are relevant to our consideration of whether to make a determination?*  
*18. Are you aware of any factors that suggest that, if a determination is made, operative period shorter than 15 years from the commissioning of the pipeline (currently estimated to be in 2028) is in the best interests of consumers?*

APA note that the AER can decide a period of the determination that is less than 15 years from the commissioning of the pipeline.

We highlight that this would increase the risks to APA and its potential customers as all contractual arrangements (and pricing) would need to be considered under a backdrop of this shortened operative period.