19 January 2026

Dr Kris Funston
Executive General Manager, Networks
Via email: resetcoord@aer.gov.au

RE: APA Victorian Transmission System - Rule 80 application for the expansion of the South West Pipeline

Dear Dr Funston,

Squadron Energy welcomes the opportunity to respond to the initiation phase of APA's *Rule 80 application for the proposed expansion of the South West Pipeline (SWP)*.

About Squadron Energy and the Port Kembla Energy Terminal

Squadron Energy (SQE) is Australia's leading renewable energy company that develops, operates and owns renewable energy assets in Australia. We currently have 2 gigawatts (GW) of renewable energy generation in operation or under construction and our ambition is to be the single biggest contributor to helping Australia meet its renewable energy and decarbonisation targets. Our development pipeline includes projects at varying stages across wind, solar and firming technologies, including batteries and gas peaking plants with dual fuel capability.

To address forecast gas shortfalls and energy security risks in Australia's east coast gas market, SQE - via its wholly owned subsidiary Australian Industrial Energy (AIE) - has repurposed the former Port Kembla coal terminal (Berth 101) into a liquefied natural gas receipt and regassification facility, the Port Kembla Energy Terminal (PKET).

PKET is constructed, approved and operationally capable with all onshore infrastructure installed, supported by a floating storage and regasification unit (FSRU) that we have secured under a long-term charter.

The FSRU is the most capital-intensive component to construct, globally FSRUs are scarce, and the principal determinant of the Port Kembla LNG terminal's deliverability. With almost no surplus FSRUs available globally, and newbuild lead times extending beyond the identified 2028-29 risk window, securing a long-term FSRU charter materially de-risks delivery of LNG import capability.

At current capacity, PKET is capable of supplying over 520TJ/day and up to 130PJ per annum of gas to the domestic market.

SQE's submission to the forthcoming 2026 GSOO identifies PKET as "Committed" infrastructure. By contrast, APA's submission excludes PKET capacity. This omission is significant.

PKET, in combination with Jemena's commitment to the Eastern Gas Pipeline (EGP) reversal, can support ~200 TJ/day of gas deliveries into Victoria . When combined with 70TJ/d of Orbost production, the EGP reversal provides up to 270 Tj/day of deliverability into the Victorian Transmission System (VTS).

The EGP is currently configured to transport up to 350 Tj/d from Victoria to northern markets. Once the pipeline is reconfigured to flow south into the VTS, this capacity can instead be utilised to support deliveries into Victoria, subject to market conditions and operational requirements.

In short, the EGP reversal unlocks material incremental supply capability into Victoria without requiring expansion of the SWP.

Mischaracterisation of Port Kembla Energy Terminal and implications for APA's Rule 80 case

APA's Rule 80 application characterises LNG import terminals, including PKET, as projects that have "not reached final investment decision" and are therefore uncertain or unavailable within the relevant timeframe.

This characterisation is materially misleading and calls into question the validity of APA's asserted urgency and necessity for accelerated regulatory approval.

PKET is existing, deliverable infrastructure

PKET is:

- constructed and fully approved;
- operationally capable; and
- supported by an FSRU under long-term contract with proven operating history[1].

For the purposes of system security and the Rule 80 test, PKET is not a prospective or speculative project. It is existing, installed infrastructure capable of supplying gas when required.

Applying a narrow and non-standard definition of "final investment decision" to exclude PKET from consideration is inappropriate. Final investment decision for PKET was taken several years ago and directly resulted in the terminal being constructed, approved and made operationally capable.

APA appears to conflate FID with the execution of long-term customer contracts. That is not an accepted definition of FID in infrastructure investment and does not reflect how LNG terminals or pipeline assets are developed or operated. PKET is capable of operating on a merchant basis if required, and its availability to the system does not depend on the timing or form of individual customer contracting.

[1] The FSRU is on short-term sub-charter in anticipation of delivery to Port Kembla once triggered by market signals.

Treating PKET as equivalent to unbuilt or unapproved projects on this basis materially misrepresents its availability and risk profile

It is also notable that APA seeks to discount PKET in its analysis by reference to "final investment decision" notwithstanding that PKET is fully constructed, operationally capable infrastructure. At the same time, APA's application relies on a range of other prospective gas supply and storage developments that have not reached final investment decision to support its assessment of system need and timing.

Applying different assumptions to competing infrastructure options risks overstating the urgency of APA's proposal while understating the availability of alternative solutions. This further reinforces the need for careful scrutiny of the assumptions underpinning APA's Rule 80 application.

Implications for APA's urgency and prudency claims

APA's application is premised on the assertion that peak-day gas shortfalls are imminent from winter 2028 and that no credible or deliverable alternatives exist within the required timeframe. Their assertion depends on excluding PKET from the alternatives set.

Once PKET is correctly recognised as built, with an FSRU secured, and available to supply gas, APA's claim that accelerated SWP expansion is the only viable solution materially weakens. The system is not facing a binary choice between immediate regulated pipeline expansion and supply shortfall.

This has direct implications for the Rule 80 test:

- the necessity of early approval is not established;
- the prudency of bringing forward regulated capital expenditure is undermined;
- the consumer interest case becomes materially weaker.

Context: consistency of APA's treatment of LNG imports in prior regulatory processes

APA's dismissal of LNG import infrastructure in the present application is consistent with positions it has advanced in earlier regulatory proceedings, including the 2024 form of regulation review for the South West Queensland Pipeline.

In those processes, LNG imports were referenced as secondary or less economically efficient alternatives within a broader narrative favouring pipeline-based solutions. While the regulatory context differs, APA has repeatedly framed LNG infrastructure in a way that minimises its relevance as a near-term alternative and reinforces claims of urgency for APA-controlled infrastructure.

This submission does not suggest impropriety. However, the recurrence of this framing underscores the importance of applying appropriate scrutiny to claims that downplay the credibility of non-pipeline alternatives where those claims are foundational to requests for exceptional regulatory treatment.

APA's proposal does not introduce new supply or address the peak-day risk in time and locks in unnecessary costs for consumers

The Australian Energy Market Operator (AEMO) has highlighted the urgent need for new sources of gas supply and storage to maintain energy security in Victoria for the winters of 2028 and 2029. With declining production from Bass Strait and flattening production from other sources, the system is expected to experience seasonal shortfalls during winter and insufficient supply capacity on peak demand days, exacerbated by increasing gas-fired generation demand.

The investment measures proposed by APA - whether through additional compression or looping of the SWP – are of limited utility in addressing these risks, given their focus on expanding transport capacity without any corresponding increase in gas supply within the required timeframe.

While APA references AEMO's 2025 Victorian Gas Planning Report (p.59), claiming that anticipated Port Campbell supply is limited by the capacity of the SWP, this anticipated supply from the Port Campbell zone[2] has not reached final investment decision and is largely expected to replace declining production rather than deliver material net new supply. SQE is not aware of any plans to expand associated processing facilities. Further, these projects are unlikely to be delivered before the forecast shortfalls in winter 2028 and 2029.

Similarly, Lochard's Heytesbury Phase 2 storage expansion faces indicative operational timing of 2029/2030 and material delivery risk.[3]

By contrast, PKET presents no delivery risk, as the infrastructure is already constructed and commissioned, and it's supported by a contracted FSRU.

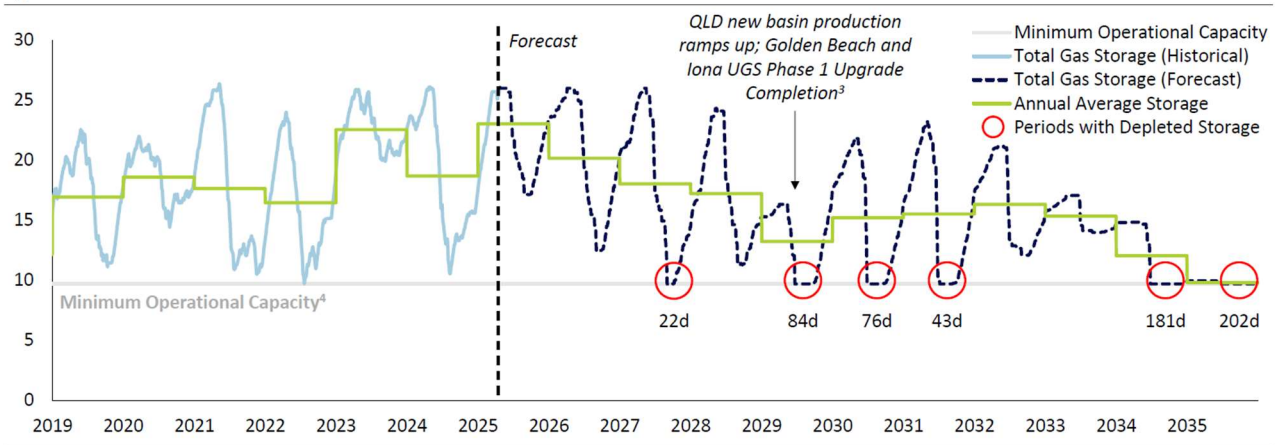
Expanding SWP capacity without new supply increases system risk

APA seeks to bring forward $200 million of capital expenditure from its 2028-2032 access arrangement to increase SWP capacity by 92TJ/d, with costs recovered from Victorian consumers.

This proposal raises significant concerns. Current modelling by AEMO in its 2025 GSOO, as well as analysis by other respected energy analysts[4] identifies Iona storage depletion risk as a material threat to gas supply security. In the absence of new supply from western Victoria or expanded storage capability, increasing SWP throughput risks accelerating Iona depletion.

[2] This includes the Otway and Athena production facilities.
[3] AEMO, 2025 VGPR, p.66.
[4] East Coast Gas storage levels: chart source Rystad

East Coast Gas Storage Levels (2018 – 2035)[1,2]
PJ



Winter drawdowns are getting steeper, suggesting increased reliance on storage to meet winter demand and lower-real time flexibility in sourcing

Note: (1) Includes Iona underground storage, Newcastle LNG storage, and Dandenong LNG storage, and Golden Beach storage from 2029; (2) AEMO's data starts from 3Q 2018, latest data as of 23rd April 2025
(3) Iona UGS Phase 1 Upgrade is scheduled to be completed by 2029, increasing the withdrawal rate from 570TJ/d to 615 TJ/day and storage capacity from 24.4 PJ to 28 PJ
(4) Estimated based on the lowest storage level from September 2018 to April 2025
Source: Rystad Energy research and analysis; AEMO

Recent history illustrates this risk. During June 2024, threat notices were issued due to rapidly falling Iona storage levels driven by high residential and commercial demand coinciding with elevated gas-fired electricity generation. While favourable weather conditions later reduced demand and allowed storage recovery, reliance on such conditions is increasingly precarious.[5]

This uncertainty should not be borne by consumers through premature regulated investment.

Existing infrastructure provides a more efficient solution to peak-day risk

Expanding pipelines to meet peak day shortfalls is an inefficient use of capital and risks creating sunk investments that are not in the long-term interests of consumers. Greater focus should be placed on utilising existing infrastructure with spare capacity. This is particularly the case where peak demand is intermittent, alternative sources of flexibility exist, and long-term supply commitments are uncertain.

PKET, in combination with the EGP reversal, will be operational in time to meet forecast shortfalls and enables ~200 TJ/d of LNG-sourced gas to be delivered into the VTS via PKET.[6]

When combined additional supply capability from the Orbost region, the EGP reversal provides up to ~270 Tj/day of incremental southbound deliverability into Victoria without requiring expansion of the SWP. This deliverability is directed toward the eastern Victorian system, where declining production from Longford is creating spare pipeline capacity.

The EGP reversal investment is already committed and scheduled for completion early this year, avoiding the need to lock Victorian consumers and businesses into additional long-term regulated pipeline costs.

[5] APA, Application under the NGR Rule 80, p.11. October, 2025
[6] Note that APA's application claims on p.7 that PKET has not reached FID status. This is factually incorrect. PKET construction is complete, access to the Hoegh Galleon is secured and the terminal can be fully operational in time to address the forecast supply gap based on current customer & regulatory conditions.

Investment in gas infrastructure should consider the whole supply chain

Consideration of the types of services required now and in future - and the relative value of different forms of gas infrastructure to deliver those services - is critical to achieving the best outcomes for consumers.

AEMO has emphasised the growing role of gas-fired generation in the draft 2026 Integrated System Plan. SQE supports the view that gas infrastructure investments should be assessed in the context of their ability to supply gas-fired generation during peak demand and low renewable output events. Greater capability to deal with shaped demands is required.

In the context of the SWP, there is limited potential for significant new gas-fired generation demand along the pipeline corridor given existing customer requirements and the already constrained nature of the pipeline. Given proximity to electricity infrastructure, SQE considers that any new gas-fired generation is more likely to locate east of Melbourne, connecting to either the EGP or the Longford - Melbourne Pipeline, the latter of which has in order of 400TJ/d of unutilised capacity given the depletion of Longford production.

Flexible infrastructure delivers better long-term consumer outcomes

The changing nature of gas use in the energy system necessitates infrastructure that provides flexibility and reserve capacity - the ability to ramp supply when required and withdraw when demand subsides.

LNG regassification terminals such as PKET provide this flexibility and mean that domestic supply is not solely reliant on limited interstate pipeline capacity or east coast gas production. FSRU-based infrastructure allows supply to be scaled to system needs and, if market conditions change, floating infrastructure can be redeployed or repurposed, reducing the risk of stranded assets and ongoing costs to consumers.

By contrast, pipeline expansions lock in infrastructure and consumer costs for decades and require commensurate long term production investment, increasing the risk of inefficient outcomes.

This is not to suggest that pipeline capacity should not be expanded where there is a clear and durable need, supported by committed upstream supply and a demonstrated long-term consumer benefit. However, in circumstances where demand is increasingly peaky, supply is uncertain, and flexibility is at a premium, solutions that lock in irreversible capital costs warrant a higher threshold of scrutiny.

Equally, like storage infrastructure, PKET is operationally well suited to provide the types of services capable of meeting peak daily and seasonal gas demand requirements (shape) of gas-fired generation close to demand centres.

In this context, SQE encourages market bodies and governments to consider more fully the importance and embedded value of flexible capacity and time-limited gas supply arrangements, particularly given their ability to minimise costs faced by customers across the life of a gas infrastructure option.

Need for regulatory consistency to ensure prudent outcomes for customers

Any application for pipeline capital expenditure must demonstrate strong fundamental drivers to be considered prudent and efficient. SQE does not consider that APA's request under Rule 80 satisfies this requirement.

Recent AER decisions relating to APA-owned pipelines, including the *Bullo Interlink Pipeline greenfield incentive determination* and the *South West Queensland Pipeline (SWQP) form of regulation review,* highlight the importance of applying careful and consistent scrutiny where proponents seek exceptional regulatory outcomes.

In the SWQP review, the AER found APA is likely to have market power and observed that prices appear higher than would be expected in a workably competitive market. While the AER noted that prices under scheme regulation could be materially lower under certain assumptions, it characterised the decision not to regulate as finely balanced, citing uncertainty and the risk of deterring investment during a period of emerging supply risk.

At that time, the prospect of further investment by APA, including the proposed Bulloo Interlink Pipeline, formed part of the broader context. Since then, Bulloo has not reached final investment decision and remains prospective. In these circumstances, SQE submits that caution is warranted in layering further exceptional or accelerated regulatory treatment, and that APA's current Rule 80 application should be assessed with a high degree of rigour, particularly where claims of urgency and limited alternatives are central to the case being advanced.

Allowing SWP expansion capex to be brought forward under Rule 80, when there is no clear case that the investment will address supply or peak-day risk in time for projected shortfalls, would add further costs to Victorian consumers without delivering commensurate benefits.

APA's Rule 80 application does not demonstrate that early approval of SWP expansion is necessary, prudent or efficient in the long-term interests of consumers. Existing, deliverable infrastructure - particularly PKET and the EGP reversal - can materially mitigate the identified risks without imposing additional regulated costs and a factual consideration of these assets current status should also be considered in the evaluation.

Granting APA's application in these circumstances would risk locking in unnecessary expenditure and delivering outcomes that are not aligned with the National Gas Objective.

If you would like to discuss this submission or any related content, please contact Rupert Doney, Director - Policy at [redacted]

Yours sincerely,

[redacted]

Dan Newlan
EGM, corporate Relations and Community