



Hon Lily D'Ambrosio MP

Minister for Climate Action
Minister for Energy and Resources
Minister for the State Electricity Commission

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Dear Clare Savage

Thank you for the opportunity to provide feedback on the Australian Energy Regulator's (AER) review of APA's proposed South West Pipeline (SWP) expansion, under Rule 80 of the National Gas Rules.

Delivering a cost-effective and technically sound solution to the constraints on the SWP, which best accommodates a broad range of current and potential supply sources, is a critical step in ensuring security of supply, preparing Victoria's transmission system for the future, and placing downward pressure on energy prices.

As you will note in the attached submission, the Victorian Government is highly supportive of a SWP expansion generally, but notes major concerns raised by the system operator, the Australian Energy Market Operator (AEMO), regarding APA's preferred compressor option.

With this in mind, I encourage the AER to work with APA and to help facilitate an alternative proposal as quickly as possible. The Victorian Government remains committed to working collaboratively with the AER, APA and key stakeholders to help deliver a timely solution that best serves the interest of Victorian gas consumers and best meets the National Energy Objectives.

The attached submission provides further detail on this position. If you would like to discuss any of these matters further, please contact Ben Ferguson, Executive Director, Energy Transition & Strategy, at the Department of Energy, Environment and Climate Action, at [REDACTED]

Yours sincerely

The Hon. Lily D'Ambrosio MP
Minister for Climate Action
Minister for Energy and Resources
Minister for the State Electricity Commission

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Encl.

Victorian Government Submission to the Australian Energy Regulator's review of APA's South West Pipeline expansion proposal

January 2026

The Victorian Government welcomes the opportunity to make a submission to the Australian Energy Regulator's (AER) review of APA's proposed South West Pipeline (SWP) expansion, under Rule 80 of the National Gas Rules (NGR). The Victorian Government thanks APA for its work and consultation to-date on this proposal, and its ongoing service of Victoria's energy infrastructure needs.

Context

The Victorian Government is committed to delivering secure, reliable and affordable energy supply for all Victorians as our energy system transitions. As part of this, gas will continue to play an important role as a fuel and feedstock for hard-to-electrify uses, and as a source of electricity generation to back up renewables and storage. The Victorian Government is taking action to secure supply for these priority cases, while reducing and substituting gas demand where possible, including through the initiatives established under the *Gas Substitution Roadmap (GSR)*, and annual updates. These actions are putting downward pressure on energy prices, supporting Victorian industry, and helping to deliver the least cost pathway to meeting Victoria's legislated emissions reduction targets.

Despite the significant progress in electrification occurring in Victoria, gas supply shortfalls in the southern states are forecast later this decade, due primarily to the rapid depletion of the Gippsland gas fields. Longford daily winter capacity is forecast to decline from 679 TJ / day in 2025 to 303 TJ / day in 2029, then towards zero by 2034. As a result, demand will need to be met by a wider range of sources, including storage and supply sources to the north of and in the southwest of the state, and new investments that are yet to come to market. The Victorian Government is solution agnostic to which combination of projects the market ultimately delivers. However, it is important that planning for key infrastructure upgrades such as the SWP consider all existing and credible future sources of gas.

It is also critical that infrastructure upgrades account for the changing future operation of the gas system which is forecast to increasingly require supporting gas-powered-generation of electricity to complement the roll out of renewables and support security and reliability of not just the gas but also the electricity system.

The Victorian Government's position on expanding the South West Pipeline

The Victorian Government supports efficient investment to expand the SWP, consistent with the position and policies it has adopted under Victoria's *Gas Security Statement*, and the *Gas Substitution Roadmap*. Helping to facilitate economically efficient transmission upgrades is a key component of Victoria's approach to securing future supply:

Further investment will be needed to boost the gas system's resilience throughout the transition. This will involve engaging with infrastructure proponents and the AER to facilitate justified upgrades to pipelines and storage both within and beyond state borders.¹

Ensuring there is sufficient SWP transportation capacity is a key part of getting already existing and credible planned supply and increased storage capacity to market. Several existing and potential future supply and storage projects are in the southwest of Victoria and could materially contribute to alleviating southern shortfall risks including:

- gas storage at the Iona Underground Storage facility, including Lochard Energy's expansion from a capacity of 570 TJ / day to 615 TJ / day through the development of the Heytesbury Underground Storage (HUGS) project which reached Final Investment Decision in July 2024 (noting additional further expansions are also planned);
- increased domestic production from the Otway Basin (existing and planned); and

¹ The Victorian Government, *Victoria's Gas Security Statement*, released Jun 2025

- the connection of a Victorian LNG regassification terminal (planned).

However, the ability to get this supply to major demand centres to meet forecast needs is constrained by the capacity of the SWP.

Proposed investment should seek to balance security, reliability, cost efficiency, timely delivery, and the ability to meet the evolving future needs of the system. This includes ensuring the design is suited to future GPG demand and does not conflict with, or lock out, any subsequent expansion stages that may be needed to bring on credible supply projects.

Assessing APA's proposal

In assessing the merits of the SWP expansion options and APA's preferred option, the views of the system operator, the Australian Energy Market Operator (AEMO), and its technical expertise, should be duly considered. AEMO has several declared functions in relation to the Victorian Declared Transmission System, including to:

- determine security standards for the declared transmission system
- provide information and other services to facilitate decisions for economically efficient investment.

AEMO's views should also hold weight as a counterparty to the Service Envelope Agreement (SEA) between AEMO and APA as required under the National Gas Law for the control, operation, safety, security and reliability of the declared transmission system. AEMO supports a SWP expansion but has raised serious concerns with APA's preferred compressor option, including risks to operability and reliability, efficiency, future needs of the system and potential impacts on the market. These concerns were articulated by AEMO to stakeholders at the AER's public forum of 11 December and in AEMO's presentation from the Forum published on the AER's website. AEMO has also outlined its views to the Victorian Government directly, consistent with the information presented at the AER Forum. We understand AEMO has provided the AER with detailed analysis on this issue.

AEMO has expressed a preference for an alternative pipeline looping option, on the basis that this will better accommodate all Port Campbell sources of supply during peak-demand days, and provide more optionality to accommodate future supply and storage projects (e.g. potential further Otway gas field development, or further Iona storage expansions), with progressive stages of additional looping an option, thereby lowering the risk of asset stranding.

In the absence of support from the system operator for APA's preferred compression option, it is important that a viable alternative proposal, based on looping of the SWP, be progressed in as timely a manner as possible. The Victorian Government notes that AEMO has conducted significant modelling to help identify effective and efficient looping options which could credibly form the basis of an alternative proposal.

APA's application notes the high likelihood of future SWP looping being required, and notes the multiple benefits associated with pipeline looping. It also emphasises the importance of early works on easement access and environmental approvals commencing as soon as possible. The Victorian Government is supportive of such an approach to ensure timely delivery of new capacity to mitigate shortfall risks.

The Victorian Government further notes that pipeline looping solutions typically have lower ongoing emissions than a compressor option and that looping is therefore consistent with Victoria's emissions reduction objectives.

The Victorian Government strongly encourages APA to work closely with AEMO to put forward a detailed revised proposal that has clear support from key stakeholders, including the system operator. The Victorian Government further encourages APA to include robust costings, including the detailed inputs and assumptions to support these costings, so these can be tested and assessed for economic efficiency by the AER.

The Victorian Government wishes to ensure that any revised proposal put forward by APA:

- is developed in close consultation with the system operator, AEMO, and has its support, given AEMO's legislated declared system functions and role as a key stakeholder for DTS expansions;
- is supported by robust modelling and detailed underlying data, including for proposed costings, and that this supporting information is provided to the regulator;
- represents an efficient and timely investment that meets the needs of gas consumers;
- does not increase operational supply reliability risks;
- does not restrict existing and planned Port Campbell supply sources from servicing Melbourne demand, nor prevent or deter credible supply and expansion projects from progressing, including supply from Otway and Athena Gas Plants, and Iona UGS or from a potential Victorian gas import terminal; and

- can be sensibly staged to accommodate a range of credible projects.

Noting the system operator's serious concerns with APA's current proposal, it is critical that a revised APA proposal be progressed as soon as possible, to deliver increased capacity on the SWP in time to meet forecast shortfalls towards the end of the decade. The Victorian Government also encourages the AER to use what flexibility it has to help deliver timely approval, for instance by indicating to APA via its draft decision an alternative proposal that it could likely support, and other means.

National Gas (Victoria) Amendment Bill 2025

The Victorian Government committed to reforming the *National Gas (Victoria) Act 2008 (NGVA)* to empower the Minister for Energy and Resources to make orders to direct the pipeline owner and service provider and AEMO to augment Victoria's regulated transmission pipeline network to maintain gas supply and gas quality. A bill to this effect, the *National Gas (Victoria) Amendment Bill 2025*, is currently before the Victorian Parliament. Should this bill become law, the powers granted to the Minister will be important measures of last resort. They will only be used where the market fails to find a solution.

The Victorian Government has, and will continue to take, decisive action to preserve the affordability, reliability, and security of Victoria's energy system. All market participants must know that these powers can and will be used if the Victorian Government deems that failure to invoke them would place an unacceptable risk on the affordability, reliability, and security of the Victorian energy system.

AEMO projects structural shortfalls in the east coast gas market by 2029. The imminence of this risk means that action must be taken urgently, by all market participants, to ensure that Victoria's gas infrastructure does not inhibit the range of potential supply solutions that could ameliorate these risks to the east coast gas market at the lowest possible cost.