

Position paper: APA's rule 80 application for South West Pipeline

May 2026



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Executive Summary

On 31 October 2025 APA submitted an application to increase capacity on the South West Pipeline (SWP).¹ On 10 April 2026 it submitted an addendum with higher costs and proposals for early works for further expansion of the SWP (beyond the initial works proposed) and the Brooklyn to Lara pipeline.² The updated application totals \$244 million (\$212.7 million for compression and \$31.1 million for early works).

We consider that augmentation of SWP is needed to address forecast gas supply issues. Our position is that APA's proposed expansion of SWP capacity via compression and undertaking early works is the appropriate option to address these issues. However, we have not yet reached a position on APA's proposed costs.

APA's application was made under r.80 of the National Gas Rules (NGR) which allows regulated pipeline operators to propose new projects during a regulatory period, and us to determine that the proposal meets the new capital expenditure criteria in the NGR.³ A determination by the AER that the proposal is consistent with the new capital expenditure criteria provides certainty that the expenditure can be rolled into the capital base, and that rate of return, depreciation and other costs associated with the project can be recovered through increased tariffs.

In assessing APA's application, we considered whether capacity expansion on the SWP is needed and whether the proposed project is a prudent and efficient solution to the identified needs of the market. We will also assess whether the costs proposed are reasonable before making our final determination.

As a next step in the process, we seek stakeholder views on this Position paper. We will release a final determination in July.

APA's proposal

APA proposed to expand the SWP by adding 2 new compressor stations. This would lift SWP capacity from 523 TJ/day to 615 TJ/day at a cost of \$212.7 million. The expansion is in response to gas supply shortfalls from 2029 onwards identified by AEMO in its Gas Statement of Opportunities and the Victorian Gas Planning Report. AEMO found that SWP expansion is needed to address future supply shortfalls.

APA evaluated three SWP expansion options:

- compression, which requires installation of two new compressor stations at Pirron Yallock and Stonehaven
- partial looping, which involves duplication of 88 km of the pipeline
- full looping, which would duplicate all 144 km of the SWP.

¹ APA, *South West Pipeline expansion proposal – Business case*, October 2025.

² APA, *South West Pipeline expansion proposal – Addendum*, April 2026.

³ NGR r.79.

APA is proposing the compression option on the basis that it can be delivered in time to address projected risk of shortfalls in 2029. APA submitted that looping options cannot be delivered until 2030 at the earliest.

APA's October 2025 application forecast \$195 million for the compression option. APA's 10 April 2026 addendum raised the cost forecast to \$211 million based on increased compression unit costs. The addendum also proposed expenditure of \$1.7 million to build a new compressor footprint at Stonehaven taking the total cost of the proposed expansion to \$212.7 million. The compressor footprint helps to address security of supply concerns. If a compressor fails, capacity on the SWP is compromised. The compressor pad will allow for an alternative compressor to be installed quickly.

APA's 10 April 2026 addendum proposed \$31.1 million in early works to accelerate future pipeline capacity expansion, taking total proposed costs to \$244 million.⁴

APA's addendum also updated the deliverable timeline for its compression project, from 2028 to 2029, aligning with AEMO forecasts of possible peak day shortfalls.

SWP expansion is needed

The Victorian Transmission System (VTS) was designed to supply gas from the Gippsland and Otway Basins to Melbourne, and from there to regional centres. The role of the system is now changing as production in the Gippsland Basin declines. Increasingly gas will need to be sourced elsewhere, either using pipelines from Queensland or LNG facilities.

On the demand side, further gas-powered generation is required to firm up electricity supplies in Victoria as coal plants retire. This will drive ongoing high winter peak demand periods, even as gas demand from households and businesses falls.

An effective way of meeting the winter peaks is to expand gas storage facilities at Iona (near Port Campbell) and adding to SWP capacity. Lochard Energy, the owner of Iona, is investing in additional storage capacity with the current development of Heytesbury Underground Gas Storage Stage 1 (HUGS1). The investment will increase maximum daily supplies into Melbourne from 570 TJ/day now to 600 TJ/day in 2027.⁵ Further expansion of up to 900 TJ/day (HUGS2) is being considered.

Currently the SWP can supply 523 TJ/day into Melbourne. APA's proposed compression-based augmentation project is capable of delivering 615 TJ/day. This will accommodate Iona's additional storage capacity and is sufficient to meet forecast requirements of around 600 TJ/day in 2029.

An alternative source of supply for those peak days is LNG. Viva Energy and Vopak are proposing LNG facilities in or near Geelong. These options also require SWP expansion to meet forecast supply requirements. In its submission Vopak noted that its project will not proceed to final investment decision without a clear commitment to SWP expansion.

⁴ The proposal is \$211 million for compressors, \$1.7 million and \$31.1 million, which with rounding adds up to \$244 million.

⁵ While the SWP will be expanded to 615TJ/day and Iona is capable of injecting 615 TJ/day, 15TJ/day is injected into the WTS, with the remaining 600 TJ/day injected into the SWP.

The Port Kembla Energy Terminal (PKET) in NSW offers another LNG gas source, which would be supplied via the Longford pipeline. This would help address supply shortfalls. However, we understand that no contracts for supply into Victoria have been entered into yet, and the additional supplies from PKET may not be sufficient to meet peak demands beyond 2029.

Compression can be delivered sooner than alternatives

In February this year, AEMO released a comprehensive review of expansion options for the SWP.⁶ It considered full and partial looping of the SWP as well as APA's compression option. While the two options deliver similar increases in capacity (an additional 92 TJ/day), AEMO considers the partial (88 km) looping option is preferable because of:

- Reliability – Compressors can fail and take time to be repaired.
- Expandability – The 88 km of looping can be supplemented by further looping to substantially increase capacity in future. By contrast the compression option is less cost effective as further expansion may result in redundancy of one of the compressors.
- Peak gas supply – Looping increases linepack, providing more flexibility to meet peak GPG demands at short notice.

The Victorian Government's submission to this process also expressed a preference for looping.

In response to AEMO's review and the Victorian Government's submission, APA held a workshop on 25 February 2026 to consider the merits of looping versus compression. There was a consensus that looping is technically preferable. As a follow up to the workshop, the parties agreed to work together to see if there is scope to bring forward looping to meet the winter peak supply shortfalls projected in 2029. The discussions included the possibility of speeding up Victorian Government approval processes. APA asked us to suspend our assessment while the parties worked through the timing options.

On 10 April APA submitted an addendum to its original proposal. Following consultation with AEMO and the Victorian Government, APA concluded that looping cannot be completed until 2030. APA maintained its preference for compression on the basis that it is the only option that can address projected supply shortfalls in 2029.

On reliability concerns associated with new compressor stations, APA submitted that it intends to install the same type of compressors currently installed on the South West Queensland Pipeline and the Moomba to Sydney Pipeline. APA indicated these are reliable compressors and that it does not share AEMO's concern with respect to reliability issues.

AEMO wrote to us on 8 April, noting APA's view that looping cannot be delivered by 2029 and committing to work with APA to mitigate risks associated with compression. The Victorian Government has not provided a response to APA's addendum.

For the purposes of this Position paper, we have accepted advice from APA and AEMO that compression is the best available option in the circumstances. We note that delays in APA's

⁶ AEMO, *South West Pipeline Expansion Options Assessment Report*, February 2026.

planning processes appear to have contributed to the current situation, where only one feasible SWP augmentation investment option is available to address forecast risks of peak day shortfalls. We encourage APA to work with AEMO and the Victorian Government to ensure that future planning and network investment outcomes are timely.

There is a case for the early works proposed

APA's addendum proposes early works for looping on the SWP and Brooklyn to Lara Pipeline. The early works would pave the way for further capacity expansion beyond the current proposal, supporting additional storage at Iona and/or LNG supplies in the Geelong area.

Drawing on advice from AEMO, APA submitted that the rate of drop off in Gippsland Basin supplies means that further investment needs to be taken now to avoid supply shortages in the early 2030's. Even with the SWP expansion, risk of peak day shortfalls is projected from 2030, and from 2031 for total gas supplied into Victoria.⁷ Further supplies are required to meet these shortfall risks. There are several supply options, including additional supply from the Gippsland and Otway Basins, LNG facilities in the Geelong area or PKET. The supply solution will be determined by market participants.

Given the impact of supply failures and the tight timeframes for further pipeline capacity expansion, our position is that it is prudent to undertake early works. In reaching this conclusion we note that some of the early works spending may prove to be unnecessary. For example, if an LNG facility proceeds in the Geelong area, further looping on the SWP may not be required, while neither project may be required if there are substantial contracts through PKET.

APA's costings require further assessment

With APA submitting its addendum on 10 April, we are still undertaking our detailed assessment of APA's proposed costings for its compression project and early works for future looping projects. Because we have not yet formed a view on APA's costings, but NGR r.80 is framed around an AER approval of costs, we have chosen to release this Position paper, rather than a draft determination. This Position paper does not represent an additional step in our assessment process. Following close of stakeholder submissions on this Position paper, we will proceed directly to a final determination in July.

In forming our final determination, we will take into account submissions already received in addition to any further submissions provided to us. Our final determination will set out details of our assessment and our decision on the level of APA's proposed costs.

We seek stakeholder views

While we support APA's proposed project in principle, we invite stakeholder submissions on the reasonableness and efficiency of APA's proposed capex (compression and early works) ahead of our final determination. We welcome stakeholder written submissions in response to APA's updated application and our Position Paper by COB Friday 5 June. Written submissions may be emailed to: ResetCoord@aer.gov.au

⁷ AEMO, *2026 Gas Statement of Opportunities*, March 2026, see table 2, p14.

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1 Background

1.1 About the Victorian Transmission System

The VTS provides gas transmission services in Victoria. The system is owned by APA but as a scheme gas pipeline it is subject to full economic regulation by us, the Australian Energy Regulator (AER). The VTS is operated by the Australian Energy Market Operator (AEMO) under arrangements specific to Victoria.

The VTS transports gas to Victorian distribution networks and provides direct connections to gas fired power generators and large industrial users. It connects gas sources in the Gippsland and Otway Basins to Melbourne and regional centres. The VTS also provides connections to the Moomba to Sydney and Eastern Gas pipelines allowing gas to be supplied from Queensland.

In future the VTS has capacity to transport gas from LNG facilities, including the recently completed Port Kembla Energy Terminal (PKET) owned by Squadron Energy, and proposed LNG facilities in or near Geelong.

The SWP forms part of the VTS. It links the Melbourne gas network to gas processing plants and the Iona underground gas storage facility at Port Campbell in western Victoria. The SWP is primarily used to transport gas from production facilities and the Iona Under Ground Storage (UGS) at Port Campbell to Melbourne, and to support refilling the UGS from Gippsland and Queensland supplies.

1.2 Rule 80

The National Gas Law (NGL) and NGR establish the framework for regulating gas transmission and distribution networks. The NGR require APA to apply to us every five years for a ruling on network charges, in the form of an access arrangement. In December 2022 we finalised the access arrangement that currently applies to APA. It covers the period 1 January 2023 to 31 December 2027.

Circumstances may change during a regulatory period. In this case, updated gas demand and supply forecasts have led APA to propose expansion of capacity on the SWP. Rule 80 of the NGR encourages gas service providers to undertake additional capital expenditure when the need is identified rather than wait until the next regulatory period. It does this by allowing the service provider to propose new projects during a regulatory period, and us to determine that the proposal meets the new capital expenditure criteria in the NGR. The capital expenditure criteria focus on the prudence and efficiency of the proposal. A determination by us that the proposal is consistent with the new capital expenditure criteria provides certainty that the expenditure can be rolled into the capital base, and that rate of return, depreciation and other costs associated with the project can be recovered through increased tariffs.

1.3 Assessment process

On 31 October 2025 APA submitted a NGR r.80 application for us to determine that its proposed investment to expand SWP capacity is consistent with the new capital expenditure criteria in the NGR. We then held a public forum and invited stakeholder submissions. In

January 2026 we received 10 written submissions from gas market participants (retailers, producers and operators of gas storage facilities), LNG proponents, energy users, AEMO and the state government. We also held bilateral meetings with several stakeholders.

Submissions from AEMO and the Victorian Government suggested an alternative option for expanding the SWP. In response, on 5 March 2026 APA asked us to suspend our assessment process to allow further discussions between APA, AEMO and the Victorian Government. On 10 April 2026 APA resubmitted its r.80 application with amendments.

This Position paper is the next step in our process. We have released this document later than initially planned due to APA’s suspension request and subsequent submission of amendments to its initial r.80 application. We now invite stakeholder written submissions in response to this Position paper by 4 June. We will release our final determination in July 2026. In forming our final determination we will take into account submissions already received in addition to any further submissions provided to us. Our full assessment process timeline is set out in Table 1.

Table 1 Timetable for AER assessment of APA’s r.80 application

Milestone	Date
APA r.80 application received	31 October 2025
Public forum	11 December 2025
Stakeholder submissions close on APA’s r.80 application	19 January 2026
AER Position paper	15 May 2026
Submissions close on AER Position paper	5 June 2026
Final determination	July 2026

2 South West Pipeline expansion

2.1 APA proposal

With its updated r.80 application, incorporating APA's 10 April 2026 amendments, APA proposes to expand the SWP by adding 2 new compressor stations. This would lift SWP capacity from 523 TJ/day to 615 TJ/day at a cost of \$211 million. In support of its proposal APA submitted:

Victoria is facing imminent gas supply shortfalls, particularly during peak winter demand periods, due to declining production from the traditional Bass Strait gas fields. This risk has been identified in AEMO's Gas Statement of Opportunities and the Victorian Gas Planning Report (VGPR).

While the Bass Strait fields are in decline, there is firm gas available in Port Campbell, to the west of Melbourne, both from producers in the Otway basin, and from the Iona gas storage facility. However, the South West Pipeline (SWP), which transports gas from Port Campbell to Melbourne, currently lacks the capacity to deliver all of this available gas. This constraint presents a significant risk of gas shortfalls on the coldest days of the year or during periods of high gas-powered electricity generation demand.

To address this, APA is proposing an expansion of the SWP to unlock existing in-state gas supply and enhance system reliability. The expansion will enable timely access to firm gas already available within Victoria, ensuring security of supply from Winter 2028 onwards.

APA submitted that it evaluated three SWP expansion options:

- compression, which requires installation of two new compressor stations at Pirron Yallock and Stonehaven
- partial looping, which involves duplication of 88 km of the pipeline
- full looping, to duplicate all 144 km of the SWP.

AEMO's 2026 Gas Statement of Opportunities⁸ projects gas supply shortfalls in Victoria from 2029 onwards in the absence of SWP expansion. APA is proposing the compression option on the basis that it can be delivered by 2029, in time to address shortfalls projected by AEMO. APA submit that looping cannot be delivered until 20230 at the earliest, leaving supply shortfalls in 2029.

APA's October 2025 application forecast \$195 million for the compression option. With its 10 April 2026 amendments, APA raised its compression cost forecast to \$211 million, with the change driven by increases in the cost of compressor units plus an additional \$1.7 for a second compressor pad at Stonehaven and early works expenditure for future looping of the SWP. The changes proposed in the addendum:

- revised costs of the compressors upwards by \$15 million (compared to the initial October application)
- added a new compressor footprint at Stonehaven at a cost of \$1.7 million

⁸ AEMO, *2026 Gas Statement of Opportunities*, March 2026.

- proposed early looping works to accelerate future pipeline capacity expansion, at a cost of \$31.1 million (\$15.1 million for early works on the Brooklyn to Lara pipeline, \$16 million for early works on SWP looping).

The early looping works aim to bring forward timing of further pipeline expansion through early preparation for regulatory approval processes and early landowner and community engagement.

In total, APA's addendum lifted the total cost of its r.80 application from \$195 million to \$244 million.

APA's addendum also updated the deliverable timeline for its compression project, from 2028 to 2029, aligning with AEMO forecasts of possible peak day shortfalls materialising from winter 2029 onwards.

Section 3 of this Position paper considers the merits of the options presented.

2.2 Submissions

In response to APA's 31 October 2025 r.80 application, we received 10 written submissions from:⁹

- current gas suppliers (Amplitude, Lochard)
- potential LNG suppliers (Vopack, Viva Energy, Squadron Energy)
- gas pipeline operators (APA, Jemena)
- retailers (Red Energy and Lumo Energy)
- AEMO
- the Victorian Government.

Most submissions supported expansion of the SWP as an effective means of addressing forecast gas supply shortfalls. As noted by the Victorian Government's submission:

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.¹⁰

Similarly, AEMO stated:

.. firm gas storage capacity will be increasingly important to manage gas supply and demand, and there needs to be sufficient pipeline capacity to enable this flexible gas supply. The Iona UGS facility is currently the only operating deep gas storage facility in the southern states, with the Golden Beach storage project remaining uncertain and not expected to reach FID

⁹ Stakeholder submissions are available for viewing on the AER webpage for this project: [Initiation | Australian Energy Regulator \(AER\)](#)

¹⁰ Victorian Government submission, February 2026, p. 1.

until at least mid-2026. However, deep storage facilities like Iona UGS need to have sufficient pipeline capacity available to support peak day and flexible GPG demand.¹¹

Lochard pointed to the SWP's role in supporting future expansion of gas storage at Iona:

Lochard is considering options to further expand Iona beyond HUGS (HUGS2). If this development occurs, then Iona's capacity, combined with that of Otway and Athena, could see Otway region capacity at circa 900 TJ/d far exceeding the current SWP capacity of 523 TJ/d. The ability to fully utilise Iona's potential increased storage capacity and to unlock additional supply from Otway producers is very much dependent on the corresponding expansion of the SWP.¹²

Just one submission expressed reservations about expansion of the SWP pipeline. Squadron Energy has completed construction of PKET at Port Kembla and it is now operationally capable. PKET connects into the Eastern Gas Pipeline (EGP) owned by Jemena which is being upgraded to allow southward gas flows into Victoria. Squadron Energy's submission pointed to the potential role of PKET:

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.¹³

Squadron Energy argued that PKET, combined with use of the EGP to export gas south into Victoria, can meet at least some of the forecast potential supply shortfalls.

Jemena's submission also noted that the EGP reversal can help address potential gas shortfalls and encouraged parties to consider its potential.

While most submissions supported expansion of SWP capacity, AEMO and the Victorian government submitted support for looping rather than compression. They considered that looping would result in better reliability than compression as compressors can fail. They also forecast that further SWP expansion (beyond the current r.80 application) will be required in response to falling supplies from Gippsland. Both AEMO and the Victorian government argued that looping would be a better long-term solution, providing more cost-effective options for further capacity expansion in the future.

Vopak also submitted that looping would be preferable to compression, while Lochard Energy and Red/Lumo Energy supported compression on the basis that it could be delivered sooner.

In response to the submissions from AEMO and the Victorian Government, APA held a workshop with AEMO, the Victorian government and the Energy Users Association of

¹¹ AEMO, *South West Pipelines Expansion Options Assessment Report*, February 2026, p. 17.

¹² Lochard submission, January 2026, p. 1.

¹³ Squadron Energy submission, January 2026, p. 3.

Australia (EUAA) with the AER as an observer.¹⁴ At the workshop all parties (including APA) agreed that looping would be preferable if it could be delivered by 2029. APA indicated that its preference for compression was based on an assumption that compression could be delivered by 2029, but that environmental approval processes would delay looping to 2030. The participants agreed to assess the scope for accelerating approval processes to allow early implementation of looping.

On 5 March APA requested a pause in our assessment process until the joint review of timeframes for looping was complete.

A summary of submissions from market participants is provided at table 2.

Table 2 Summary of submissions from market participants

Stakeholder	Key points
Amplitude Energy	<p>Otway Basin has significant gas reserves, over 1,000 PJ, but SWP capacity limits are constraining supply of gas into Melbourne. As Gippsland supply falls away, reliance on Port Campbell will grow.</p> <p>SWP expansion will improve supply from the Otway Basin and improve outcomes for customers.</p> <p>Compression is preferable to looping in the first instance as looping will take too long.</p> <p>Compression should be followed by looping and APA should quickly submit a further proposal to fully loop the SWP.</p>
APA	<p>Expansion of SWP capacity will address risks of supply shortfalls identified by AEMO.</p> <p>APA’s proposed compression-based expansion of the SWP can be delivered earlier with lower capital cost and complexity, than alternative expansion options.</p>
Jemena	<p>Jemena is investing to allow reversal of the EGP and building a new lateral to the Port Kembla Energy Terminal (PKET). Regardless of the PKET supply, these investments can deliver an additional 270TJ/day of gas into Victoria.</p> <p>The draft ISP states that 4 GW of additional gas-powered generation is required in NSW and Victoria. The EGP can address some of these requirements as the Longford to Melbourne Pipeline has space capacity.</p>

¹⁴ The workshop was held on 25 February 2026 and run by an independent facilitator.

	<p>Further, market changes mean more pipeline storage is needed. Again, the EGP can help address this by supplying gas to the Longford pipeline.</p> <p>In considering options for meeting Victorian gas demand, the AER should account for not only the gas infrastructure in the west of Victoria, but existing infrastructure in the east.</p>
Lochard Energy	<p>Lochard owns and operates Iona, the underground gas storage facility at Port Campbell.</p> <p>Iona's capacity has grown from 390 TJ/day in 2015 (when Lochard purchased it) to 570 TJ/day in 2023. The Heytesbury Underground Gas Storage (HUGS) development will deliver another 45 TJ/day from 2027, giving total capacity of 615 TJ/day.</p> <p>Lochard is considering further expansion through HUGS2. Including Otway and Athena reserves, total capacity could be around 900 TJ/day. However, further expansion of HUGS is only viable if the SWP is expanded.</p> <p>Either compression or looping will deliver additional capacity, but compression will be delivered sooner, so Lochard supports APA's compression proposal.</p> <p>Further SWP capacity expansion will be required after the compression project. Approvals for looping will take time so APA should commence land access and environmental approvals ASAP.</p>
Red / Lumo Energy	<p>While noting AEMO's assessment that looping may be preferable, and reflecting the AER's limited capacity to direct APA to undertake an alternative project, Red / Lumo supported APA's proposed compression project.</p>
Squadron Energy	<p>Squadron Energy has established an LNG import facility at Port Kembla, the Port Kembla Energy Terminal (PKET). The facility is constructed and operationally capable. It connects into the Eastern Gas Pipeline owned by Jemena which is being upgraded to allow southward gas flows into Victoria. Squadron points to the potential role of PKET.</p> <p>Squadron Energy argues that PKET, combined with use of the EGP to export gas south into Victoria, could meet forecast supply shortfalls and that expansion of the SWP is not necessarily required.</p>
Viva Energy	<p>Viva is proposing an LNG facility that would inject at Lara, near Geelong. The new facility would not require immediate SWP expansion.</p> <p>The AER's 2022 review of the VTS access arrangement noted concerns about security of LNG supply from an import terminal. The Ukraine war drove high prices for LNG at that time. Conditions have now changed and Viva expects a 45% increase in global LNG supply by 2030. This means that</p>

there are no longer reasons for concern about reliable supply to an LNG import terminal.

APA should provide more detail about cost recovery and only those that benefit from SWP investment should be charged for it. More specifically Viva asked APA to advise how costs can be recovered from those injecting at Port Campbell.

For future SWP capacity expansions, Viva suggested further planning with APA to present a 5-10 year plan for the VTS including a cost/benefit of the VTS augmentation options aligning with various proposed projects.

Vopak

Vopak proposed to develop an LNG terminal to supply 630 to 750 TJ / day. Construction will take 24 to 27 months and the facility would operate for 10 years with commercial operations commencing as soon as 2029.

Vopak's LNG terminal is unlikely to reach FID without a clear pathway to sufficient SWP expansion. Uncertainty about SWP capacity increases investment risk. SWP augmentation should be evaluated against broader system need, not just existing committed projects.

APA's reliance on injection projects reaching FID creates a circular dependency that may delay efficient supply investments. This is inconsistent with the National Gas Objective (NGO) and efficient system planning. Broader, more holistic, assessment of augmentation options is required to support timely supply development consistent with the NGO.

APA's proposal does not accommodate the emergence of multiple supply sources. Looping would provide a more optimal and robust solution.

3 AER Assessment

This chapter describes our assessment of APA’s proposal, drawing on input from stakeholder submissions and AEMO’s 2026 Gas Statement of Opportunities. Our assessment focuses on three questions:

- Does SWP capacity need to be expanded?
- Which expansion option best meets the NGO?
- Do the proposed costs represent efficient and prudent practices?

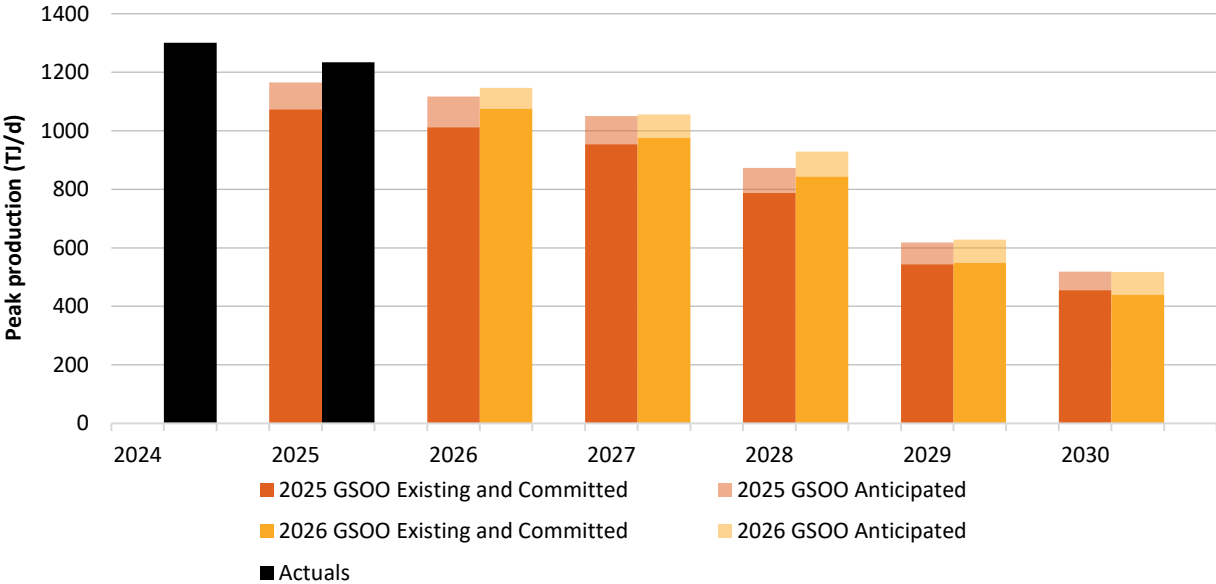
Our assessment also considers whether the proposed early works on looping are prudent and efficient.

3.1 Does SWP capacity need to be expanded?

The VTS was designed to supply gas from the Gippsland and Otway Basins to Melbourne, and from there to regional centres. The role of the system is now changing as production in the Gippsland Basin declines. Figure 1 shows AEMO’s forecasts of gas supply from southern gas fields. It shows that maximum daily production in 2029 will only be around 50% of the actual production in 2026.

Gas demand in Victoria is falling as households and businesses switch from gas to electricity, but the reduction is gradual compared to the drop off in southern gas field supplies. Increasingly gas will need to be sourced elsewhere, either piped gas from Queensland or LNG facilities.

Figure 1 Actual and forecast maximum daily production capacity from southern gas fields



Source: AEMO, GSOO 2026, March 2026, figure 3, page 8.

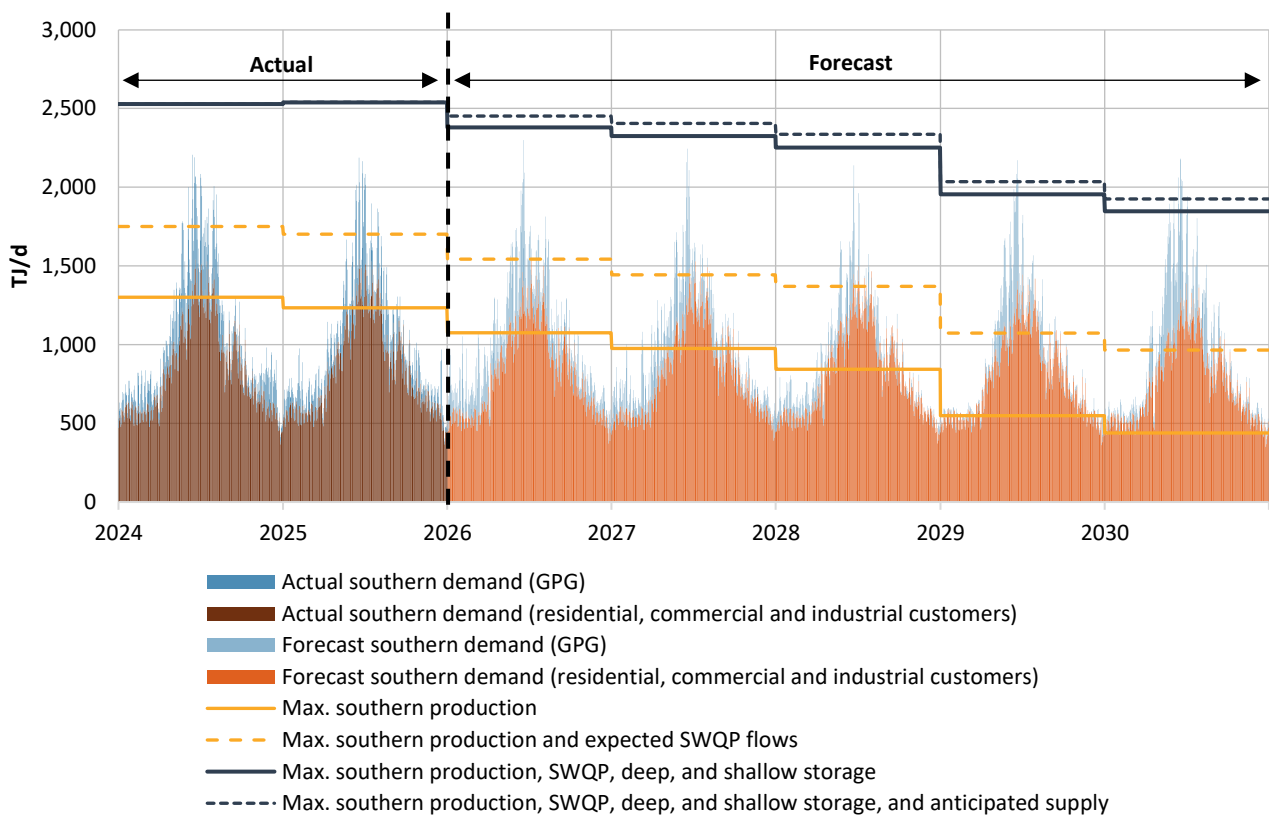
Investments by APA in Queensland will allow more gas to be piped to New South Wales (via the Moomba to Sydney pipeline) and from there to Victoria via the Victoria – Northern

Interconnector and the Eastern Gas Pipeline. The Eastern Gas Pipeline was built to transport gas from the Gippsland Basin to New South Wales. The owner (Jemena) has completed works to allow bidirectional flows.

These pipeline investments should allow sufficient transport capacity to meet gas supply requirements for Victoria in aggregate until 2031, or longer with other investments.¹⁵ PKET and the proposed LNG import terminals by Viva and Vopak could also fill the supply gap.

However, without PKET supply further investment in the VTS is required sooner to meet winter peaks. While gas demand from households and businesses will continue to fall, AEMO forecasts increases in winter demand from gas powered generation once coal plants (Yallourn and Eraring) close. The net effect is lower overall demand but similar peaks to now. With declining supply from the Gippsland Basin, AEMO is forecasting shortfalls on peak demand days from 2029 onwards. AEMO's forecasts are shown in figure 2.

Figure 2 Actual and forecast southern gas demand and supply



Source: AEMO, GSOO 2026, March 2026, figure 4, page 9.

Existing pipeline capacity is insufficient to meet the new peaks.

An effective way of meeting the new winter peaks is to expand the SWP. The pipeline connects Melbourne to gas storage facilities at Iona near Port Campbell.

¹⁵ AEMO, 2026 Gas Statement of Opportunities, March 2026, see table 2, p. 14.

In this scenario, gas is imported from Queensland and the Iona storage facility is filled when gas demand is low. Gas is then released to supply gas generators in and around Melbourne during peak periods. Lochard Energy, the owner of Iona, is investing in additional storage capacity to help meet the expected peaks.

Currently the SWP can supply 523 TJ/day into Melbourne. By 2029 the requirement will increase to around 600 TJ/day, and may increase further if new gas powered generators are built in Victoria.

The supply shortfalls on peak demand days can be met through additional storage at Iona provided SWP capacity is expanded. As noted by Lochard Energy in its submission, Iona capacity is being expanded from 570 TJ/day now to 615 TJ/day in 2027. Further expansion of up to 900 TJ/day is being considered. The proposed additional capacity will meet the projected shortfalls.

An alternative source of supply for those peak days is LNG. The LNG facilities proposed by Viva Energy and Vopak would be located in or close to Geelong. Without SWP expansion, gas injections from the LNG facilities would back off (substitute) gas supply from Iona or vice versa. Vopak noted that its project will not proceed to FID without a clear commitment to SWP expansion.

PKET offers another gas source, which would be supplied via the Longford pipeline. This would help address supply shortfalls. However, we understand that no contracts for supply into Victoria have been entered into yet, and the additional supplies from PKET are unlikely to be sufficient to meet peak demands beyond 2031 without further investment in southward EGP capacity.¹⁶

3.2 Which expansion option best meets the NGO?

Having initially also considered fully looping the SWP, APA then focused on two expansion options, additional compressors and duplication of an 88 km section of the SWP. AEMO subsequently undertook a comprehensive review of expansion options.¹⁷ While the two options deliver similar increases in capacity, AEMO considers the 88 km looping option is preferable because of:

- Reliability – Compressors can fail and take time to be repaired.
- Expandability – The 88 km of looping can be supplemented by further looping to substantially increase capacity in future. By contrast the compression option is less cost effective as further expansion may result in redundancy of one of the compressors.
- Peak gas supply – Looping increases linepack providing more flexibility to meet peak GPG demands at short notice.

AEMO's report concluded:¹⁸

¹⁶ AEMO, *2026 Gas Statement of Opportunities*, March 2026, see table 2, p. 14.

¹⁷ AEMO, *South West Pipeline Expansion Options Assessment Report*, February 2026.

¹⁸ AEMO, *South West Pipeline Expansion Options Assessment Report*, February 2026, p. 4-5.

AEMO's preference, based on its technical and operational assessment, is the alternative option of constructing 88 km of looping and modifying the existing Winchelsea CS, which will also increase SWP capacity to 615 TJ/d. AEMO's understanding is that the SWP easement allows for the installation of a second pipeline.

This looping option overcomes the operational limitations presented by APA's preferred Stage 1 option, particularly with the addition of a Geelong LNG regasification terminal, however AEMO's assessment is not an economic evaluation. For any further SWP capacity expansion or to facilitate an LNG regasification terminal, looping is the only option for increasing capacity beyond APA's Stage 1 expansion project.

While these first stage expansion options provide the same capacity increase, the operational outcomes are different for future SWP expansions. While Lochard Energy has committed to expanding the capacity of the Iona UGS facility to 615 TJ/d, Lochard Energy has advised that its plan to increase the capacity of the facility by another 70 TJ/d to 685 TJ/d is being held back by insufficient SWP capacity.

APA's workshop on 25 February 2026 with AEMO and the Victorian Government, considered the merits of looping versus compression and timing options. There was a consensus that looping is preferable. As a follow up to the workshop, the parties agreed to work together to see if there is scope to bring forward looping to meet the projected winter peak supply shortfalls projected for 2029. APA asked us to suspend our assessment while the parties worked through the timing options.

On 10 April APA submitted an addendum to its original proposal. Following consultation with AEMO and the Victorian government, APA concluded that looping cannot be completed until 2030. APA maintained its preference for compression on the basis that it is the only option that can address projected supply shortfalls in 2029.

AEMO wrote to us on 8 April in response to the addendum, noting APA's view that looping cannot be delivered by 2029 leaving compression as the only remaining option. AEMO committed to working with APA to mitigate risks associated with compression. AEMO's letter states:

APA is the system planner and have determined that the compression only option is their preferred option with the lowest capital cost and determined that this is the only option that can be delivered prior to winter 2029. APA have provided additional information on actions it intends to take to mitigate the reliability and operability risks. AEMO is required to operate the VTS, while both APA and AEMO are required to comply with the Service Envelope Agreement.

AEMO will continue to work with APA as it progresses with any SWP expansion that is approved.

The Victorian Government did not provide a response to APA's addendum.

For the purposes of this Position paper, we have accepted advice from APA and AEMO that compression is the best available option. This advice is that there is a risk of gas supply shortfalls from 2029 onwards, and that compression is the only SWP expansion option that can be delivered by 2029. We also accept advice that constructing a new compressor pad at Stonehaven reduces risks associated with compression compared to looping. The pad allows a compressor to quickly be installed in the event that one of the installed compressors fails and cannot be repaired quickly.

3.3 Future expansion

APA's addendum proposed \$31.1 million in early works expenditure to prepare for looping the SWP and the interconnected Brooklyn to Lara Pipeline in the future. APA submitted that its proposed early works expenditure is for high-level design, and environmental and cultural heritage assessments under Commonwealth and State legislation. APA proposed \$15.1 million for early works for looping of the Brooklyn to Lara Pipeline and \$16 million for early works for looping the SWP.

We note that Gippsland Basin gas supplies will continue to fall sharply through the early 2030s. At the same time AEMO is forecasting a requirement for new gas-powered generation in Victoria in response to coal generator closures. There are three main options for maintaining supply in Victoria:

- Supply of Queensland gas via APA's pipeline system into Victoria, through the Victorian Northern Interconnector and/or EGP. This option requires increases in storage to meet winter peak demand days. If the additional storage is provided by Iona, then additional capacity expansion on the SWP (beyond the current proposal) will be required.
- Supply of LNG into the Geelong area. This gas would feed into the Lara to Brooklyn pipeline. Expansion of this pipeline may be required to meet peak demands.
- Supply of LNG from PKET. This option requires no immediate pipeline investment.

APA, drawing on advice from AEMO, submitted that the rate of drop off in Gippsland Basin supplies means that early action needs to be taken to avoid supply shortages in the early 2030's. At the same time APA and AEMO do not know which supply option (Otways, Bass Strait, LNG import terminal or Qld/NT supply) will prevail. This will be determined by market participants.

Given the impact of supply failures and the tight timeframes for further pipeline capacity expansion, APA considers it is prudent to undertake early works. We note that there may be some redundancy in the early works undertaken. For example, if an LNG facility proceeds in the Geelong area, further looping on the SWP may not be required.

APA will submit its 2028–32 VTS access arrangement proposal to us on 1 December 2026. We will release our final decision on that proposal in December 2027. The determination process will allow further consideration of the early works proposed here. Our July 2026 final decision will consider early works undertaken before the upcoming access arrangement period commences on 1 January 2028.

3.4 We seek stakeholder views on APA's updated r.80 application

We seek stakeholder views on APA's updated r.80 application, including its proposal to augment the SWP by adding 2 new compressor stations, to mitigate associated reliability concerns by installing a second compressor pad at Stonehaven, and to undertake early works for future projects to loop the SWP and the inter-linked Brooklyn to Lara Pipeline. We also welcome stakeholder views on APA's proposed costings.

4 Position

Our position is that APA's proposed expansion of SWP capacity via compression and undertaking early works is the appropriate option to address forecast gas supply issues. However, we have not yet reached a position on the proposed costs of the proposal, and early works. APA's proposed compression and early works costs are set out in Table 3.

Table 3 Projects and costs covered by this r.80 application

Project	Costs proposed
SWP compression	\$211 million*
Extra compressor pad	\$1.7 million
Early works Brooklyn to Lara Pipeline	\$15.1 million
Early works SWP looping	\$16 million
Total	\$244 million

APA submitted that its cost estimates are class 5 / class 4 estimates, with an expected accuracy range of -10% to +20%. We expect investment proposals to be supported by the best cost estimates available. We encourage APA to provide us with better cost estimates to inform our final determination.

Having said that, we agree with APA and others that SWP augmentation is needed. We note the strong stakeholder support for APA to undertake necessary investment, including support to add new compressor capacity to the SWP as a timely measure. Similarly, APA's proposal to add a second compressor pad at Stonehaven is a reasonable measure to promote reliability.

While AEMO and the Victorian Government have previously indicated their preference for partial looping, rather than APA's compression-based project, AEMO has now noted APA's position that partial looping cannot be delivered in time. We also note that partial looping appears to be technically superior, for operational reliability and as an efficient pre-cursor to future SWP augmentation, but we also accept that it cannot be delivered in the necessary timeframe.

Given expectations of ongoing decline in gas supply from the Gippsland Basin and the consequences of structural shortfalls in supply to Victoria, APA has proposed undertaking early works for future projects to loop the SWP and the Brooklyn to Lara Pipeline.

We have not reached a position on costings. We will undertake a detailed assessment of costs and outline our views in our final determination.

Glossary

Term	Definition
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
APA	APA VTS (Operations) Pty Ltd
Capex	Capital expenditure
CESS	Capital expenditure sharing scheme
EUAA	Energy Users' Association of Australia
NGL	National Gas Law
NGO	National Gas Objective
NGR	National Gas Rules
Opex	Operating expenditure
RAB	Regulatory asset base
RBA	Reserve Bank of Australia
VTS	Victorian Transmission System