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Response to AER Position Paper on APA Victorian Transmission System - Rule 80 application for the expansion of the South West Pipeline

Dear [REDACTED]

Squadron Energy welcomes the opportunity to respond to the Australian Energy Regulator's (AER) Position Paper on APA Group's Rule 80 application relating to the proposed expansion of the Victorian Transmission System, specifically the South West Pipeline (SWP).

Squadron Energy 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 and under construction. Squadron Energy also owns the Port Kembla Energy Terminal (PKET) and has invested in enabling infrastructure to support market-led supply solutions to emerging gas adequacy risks in southern markets.

Key points

1. PKET is targeting to be in operation from winter 2028, subject to final customer commitments.
2. The case for expedited approval of a regulated SWP expansion has been materially weakened by more recent developments including AEMO's 2026 Gas Statement of Opportunities (GSOO), progress on the Eastern Gas Pipeline (EGP) reversal, PKET's operational readiness ahead of a planned Winter 2028 start and the Commonwealth's domestic gas reservation scheme.
3. The proposed SWP expansion creates new risks for gas consumers. The expenditure is uncertain, may not be required, and consumers should not be required to fund uncertain pipeline expenditure before it is clear the investment is necessary, efficient and in their long-term interests.
4. The AER's Position Paper appears to apply inconsistent standards when assessing uncertainty across competing infrastructure options. PKET is discounted because customer contracts are not yet finalised, while APA's early works expenditure is treated as potentially prudent despite depending on future supply pathways, market choices and infrastructure needs that are also uncertain.
5. The Commonwealth's domestic gas reservation scheme is expected to increase supply from 1 July 2027, subject to available infrastructure capacity. Consumers should not be prematurely committed to regulated pipeline expansions before the interaction between reservation policy, contracting behaviour and infrastructure utilisation is better understood.
6. The PKET-EGP pathway provides material additional deliverability into Victoria without requiring expansion of the SWP. This should be fully reflected in the AER's assessment.

Summary

Squadron Energy supports a cautious and evidence-based approach to regulated gas infrastructure investment.

The AER's assessment should reflect the latest AEMO modelling (per 2026 GSOO), properly account for the PKET-EGP pathway, and avoid transferring speculative investment risk to Victorian gas consumers. Consideration should also be given to the directional decrease in gas utilisation (and therefore investment in long term infrastructure) to support the gas market as the renewable transition plays out.

The deployment-ready capability of the PKET-EGP supply pathway to defer structural supply risks in Australia's south east coast markets into the mid 2030s and peak day shortfalls into 2031 should not be discounted. Squadron Energy does not consider that APA has established the case for advance approval of the proposed SWP compression expenditure or the associated early works.

The central issue is not whether additional gas infrastructure may be required over time. The issue is whether consumers should be required to fund uncertain pipeline expenditure now, before it is clear the investment is necessary, efficient and in their long-term interests.

The AER's own Position Paper acknowledges that some early works expenditure may prove unnecessary if alternative supply pathways proceed. That uncertainty should weigh against advance approval under Rule 80, not in favour of it.

Other market participants, including LNG terminal proponents and pipeline operators such as Squadron Energy and Jemena, have accepted commercial risk in developing alternative pathways. APA should not receive advance regulatory protection for speculative or potentially redundant expenditure where comparable risks are being borne by others.

Squadron Energy therefore submits that the AER should not approve the early works expenditure and should only approve any immediate compression expenditure if it is satisfied, on the basis of updated modelling and clearly tested assumptions, that the expenditure remains prudent, efficient and necessary in light of the PKET-EGP pathway and domestic gas reservation settings.

Speculative investment risk should not be transferred to consumers through early regulatory approval

APA appears to be seeking to convert uncertainty into regulatory certainty for itself, while transferring the cost and demand risk to consumers. This is not justified.

Instead, under the National Gas Rules Rule 84, regulated pipeline businesses are permitted to undertake speculative investments at their own risk. The regulatory framework allows such expenditure to be assessed later for inclusion in the capital base if, and when, it is demonstrated to be prudent and efficient.

This should be the appropriate treatment in respect of APA's Rule 80 application as the proposed early works are not tied to a committed expansion, a committed supply pathway or demonstrated long-term consumer need. Rather, they are preparatory works for future infrastructure that may or may not proceed, depending on market outcomes.

Approving early works expenditure in these circumstances risks distorting competition between infrastructure options and undermining market-led investment decisions.

Early works expenditure may not be needed

APA seeks approval for early works expenditure associated with its proposed SWP expansion, having selected compression over partial or full looping on the basis that compression can be delivered sooner. However, the AER's Position Paper itself acknowledges that "some of the early works spending may prove to be unnecessary", depending on which supply pathways the market adopts.

That acknowledgment is significant.

Where material uncertainty exists as to whether additional capacity will be required, approving early works under Rule 80 risks transferring demand and investment risk from the service provider to consumers. This outcome would be inconsistent with the prudence and efficiency criteria in Rule 79, particularly where alternative, market-led supply options are available and already assessed by AEMO.

This is also inconsistent with APA's argument that the SWP compression expansion is required because PKET has not been 'committed'¹. There has been no committed future looping project, no committed associated supply pathway and no demonstrated customer commitment that justify the early works capital expenditure. If the absence of final customer commitments is a basis for discounting PKET's contribution, then the same logic should apply against approving early regulated expenditure for APA's proposed early works.

¹ In its [previous submission](#), Squadron Energy argued that this characterisation is materially misleading and called into question the validity of APA's asserted urgency and necessity for accelerated regulatory approval.

The Position Paper applies inconsistent standards when assessing uncertainty

The Position Paper appears to apply different standards when assessing competing infrastructure pathways.

PKET is treated cautiously because supply contracts into Victoria have not yet been executed. However, the proposed early works for future SWP and Brooklyn to Lara looping are treated as potentially prudent despite being dependent on uncertain future supply pathways and market choices that are not yet resolved.

This is not a consistent basis for assessing prudence and efficiency.

The AER appears to assume that customers will utilise the SWP expansion capacity and that supply from the Otway or other sources will be available to fill that capacity. At the same time, the Position Paper appears to discount PKET's ability to alleviate future shortages because customer commitments are still being finalised.

The same standard should be applied to all infrastructure pathways.

Where APA's proposed expenditure depends on future supply, future market behaviour and future infrastructure needs, the associated risk should remain with APA unless and until prudence and efficiency are demonstrated.

Domestic gas reservation policy settings reinforce the relevance of LNG supply pathways

Recent announcements by the Commonwealth government regarding the proposed domestic gas reservation framework introduce further uncertainty into future supply dynamics and should be considered in the AER's assessment.

Importantly, these policy settings should result in a material increase in new gas supplies to the east coast market from 1 July 2027. This may take the form of domestic gas, domestically sourced LNG or internationally sourced LNG all supplied under domestic terms, including price, with transport readily available via flexible regasification pathways.

This reinforces the relevance of the regasification scenarios assessed in AEMO's 2026 GSOO and further weakens the case for prematurely committing consumers to regulated pipeline expansion before the interaction between reservation policy, contracting behaviour, and infrastructure utilisation is better understood.

The critical question is not simply whether more gas will be available. It is whether gas can be delivered to southern customers when it is needed, particularly during winter peaks.

Regasification infrastructure connected to existing pipeline pathways provides a practical means of delivering gas into NSW and Victoria without requiring consumers to be committed now to long-term pipeline expansion.

There is no demonstrated unresolved supply problem in 2029 that justifies rushed regulated expansion

The Position Paper appears to proceed on the basis that a material supply problem emerges in winter 2029 that necessitates early approval of SWP expansion expenditure.

However, when assessed against AEMO's 2026 GSOO modelling and the status of existing infrastructure, that conclusion is not supported:

- PKET's onshore infrastructure is complete and commissioned;
- the EGP has been upgraded to enable southbound flows, with Stage 1 providing up to 200 TJ/day of southbound capacity from PKET, plus a further 70TJ/day from the Orbost Gas Plant; and
- AEMO's modelling shows that this pathway defers peak day risks until at least 2031 and annual supply gaps until 2034.

In these circumstances, there is no demonstrated unresolved structural supply shortfall in 2029 that requires the AER to approve potentially sub-optimal or speculative regulated investment ahead of clearer market signals.

The AER should update its assessment to reflect the latest modelling consistently and in full

Squadron Energy strongly recommends that the AER incorporates the latest modelling published by AEMO consistently and in full in assessing APA’s Rule 80 application.

Since APA initiated this Rule 80 application, AEMO has published its 2026 GSOO. This updated modelling² outlines:

- material improvements to the gas supply outlook; and
- peak day shortfalls delayed to 2031 and annual supply gaps delayed to 2034 under its LNG regasification - PKET scenario.

Figure 5 Range of domestic annual supply gaps forecast in southern regions based on existing, committed, and anticipated developments, Step Change scenario, comparing 2026 GSOO and 2025 GSOO, 2026-45 (PJ)

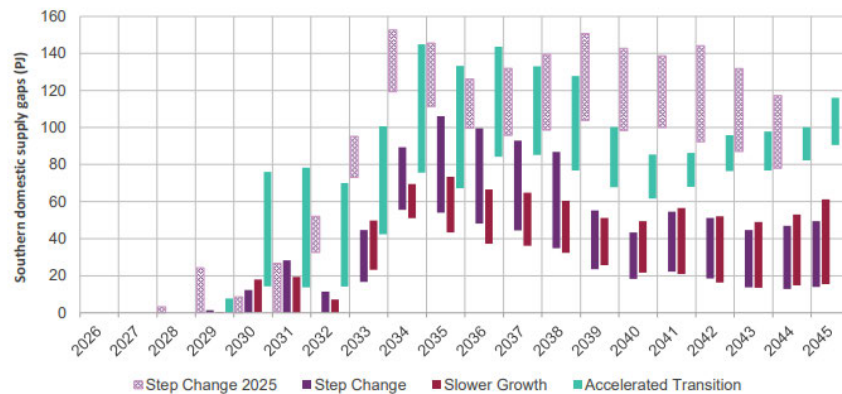
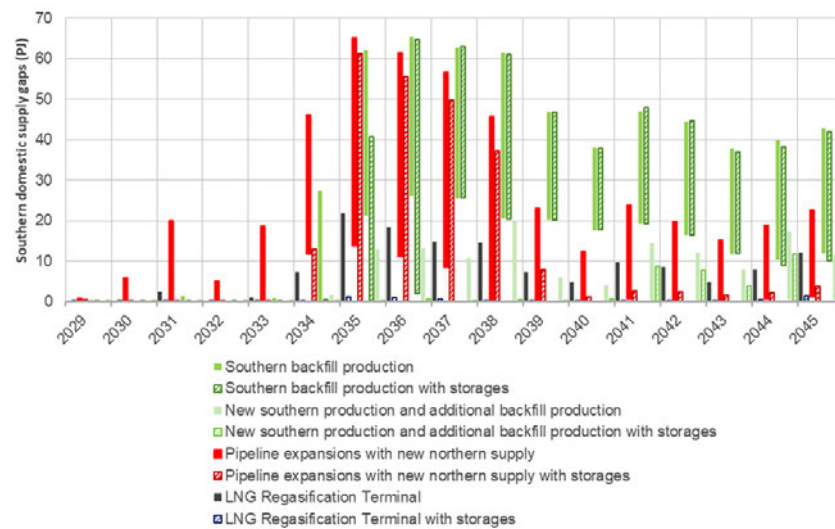


Figure 55 Range of southern annual supply gaps for future supply project sets assessed, including additional storage, 2029-45 (PJ)



Source: AEMO, 2026 GSOO

In contrast, the proposed SWP expansion, even when combined with all other north to south pipeline expansions (the Pipeline expansions with new northern supply scenario), compares unfavourably. It only delays peak day shortfalls to 2030 and annual supply gaps to 2031, while requiring substantial additional infrastructure investment that will be passed onto customers.

It also perpetuates a lower redundancy supply pathway to the Victorian load. PKET provides an alternate strong connection to the Victorian market without introducing additional risk to the operation of supply sources and storage connected to the SWP.

² AEMO, 2026 Gas Statement of Opportunities, March 2026, Table 2, p.14.

The Position Paper also appears to place weight on the Pipeline expansions with new northern supply scenario as an effective means of meeting southern Winter Peaks. However, the developments required to deliver that pathway have not been characterised by AEMO as ‘committed’ and remain subject to material timing, supply and cost uncertainty. This should be treated consistently with the AER’s assessment of other prospective supply pathways, including PKET.

Squadron Energy is also concerned that the Position Paper states that “AEMO’s 2026 Gas Statement of Opportunities projects gas supply shortfalls in Victoria from 2029 onwards in the absence of SWP expansion. This characterisation appears to overstate AEMO’s conclusion. AEMO’s 2026 GSOO identifies shortfall risks in the absence of additional investments in gas infrastructure and supply. It does not identify isolated expansion of the SWP as the required or preferred solution, nor does it assess the SWP expansion alone as resolving the identified risks.

This distinction is important. If the AER treats SWP expansion as the implied solution to AEMO’s forecast shortfalls, it risks narrowing the assessment before alternative supply pathways, including the PKET–EGP pathway and domestic gas reservation settings, have been properly considered.

These findings are directly relevant to whether APA’s proposed expenditure remains prudent, efficient and necessary.

Mischaracterisation of PKET’s contribution

1) *The Position Paper omits the role of the Eastern Gas Pipeline*

The AER’s Position Paper states on page 5 that “the additional supplies from PKET may not be sufficient to meet peak demands beyond 2029”.

Squadron Energy considers this statement incomplete and potentially misleading.

AEMO’s 2026 GSOO does not assess PKET as a standalone supply source. It assesses supply at PKET in combination with EGP reversal Stages 1 and 2. That combined supply pathway is explicitly modelled by AEMO and forms the basis for conclusions regarding southern market adequacy.

By referring only to ‘additional supplies from PKET’, without acknowledging the associated EGP transportation capacity that AEMO treats as integral to that supply option, the Position Paper understates the effectiveness and timing of the PKET–EGP pathway.

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

The completion of the reconfiguration of the EGP to flow south into the VTS enables the transport of up to 350 TJ/d from northern markets into Victoria, subject to market conditions and operational requirements.

Assuming the EGP is flowing in a southerly direction, the gas flows that are currently delivered out of Victoria from Longford (150-200TJ/day) could also be diverted to meet Victorian demand.

All up that represents a potential net increase in supply, once PKET is operational, of upwards of 450TJ/day into Victoria.

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

Squadron Energy also notes that this material increase in capacity enabled by PKET would be delivered at virtually no additional incremental capital expenditure and therefore cost to consumers, compared to the proposed SWP expansion of less than 100 TJ/day, which would be delivered at a cost of \$240 million to consumers and automatically flow through to consumers through the regulated rate of return for the VTS.

2) AEMO's 2026 GSOO shows PKET combined with EGP reversal materially delays supply shortfalls

AEMO's 2026 GSOO demonstrates that LNG supply at PKET, combined with EGP reversal capacity, is expected to:

- delay peak day shortfalls to 2031, and
- delay annual supply gaps to 2034³.

AEMO further concludes that, relative to other supply and infrastructure combinations assessed, the regasification terminal scenario provides the strongest protection against structural supply shortfalls between 2029 and 2033⁴.

These findings are central to any assessment of whether additional regulated investment is required to address forecast supply risks, and the timeframe in which such risks are actually forecast to materialise.

The Position Paper does not adequately reflect these conclusions or explain why AEMO's most recent modelling should be discounted in favour of earlier or more severe supply concerns.

Squadron Energy notes that the PKET onshore infrastructure is complete, there remains sufficient time for customers to sign up to use PKET and for the Floating Storage Regasification Unit (FSRU) to arrive for winter 2028.

Further, in our previous submission to the AER, we noted that 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-

Since that submission, AEMO has released its 2026 Victorian Gas Planning Report that found that, given proximity to electricity infrastructure and substantial pipeline gas supply and linepack in the Longford to Melbourne Pipeline (LMP), new gas-fired generation is best located east of Melbourne, connecting to either the EGP or the LMP. The latter has in the order of 400 - 500TJ/day of unutilised capacity given the decline in Longford production. This further weakens the case for prioritising regulated expansion of the SWP over flexible infrastructure connected to the eastern side of the Victorian market.

3) AER should clarify the basis for accepting compression as the best available option

Squadron Energy is concerned that the Position Paper appears to place undue reliance on APA's analysis, including in circumstances where APA is both system planner and the proponent of the Rule 80 application.

This creates a clear planner-proponent tension.

Squadron Energy recommends that the AER clearly explains how it has assessed and managed this issue when considering APA's advice on proposed system operation and APA's commercial interest in securing advance regulatory approval for its proposed capital expenditure.

Squadron Energy also disagrees with the AER's statement that "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." This characterisation should be reconsidered.

AEMO's advice was based on 2025 GSOO modelling, which has since been superseded. In addition, AEMO's assessment did not provide a definitive endorsement that compression is the best available option in the circumstances.

Rather, AEMO's review⁵ indicated that, from a technical and operational perspective, looping was more likely to meet peak gas demands, particularly during events when gas-fired generation is required to operate at high capacity at short notice. AEMO also identified that looping provides additional linepack and supports a more expandable pathway for future SWP capacity.

³ AEMO, *2026 Gas Statement of Opportunities*, March 2026, Table 2, p.14.

⁴ AEMO, *2026 Gas Statement of Opportunities*, March 2026, Figure 7, p.15.

⁵ AEMO, *South West Pipeline Expansion Options Assessment Report*, February 2026.

AEMO's subsequent letter to the AER did not reverse that technical conclusion. It noted AEMO's role as system operator, APA's role as system planner, the shorter delivery timeframe for compression, and continuing reliability considerations.

The AER should therefore avoid characterising AEMO's position as an endorsement of compression as the "best available option" without clearly explaining the basis for that conclusion.

At most, compression appears to be the option APA considers deliverable by winter 2029. That is not the same as being the most prudent, efficient or technically robust option, particularly once updated GSOO modelling and the PKET-EGP pathway are taken into account.

4) PKET classification

Squadron Energy notes that AEMO did not classify PKET as "committed" or "anticipated" in its 2026 GSOO because it assessed that "uncertainty remains regarding the timing of onshore infrastructure development, or the location commitment of the FSRU".

Squadron Energy understands that the AER must apply a conservative approach to regulatory assessment. However, Squadron Energy reiterates that the PKET onshore infrastructure is complete and commissioned, and the full facility, including FSRU, can be operational from winter 2028, subject to final customer commitments.

SQE submits that customer commitments should be treated consistently across infrastructure options. The fact that PKET commitments are being finalised should not justify discounting its contribution where APA's proposed expenditure also depends on future supply, customer utilisation and market need.

Conclusion

The case for approving APA's proposed SWP expansion expenditure has not been established.

The AER should not approve advance regulated cost recovery for expenditure that is uncertain, potentially unnecessary and based on a market outlook that has materially changed since APA lodged its application.

The latest AEMO modelling, the PKET-EGP pathway, the Commonwealth's domestic gas reservation framework and the continuing uncertainty around customer contracting all point to the same conclusion: consumers should not be required to fund uncertain pipeline expenditure before it is clear the investment is necessary, efficient and in their long-term interests.

Squadron Energy therefore submits that:

1. The AER should not approve APA's proposed early works expenditure.
2. The AER should reassess whether the proposed compression expenditure remains prudent, efficient and necessary in light of AEMO's 2026 GSOO, the PKET-EGP pathway and domestic gas reservation policy.
3. The AER should clearly explain the evidentiary basis for any finding that compression is the best available option, given AEMO's technical and operational preference for looping and the more recent modelling now available.

If you would like to discuss this submission or any related content, please contact [REDACTED], Director – Energy Policy & Regulation at [REDACTED]@squadronenergy.com.

Yours sincerely

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Squadron Energy**