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Acting Executive General Manager, Network Regulation
Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601

Via email: ResetCoord@aer.gov.au

Jemena Limited
ABN 95 052 167 405

Level 16, 567 Collins Street
Melbourne, VIC 3000
PO Box 16182
Melbourne, VIC 3000
T +61 3 9173 7000
F +61 3 9173 7516
www.jemena.com.au

Dear [redacted]

APA's rule 80 application for South West Pipeline

Jemena welcomes the opportunity to respond to the AER's position paper on APA's Rule 80 application relating to the proposed expansion of the South West Pipeline (**SWP**). Jemena owns and operates a diversified portfolio of energy infrastructure, including gas and electricity distribution networks, gas transmission pipelines, and gas processing facilities.

Jemena recognises the importance of avoiding peak day and seasonal supply shortfalls in southern markets, including Victoria, and supports market-led investment to address those risks. The key objective should be to preserve stable policy and regulatory settings that allow the market to bring forward the most efficient mix of supply and infrastructure solutions.

Currently, there are multiple supply options which are competing to meet the demand in southern states and address the risk of supply shortfalls. Expanding SWP capacity beyond what is currently required may discourage the development of alternative, competitive market solutions that could ultimately deliver system needs more efficiently and at lower cost.

In this context, the AER must fulfil an important role in determining whether the capital expenditure put forward by APA in its original and amended rule 80 application should be considered as conforming capital expenditure under rule 79 of the National Gas Rules (**NGR**). In the background of uncertainty over which supply option may prevail in the market to address potential peak day shortfalls in winter 2029, we note that expenditure on specific projects for which demand does not materialise may not be in the long-term interests of gas consumers.

Proposed capital expenditure has not been clearly demonstrated to meet the criteria under rule 79 of the National Gas Rules

Neither APA's rule 80 application nor the AER's Position Paper sufficiently demonstrates how the additional proposed expenditure under the revised application, namely the $31.1 million for early critical-path works associated with looping of the SWP or Brooklyn Lara Pipeline, is justifiable under rule 79(2) of the NGR.

The absence of robust analysis makes it difficult for stakeholders to assess whether the associated costs are justified or consistent with the new capital expenditure criteria under the

NGR. In particular, APA's business case notes the 'current level of uncertainty where new gas supplies will come from',[1] and both the AER's Position Paper[2] and APA's presentation to its April 2026 Stakeholder Workshop for the VTS 2028-32 Access Arrangement have noted a range of different future supply scenarios for Victoria, each requiring different investments to be made by market participants.

It is therefore not apparent that the expenditure associated with the early critical-path works for potential pipeline looping projects are necessary to meet levels of demand for services existing currently, as distinct from projected demand that is dependent on the expansion of the SWP capacity. For example, the Brooklyn Lara Pipeline looping project is only required if LNG is imported at Geelong and neither of the Geelong LNG import terminal projects have reached final investment decision.

For completeness, we also note that APA's proposal to include early works for the Brooklyn Lara Pipeline looping within this rule 80 proposal is not consistent with the approach it has outlined to stakeholders that it proposes to use when dealing with uncertain projects in its 2028-32 regulatory period—that is, to only use the rule 80 process once a final investment decision is reached on a relevant external project.[3]

The existence of other market alternatives warrants further careful assessment of the prudency of some parts of APA's proposed expenditure

Unlike most pipeline investment decisions where no viable alternatives exist, the SWP expansion is being proposed in a market where an alternative infrastructure solution is readily available and without further investment to address the market need: supplying gas to the Victorian market to avoid supply shortfall in 2029 and subsequent years. This therefore warrants a careful and critical assessment of the prudency and efficiency of APA's proposed expenditure. It raises questions as to whether the full scope of APA's rule 80 application, including early critical-path works for potential pipeline looping, is justified given the prevailing uncertainty in market-preferred supply options.

In its previous submission, Jemena noted that the Eastern Gas Pipeline (**EGP**) reversal—connecting future supply sources including the Port Kembla Energy Terminal (**PKET**) to Victoria—was nearing mechanical completion. This project has now reached mechanical completion, with the pipeline now ready to transport up to 200 TJ/d of new gas south from NSW into Victoria. Further capacity of approximately 100 TJ/d could be delivered from PKET and through incremental investment in additional compression on the EGP at Kembla Grange (NSW), subject to a final investment decision. This is supported by AEMO's analysis in the Gas Statement of Opportunities (**GSOO**), where it assessed the supply of LNG at PKET, combined with EGP reversal Stages 1 and 2, will effectively delay peak day shortfalls to 2031 and delay annual supply gaps to 2034.[4]

Further investment in compression at Wilton (subject to a final investment decision) can also create a new route for transporting northern gas from Queensland and the Northern Territory to Victoria, deliverable by winter 2029. This option is relatively low-cost (estimated at circa $80 million for an incremental capacity of 100-150 TJ/d[5]), as it builds on existing infrastructure and

[1] APA, Business Case Rule 80- South West Pipeline, October 2025, p.12.
[2] AER, Position paper on APA's South West Pipeline expansion Rule 80 application, May 2026, pp.16-18.
[3] APA, VTS 2028-32 Access Arrangement Stakeholder Workshop 2, 21 April 2026, p. 33.
[4] AEMO, 2026 Gas Statement of Opportunities, March 2026, Table 2, p.14.
[5] Subject to final engineering assessment.

will utilise the significant spare capacity in the Longford to Melbourne Pipeline (**LMP**) within the VTS. This could address the potential peak day supply shortfalls in winter 2029, precisely the issue that APA's proposal is seeking to address.

The cost of adding compression at EGP Wilton is materially less than the cost of expanding the Victorian Northern Interconnect (**VNI**) to deliver northern gas into Victoria. APA has identified a potential augmentation project (new compressor at Burrumbuttock & Culcairn upgrades) that Jemena understands would increase VNI capacity up to 229TJ/d (i.e. 34 TJ/d more than its current capacity) at an estimated cost of $80 million, with further increases to VNI capacity being dependent upon augmentation on the Moomba to Sydney Pipeline. [6]

Similarly, APA's revised rule 80 proposal involves significant capital expenditure to expand the SWP, including:

- Potential looping (estimated at $200 million) to increase SWP capacity by a further 85 TJ/d to 700 TJ/d capacity. The early planning works for this looping is costing approximately $15.1 million (included in APA's rule 80 application).
- Potential looping (estimated at $180 million) to increase Brooklyn Lara Pipeline to accommodate up to 1100 TJ/d of LNG imports at Geelong. The early planning works for this looping is costing approximately $16 million (included in APA's rule 80 application).

These capital projects, if invested, total approximately $411.1 million, assuming these cost forecasts are accurate and there are no further cost escalations. More importantly, the need for these projects may not crystallise if the market decides to utilise alternative supply options as identified in the GSOO to meet the peak day supply shortfall in southern markets in 2029.

The justification for future expansions of the SWP is predicated on the assumption that PKET supply, or gas transported via the MSP/EGP route is insufficient to meet forecast supply shortfall. However, modelling in AEMO's GSOO shows that compared will all other supply options and combinations, the scenario relying on an LNG regasification terminal is expected to offer the strongest protection against structural supply shortfalls between 2029 and 2033.[7] The PKET onshore infrastructure is complete and there remains sufficient time for customers to sign up to use PKET (and for FSRU to arrive) prior to winter 2029.

Risks may not be commensurate with the benefits of a full looping of the SWP

As the AER has acknowledged, early works expenditure on SWP looping may ultimately prove unnecessary if significant volumes are contracted through PKET. This highlights that the benefits for looping the SWP may not ultimately materialise at all if gas is supplied into Victoria via the VNI or the EGP. By contrast, the EGP provides Victorian gas consumers with substantial optionality in sourcing gas (including potentially from new storage projects) at minimal cost, and with little to no exposure to economic asset stranding risks, by enhancing the utilisation of a depreciated asset.

The domestic gas reservation scheme recently announced by the Australian Government also introduces additional uncertainty regarding the most efficient approach to transporting gas to southern markets given existing pipeline infrastructure and capacity constraints. It is also unclear whether the policy will directly stimulate new gas or biomethane production within the

[6] APA, VTS 2028-32 Access Arrangement Stakeholder Workshop 2, 21 April 2026, p. 30.
[7] AEMO, 2026 Gas Statement of Opportunities, March 2026, Figure 7, p.15.

southern markets. As a result, this development further elevates uncertainty over how participants will determine where future supplies will be sourced from, and therefore also heightens the investment risk associated with any expansion of the SWP beyond near-term compression upgrades, such as the early works expenditure for potential pipeline looping.

Where investment risk is transferred to consumers through regulated mechanisms, there is a greater need for caution to ensure that such investment is both necessary and demonstrably efficient. This is particularly pertinent in the current environment, where the risk of economic asset stranding and high energy prices are front of mind. Inefficient investments may expose gas consumers to higher costs than it needs to be, including price increases attributable to short depreciation profiles that are increasingly being applied across gas infrastructure to manage economic asset stranding risks. The trade-offs between risks, costs and benefits should be explicitly considered in assessing the proposed early works expenditure for (speculative) pipeline looping projects.

There may be competition ramifications of the AER's decision to approve APA's proposed early works expenditure prematurely

Given the potential for the EGP and the VTS to serve overlapping demand centres in both Victoria and New South Wales, there is infrastructure-based competition between these systems. Similarly, in the gas storage service market, while Iona currently represents the primary source of deep storage to meet peak winter demand, a fully reversed EGP could also facilitate additional storage services in east Victoria such as the Golden Beach Energy Storage Project. This highlights the importance of assessing pipeline augmentation options on a broader, system-wide basis, rather than focusing solely on expansions within the VTS.

Jemena submits that permitting APA to recover early planning costs for potential pipeline looping, in the absence of a clearly demonstrated market need, risks undermining effective competition. Market participants assess supply options based on the total delivered cost of gas, including both commodity prices (e.g. LNG versus domestic gas) and transportation costs (e.g. SWP, VNI and EGP). An AER determination to allow recovery of the early works expenditure may have the effect of distorting competitive dynamics by lowering the cost of delivering gas into VTS via SWP, relative to competing alternatives.

This risks materially weakening investment incentives or the commercial viability for projects such as Jemena's Wilton compression project, which would enhance supply flexibility and increase capacity into the Victorian market, as well as associated gas storage developments that rely on that infrastructure. More broadly, the decision risks entrenching the incumbent position of APA and Lochard in the provision of gas services into Victoria, thereby limiting the development of effective competition in the relevant markets.

These considerations suggest that proceeding with the pipeline looping projects without fully accounting for alternative infrastructure options and competitive dynamics could risk entrenching market concentration in both gas transportation and storage services in southern markets.

In light of this, Jemena encourages the AER to take a holistic view of supply and infrastructure options, and potential entrants in the market, before determining that APA's proposed expenditure for early pipeline looping works is necessary and prudent. Careful consideration of these factors will help support efficient investment outcomes and promote the long-term interests of gas consumers.

Jemena would welcome the opportunity to meet with the AER to discuss the matters raised in our submission further. Please contact [redacted], Business Development Manager, at [redacted]@jemena.com.au should you have any questions regarding our submission in the interim.

Yours sincerely,

General Manager Pipelines