

Submission on AER Position Paper: APA's rule 80 application for South West Pipeline



Independent Consumer Advocate

Member of the APA VTS Regulatory Reference Group (RRG) for 2028-32

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ResetCoord@aer.gov.au

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Introduction

This submission supports the AER decision to allow the rule 80 application. Compression is the only option that can be in place in the required timetable. Supporting early works for looping is understandable given AEMO and the Victorian Government's concerns about supply security. The very short timetable AER was presented with meant it could not make any other decision, particularly given the Victorian Government's powers to direct APA to undertake particular works.

AEMO notes in its submission to the AER on the revised rule 80 application¹:

“APA also requested that the AER expedite its final decision on a revised APA proposal that has AEMO's support given the long lead times associated with gas augmentation and expansion.”

Unfortunately this sentiment did not seem to be driving AEMO's planning up to the time of APA's original application. The opportunity for a national discussion on what is the best future supply option for Victoria consumers – APA's East Coast Grid expansion or imported LNG; compression or looping – has been lost and the AER has to effectively 'make the best of a constrained situation' in considering APA's application.

Delays in building electricity transmission network and new renewable generation has increased reliance of gas peaking capacity in the next 5 years as coal stations are forecast to close. Bass Strait supply is forecast to fall significantly over that period and there is uncertainty about where future supply will come from given the long term impact of the Victorian Government's ban on gas exploration and development. So the AER is understandably supporting projects that provide optionality for all future supply options.

But the failure to have a transparent and timely analysis of all options has meant decisions are having to be made in a very short timetable that inevitably results in higher than prudent and efficient costs for consumers. Consumers are having to pay for options that earlier planning might have eliminated, resulting in the AER Position Paper (AER PP) concluding that²:

“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.” (p.6)

This means consumers are having to accept potentially significant capex risk as APA is requiring approval based on a very inaccurate cost estimate to ensure the capacity is built in time.

The AER PP does note:

“We encourage APA to work with AEMO and the Victorian Government to ensure that future planning and network investment outcomes are timely.” (p.6)

and we certainly hope this occurs.

¹ <https://www.aer.gov.au/documents/aemo-letter-apas-rule-80-application-april-2026>

² <https://www.aer.gov.au/documents/aer-position-paper-apas-south-west-pipeline-expansion-rule-80-application-may-2026>

Consumers are paying for keeping imported LNG supply options alive when it is going to be more expensive than domestic supply

There are three competing proposals to supply gas to Victoria over the next 5-10 years:

- APA's East Coast Grid expansion that increases the north-south capacity through a range of augmentations including the Bulloo Interlink which the AER approved as a 10 year non-scheme pipeline in December 2025³
- Imported LNG through with projects in Victoria (Volpek⁴ and Viva⁵) which require some pipeline capex
- Imported LNG through NSW (Squadron) that does not require pipeline capex given Jemena's investment to make the Eastern Gas Pipeline bi-directional⁶

APA considers that its proposal, which involves considerable at risk capex for lightly regulated pipelines, does not require imported LNG, at least until around 2034. This is obviously the best outcome for consumers who will not be exposed to very high and volatile imported LNG⁷ compared with domestic gas pricing⁸. This explains why no firm GSAs have been announced by LNG import proponents. Indeed a key aim of the recently announced Federal Government gas reservation policy is to explicitly delink domestic from international prices and⁹:

“...shield our industry from global price volatility”

However, LNG import projects continue to market their projects as being required in the hope of Government support to subsidise their market development eg through some sort of central buyer arrangement to offset their pricing risk selling into a domestic market that will not accept LNG linked pricing.

APA's October 2025 rule 80 application was the result of an economic analysis supporting compressors with no need to do the Brooklyn Lara Pipeline looping. This additional compression is part of their East Coast Grid Stage 3 strategy. This is not good for the prospects of the LNG import projects with proponents seemingly arguing that Victoria does need LNG imports even with the APA East Coast Grid in place¹⁰.

The Victorian Government is concerned about supply security¹¹. It supported AEMO being given last resort powers to source gas that was viewed by many as a back door method of

³ <https://www.aer.gov.au/news/articles/news-releases/aer-bulloo-interlink-decision-balances-investment-and-consumer-protection>

⁴ <https://victoriaenergyterminal.com.au/>

⁵ <https://www.vivaenergy.com.au/energy-hub/viva-energy-hub-gas-terminal>

⁶ <https://www.theaustralian.com.au/business/mining-energy/one-pipeline-one-big-problem-why-australias-gas-system-needs-flexibility/news-story/d3835638d341ea42fb2ded2dda67af5a>

⁷ Since 2020 the LNG netback price has varied between \$2.29/GJ and \$66.99/GJ
<https://www.accc.gov.au/inquiries-and-consultations/gas-inquiry-2017-30/lng-netback-price-series>

⁸ Producer commodity prices have ranged from ~\$6.50-\$17/GJ since 2020
<https://www.accc.gov.au/about-us/publications/serial-publications/gas-inquiry-2017-30-reports?page=0>

⁹ <https://www.dcceew.gov.au/about/news/domestic-gas-reservation-secures-australian-gas>

¹⁰ See p. 2 of the Squadron Energy submission on the initial rule 80 application
<https://www.aer.gov.au/documents/squadron-energy-submission-apas-rule-80-application-january-2026>

¹¹ Based on the 2025 GS00 forecasting a shortfall in 2028 – the delay in this shortfall to 2029 in the 2026 GS00 does not mean any change in the sense of urgency.

underwriting LNG imports¹². And then AEMO put in a late submission to the AER that contains a technical (not economic – AEMO do not have the data) analysis that supports looping as the preferred approach. The AER PP notes:

“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.”(p.12)

But there is only a technical analysis so we are not sure how a decision could be made on cost effectiveness. AEMO, APA and the Victorian Government consulted and the rule 80 Addendum was submitted. Consumers have no economic options analysis to draw on to assess whether the revised application is indeed the most cost effective.

To help their case LNG projects argue their project does not require looping. They argue that looping is required to prevent constraints on supply from the west if LNG imports proceed. This is indeed a creative argument. Why should existing gas suppliers/consumers that are not getting constrained and have access to existing spare capacity now, be happy about paying for looping early works where that looping is only required for LNG importers, which are yet to commit to FID? Without Viva, Brooklyn Lara Pipeline looping is not required or at least not required for many years. Consumers are effectively being asked to pay \$15m for an option that looping will be required and completed in time for a gas supply source that they do not want because it is too expensive. Consumers are then left with this stranded asset cost if the LNG import terminals do not reach FID.

We hope that this recent experience will provide an impetus for the relevant parties to engage in a more comprehensive analysis of future supply options concurrently with the early works activity so that consumers are fully informed at the end of the early works on which options best meets the NGO.

What should the AER consider in its next stage review of proposed costs and future rule 80 applications?

Here we discuss what the AER might be able to do to ensure that its decision¹³:

“...balanced the need for investment in gas infrastructure with protecting the long-term interests of consumers to ensure they pay no more than necessary for gas”

We understand that the short time from for this application limits the AER’s discretion. Given there is the potential for further rule 80 applications in the future eg SWP looping, Lara to Rockbank looping and various expansion projects as part of the APA East Coast Grid expansion, we also look at what the AER might consider as the ground rules for their future applications that should not face the same time constraints.

Cost estimate accuracy

APA’s compressor cost estimate in its October 2025 application was \$195m. This increased \$15.7m (8%) in the April 2026 Addendum. APA have explained to me that their cost estimates are based on the level of definition and project maturity rather than a specific cost range. The

¹² <https://www.afr.com/companies/energy/fears-victorian-consumers-will-pay-for-gas-imports-under-last-resort-plan-20260126-p5nwk>

¹³ <https://www.aer.gov.au/news/articles/news-releases/aer-bulloo-interlink-decision-balances-investment-and-consumer-protection>

compressor estimate is ‘early-stage with improving definition and rather than pinning to a precise accuracy band’. This puts it somewhere between a Class 5 (very early stage, high uncertainty, wide cost range) and Class 4 (more developed, but still with material uncertainty) with APA’s cost ranges being narrower at the lower end (eg Class 5 of -20 to +100%; Class 4 – 15% to +50%) than the AACE¹⁴ (eg Class 5 -50% to +100%; Class 4 -30% to +50%).

The AER seems to have misinterpreted APA’s approach. The AER PP says:

“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.” (p.21)

In the course of VTS RRG discussions, APA has indicated that the uncertainty of project approval by the AER has meant that it was unable to lock in pricing eg by taking out an option. APA have advised that the cost of an option to lock in the price prior to their original rule 80 application would have been \$7m. While this would have mitigated the \$15.7m increase, there was no incentive on APA to buy that option without AER approval of the allowed project capex. This leaves consumers open to considerable capex cost risk.

So while we support the AER’s approach of seeking better cost estimates for this rule 80 application, it is not clear how the AER might assess the proposed costs if the very short timetable and APA’s inability to commit prior to the final decision in July means the AER is still asked to opine on the prudence and efficiency of an APA ‘Class 4/5’ estimate. In recent electricity network decisions it has explicitly required networks to provide greater accuracy before it can assess prudent and efficient costs¹⁵.

APA had a large cost increase for its recent WORM project for a range of reasons including a failure to understand land access/environmental approvals/EES requirements. It would be helpful for the AER to explain how it assesses project management capability in deciding on the prudent and efficient capex.

Irrespective of the approved costs across all cost categories, we recommend that the AER applies CESS to the approved amounts.

APA does not specify a level of cost accuracy for its early works. The AER should engage with APA to understand what that accuracy is and consider applying CESS to the approved amount.

The experience in this rule 80 process leads to a recommendation that the AER look to how it might be able to influence APA’s future rule 80 submissions eg

- Requiring a comprehensive options analysis, including comprehensive stakeholder engagement, to support any application for looping capex
- requiring a particular AACE cost estimate accuracy; we suggest at least Class 3 and preferably Class 2 that applied to Marinus
- whether a contingency amount is allowed and, if so, under what circumstance, and
- how CESS would apply.

¹⁴ https://web.aacei.org/docs/default-source/toc/toc_18r-97.pdf

¹⁵ Eg Class 2 for Marinus <https://www.aer.gov.au/documents/marinus-link-revised-commencement-and-process-paper-december-2024>

Given the Victorian Government powers to direct investment to be made and that capex to be deemed conforming capex, these requirements may end up not providing much in the way of consumer protection benefits, but at least there is additional transparency.

Who pays?

Consumers are left with the costs of an inefficient process, not just with the uncertain compressor capex costs but also the potentially unnecessary early works costs. A preferable approach would be for the early works costs be only rolled into the RAB (from the time of being incurred) when the AER approves the looping to be built. We are not expert in the rules and would recommend the AER explore this option.

It is worth noting that in its submission on the original rule 80 application, Viva argued that¹⁶:

“Viva Energy believes that only users and beneficiaries of the new compressors should be charged for their installation and use.”

So perhaps they should support the application of user/beneficiary pays to early works expenditure.

The need to improve planning co-ordination

This is highlighted by the AER as mentioned above. Network augmentation is a long lead time activity. Investments are nominally 50-60 year assets. Decisions should not be made in haste. Doing so, as is the case here, will lead to consumers paying unnecessary costs. While the AER PP may say (p.6):

“The supply solution will be determined by market participants.”

this is difficult to see. Every decision is interconnected and a particular participant’s (producer, storage supplier, APA) decision cannot be made in isolation of what others (including the Victorian Government and AEMO) decide.

¹⁶ See p. 2 <https://www.aer.gov.au/documents/viva-energy-submission-apas-rule-80-application-january-2026>