

Submission to the Australian Energy Regulator re APA VTS Access Arrangement 2018-2022



3rd March 2017



**Consortium of
Gas Market
Participants**

Mr Chris Pattas
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Submitted by email to: VicGAAR2018-22@aer.gov.au

Dear Mr Pattas,

APA VTS Access Arrangement 2018-2022

A Consortium of VTS users has combined with Lochard Energy, owner/operator of the Iona Underground Gas Storage in Western Victoria, to provide comments on the APA VTS Access Arrangement 2018-2022. The VTS Access Arrangement plays a central role in the further development of the gas market in Victoria and in the broader south-eastern Australian context.

It is essential the Access Arrangement address the needs of users and ensure that all sources of gas is accessible to the market. While APA has in the recent past invested considerably in expanded capacity to transport gas to and from NSW via the Northern Interconnect Pipeline, the Consortium is concerned that the Access Arrangement does not sufficiently address the requirement for expansion of the VTS South West Pipeline, to increase access to Iona Underground Gas Storage services.

This submission elaborates on these concerns and suggests a number of paths by which they could be overcome by co-operation between AER, APA and Consortium members.

If you wish to discuss any aspect of this submission further, please contact Vuong Nguyen at Vuong.Nguyen@lochardenergy.com.au or on 03 8646 0509.

Yours Sincerely,

Anthony Fowler
CEO, Lochard Energy
On behalf of the Consortium members

Contents

1.	Introduction	1
1.1	The APA VTS Access Arrangement.....	1
1.2	The Consortium.....	2
1.3	The Iona Underground Storage.....	2
1.4	Issues with the APA VTS AA.....	2
1.5	Content of this Submission.....	3
2.	SWP Expansion Required by the Market	4
2.1	Gas Market Changes	4
2.1.1	Port Campbell (Otway Basin).....	4
2.1.2	Longford (Gippsland Basin).....	4
2.1.3	Moomba (Cooper Basin) and Queensland CSG.....	5
2.2	Existing Supply Contracts	5
2.3	Participants' Position	6
2.4	Analysis	7
3.	Market Benefits of the SWP Expansion	8
3.1	Overview	8
3.2	Benefits to the Gas Market.....	8
3.2.1	Meeting Peak Demand.....	8
3.2.2	Other Benefits	10
4.	Appropriate VTS Tariff Structures.....	11
4.1	Incremental SWP Usage and Revenue.....	11
4.2	Suggested Approach to Cost Recovery	11
5.	Mechanisms to Ensure SWP Capacity is Delivered.....	12
5.1	Overview	12
5.2	Examples of AA Spending Revisions	Error! Bookmark not defined.
5.3	Options	14
5.3.1	The Service Envelope Agreement.....	14
5.3.2	AER Draft Decision on the VTS AA.....	14
5.3.3	Ensuring the SWP Expansion is Constructed	14

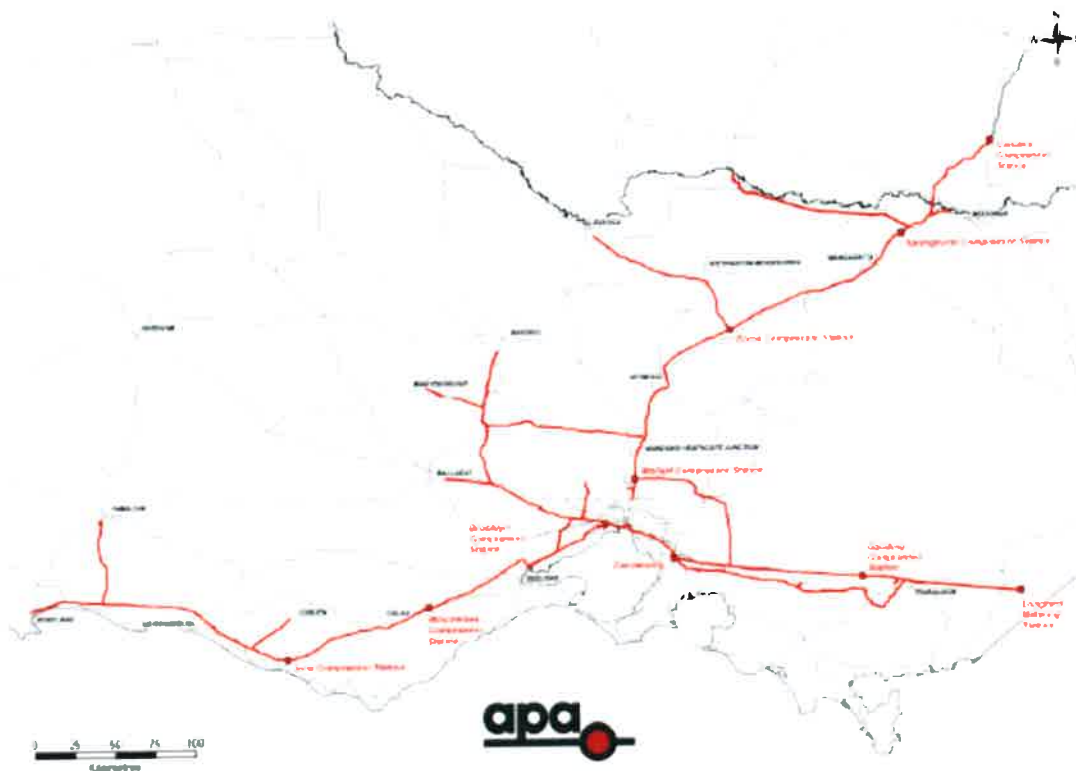
Appendix A. Abbreviations

1. Introduction

1.1 The APA VTS Access Arrangement

APA is the owner/operator of the Victorian Transmission System (VTS), a network of gas transmission pipelines serving Victorian gas users and linking with other pipelines that transport gas to markets in New South Wales, South Australia and Tasmania.

Figure 1-1 The Victorian Transmission System.



Source: APA

The VTS gas transmission network has the characteristics of a monopoly service provider and is regulated by the Australian Energy Regulator (AER), subject to the National Gas Law (NGL) and National Gas Rules (NGR). The VTS is a “covered” pipeline under the NGR and APA is periodically required to submit Access Arrangements (AAs), detailing the pipeline services offered and the proposed service tariffs, for AER approval.

On 3rd January 2017 APA submitted its proposed VTS AA for the period 2018 to 2022 to AER for approval. AER has requested interested parties to make submissions regarding the proposed VTS AA as part of its decision making process.



1.2 The Consortium

The consortium group of gas market participants consisted of the following: AGL; Alinta Energy; EnergyAustralia; gas Trading Australia; O-I Asia Pacific; Lochard Energy; M2 Group; and Origin Energy. Lochard Energy has acted as the co-ordinator of the Consortium. Some members of the Consortium have made independent submissions to AER regarding the APA VTS AA.

1.3 The Iona Underground Storage

Lochard Energy is the owner/operator of the Iona Gas Plant, a facility near Port Campbell in Western Victoria which comprises a gas processing plant and underground gas storage reservoirs, referred to as Iona Underground Storage or IUGS. The plant processes gas from offshore gas fields and the storage reservoirs and injects the gas into the VTS and other connected pipelines. Lochard Energy's customers (gas retailers) use IUGS to store gas during low demand periods (typically in summer) and withdraw it from IUGS in high demand periods (typically in winter).

IUGS has the largest withdrawal capacity of all underground storages in Eastern Australia and has been expanded several times since it was constructed in 1998. It plays a key role in meeting gas demand in southern Australia throughout the winter and during emergencies.

1.4 Issues with the APA VTS AA

Gas from the Port Campbell region, including gas withdrawn from IUGS, is transported to the Victorian and NSW markets via the South West Pipeline (SWP), an element of the VTS connecting Port Campbell to Melbourne and beyond. Gas used to fill IUGS in summer is in part drawn from SWP (flowing in the reverse direction, to Port Campbell) and in part from the Port Campbell gas fields. IUGS users are therefore strongly dependent upon the SWP for the effective use of their IUGS capacity.

A number of IUGS users have recently asked Lochard Energy to provide them with further IUGS capacity, to meet imminent shortfalls in their supply portfolios. Lochard Energy is keen to construct and supply this capacity, however matching capacity expansion on the SWP is required to maximise the expansion effectiveness, without which the extra IUGS capacity could be stranded.

Under the contract carriage access model applying outside Victoria, pipeline users can negotiate and contract capacity expansion directly with the owner/operator, who will receive capacity payments to recover the cost of construction. Under the Victorian market carriage model however the owner/operator cannot rely on capacity payments and can only construct additional capacity if it is confident the AER will approve the expansion and allow the costs to be recovered from tariffs.

The VTS AA for 2018-2022 proposes some expenditure on the SWP¹, however it does not meet IUGS users need for extra capacity. Consequently, this may constrain Lochard Energy's planned capacity build, which is projected to lead to highly undesirable gas supply shortfalls across South Eastern Australia.

¹ APA has included a project to expand SWP capacity to Port Campbell but has excluded projects to expand capacity to Melbourne.



The Consortium believes this outcome can and should be avoided by a process of consultation between AER, APA, the Consortium and other VTS/IUGS users, whereby:

- The relevant expansion of the SWP is included in the VTS AA
- The SWP expansion costs and appropriate tariffs are approved by AER
- Appropriate incentives are put in place to maximise the likelihood that SWP expansion takes place.

The Consortium commends this approach to AER.

1.5 Content of this Submission

The remaining sections of this submission by the Consortium deal with four aspects of the SWP expansion:

- A forward-looking quantification of SWP expansion (firm bi-directional) required by the market
- Demonstration that the SWP expansion satisfies a Market Benefit Test aligned with the AER's criteria for approving expansion proposals.
- Assessment of the appropriate tariff structure under which the costs of the investment are recovered.
- Review of mechanisms to ensure that the SWP Capacity is delivered.

This submission is supported by a report by independent consultants, Marsden Jacob Associates, "Economics of SWP Expansion for the Access Arrangement Proposal (period 2018-2022)", which provides additional detail regarding the first three aspects of the submission.

2. SWP Expansion Required by the Market

2.1 Gas Market Changes

The eastern Australian gas market has recently undergone a transformation from a domestic only market to a major export driven market, and is still experiencing the impacts of this transformation. LNG exports from Curtis Island in Queensland commenced in January 2015, were running at an annualised rate of 1200 PJ in the December 2016 quarter and are expected to reach over 1400 PJ pa by 2019, more than double the domestic market consumption.

This development has been based on Queensland's extensive reserves of coal seam gas (CSG), however some reserves have not been as productive as expected and some CSG and conventional gas previously developed for domestic use has been resold to the export projects. There have been significant impacts on the domestic market, principally difficulty for retailers and other gas buyers in contracting additional supply and an associated rise in contract prices, since 2012. This has been the subject of numerous Commonwealth and State sponsored studies, including the ACCC's "Inquiry into the east coast gas market", the findings of which were released in April 2016.

The potential supply side response to the rise in gas prices has been muted by the fall in oil pricing since 2014, which has also led most in the upstream oil and gas sector to cut expenditure, particularly on exploration, reducing the likelihood of new sources of gas in the mid to long-term.

Until now however, the domestic market has been reasonably well supplied through contracts negotiated in the early 2000's, supplemented by "ramp" gas, the CSG brought onstream prior to LNG export start up. Over the next two years it is anticipated that many domestic contracts will expire and that the resources supplying them will not support further contracts at the same volume of production. The most critical of these for IUGS/SWP are discussed below.

2.1.1 Port Campbell (Otway Basin)

Until 2015 the level of gas production from Port Campbell (consisting of Casino, Minerva, and Otway gas processing) totalled about 250 TJ/day. This gas was used to supply SA and to inject into IUGS. The result was that flow on the SWP to Iona was not critical to filling UGS prior to the winter period.

The level of gas production at Port Campbell has started to decline and this will continue. Minerva is projected to cease operation within a year, Casino will continue at a lower rate and Otway gas production, which has recently increased by connection of the Halladale and Speculant fields, is projected to decrease below 100 TJ/day by 2021. This will mean that all Otway gas will be required to supply SA, and that SA will need additional gas from Gippsland.

SWP will be required to transport practically all Gippsland gas that will be required to be placed in storage at IUGS prior to the winter period and to transport Gippsland gas to SA.

2.1.2 Longford (Gippsland Basin)

Gas production at Longford has been the major provider for Victoria for 45 years and for NSW for 15 years. Production levels have been maintained by new field developments but the most recent, Kipper, requires additional gas processing to remove CO₂. This and the decline of the original major fields is expected to lead to lower future production levels within the 2018-2022 term of the VTS AA.

This would mean that increased daily gas supply capacity will be required by IUGS and/or Moomba and Queensland. IUGS capacity must be supported by an increase in SWP capacity to Melbourne.

2.1.3 Moomba (Cooper Basin) and Queensland CSG

Supply and demand for gas in Queensland, primarily for export, remain uncertain even at this relatively late stage in the export development process. One of the export projects remains short of gas, having purchased a considerable volume of “domestic” gas from third parties, and the recent falls in global oil and LNG spot prices have led to reduced expectations regarding LNG demand, though Australian producers are to some extent protected by the parallel fall in the Australian dollar exchange rate. The scale of the LNG sector, more than twice as large as the domestic sector, also means that small fluctuations in exports can have large impacts on domestic supply.

Gas has been available to the southern states at prices that reflect netback of export values. However, since the end of 2016 there have been no firm contracts for southerly flow from Moomba and the Consortium considers gas availability from Moomba and Queensland to be low.

2.2 Existing Supply Contracts

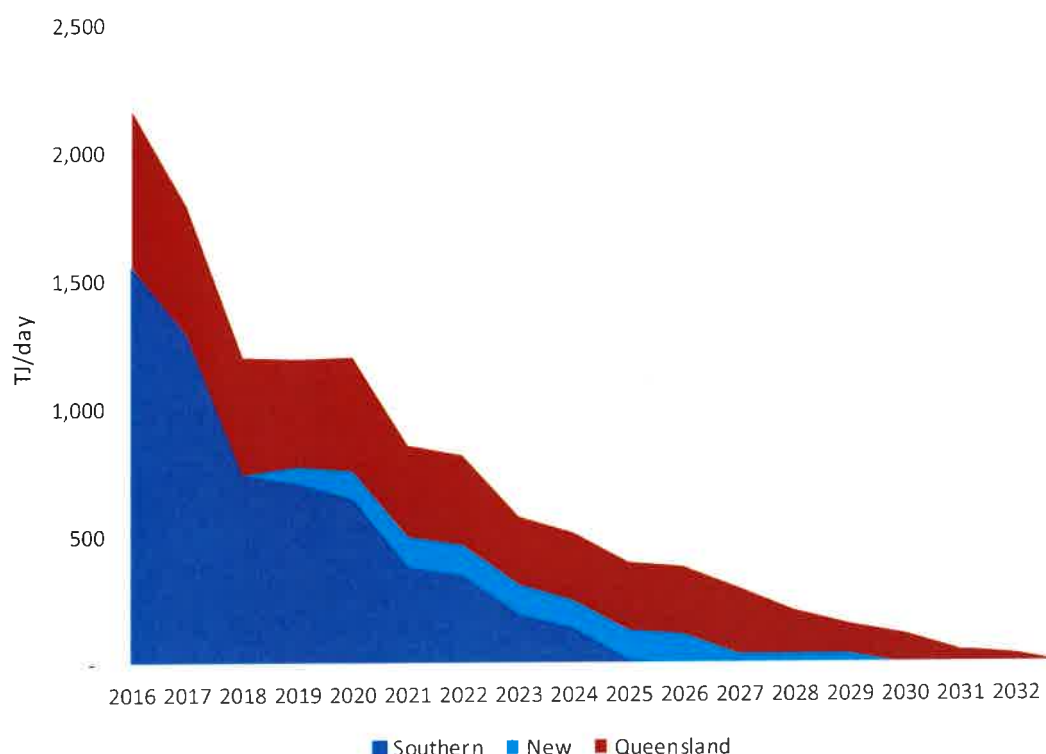
Market participants secure gas supply to meet their requirements, either for their customers in the case of retailers or for their own plants in the cases of industrial and generation users, under long term contracts with gas producers and storage providers. The supply contracts secure both annual volumes and peak supply capacity.

The contractual position of Eastern Australian domestic market participants is unprecedentedly short, as illustrated in Figure 2-1 below, sourced from AEMO’s 2016 Gas Statement of Opportunities. This data shows that contracted production capacity supporting the southern Australian market (NSW, VIC, SA and TAS) will fall from 1550 TJ/day in 2016 to 740 TJ/day in 2018.

In 2016 peak demand in the southern market, which ranges from 2000 TJ to 2200 TJ, was met by contracted supply plus up to 300 TJ of supply from Moomba and Queensland plus IUGS. At present, without contracted supply from Moomba and Queensland and with IUGS capacity set at 435 TJ/day, the southern market is up to 825 TJ/day short. Even the inclusion of contracts that have yet to be confirmed, for gas from Cooper Energy’s Sole Project, Strike Energy’s Southern Cooper Basin CSG and extension of Casino production, do not materially improve this situation².

² Contract termination dates are approximate and may be extended by gas banking arrangements for up to one year.

Figure 2-1 Eastern Australian Peak Gas Supply Contracts, excluding storage (TJ/day)



Sources: Southern and Queensland, from AEMO 2016 GSOO; News from Cooper Energy and Strike Energy company communications.

In this environment participants need to secure as much storage as possible, while also negotiating with gas producers with significant uncontracted gas reserves and production capacity. For delivery by 2018 the Gippsland JV is virtually the only gas producer in this position, with approximately 1500 PJ of uncontracted reserves (and as yet unknown capacity), whereas most of the Otway Basin producers have almost no uncontracted reserves. For longer term delivery it may be possible to contract for gas resources that have yet to be developed.

2.3 Participants' Position

The gas market participants supporting this submission have provided confidential advice as to their SWP capacity requirements and the reasons for it. In aggregate, they have indicated a requirement for 603 TJ/day SWP capacity to Melbourne by 2021.

Table 2-1 Participants SWP Requirements (TJ/day)

2017	2018	2019	2020	2021
374	428	468	528	603

Reasons for this requirement include:

- Smaller tier two participants cannot obtain storage capacity unless it is expanded and SWP capacity is limiting expansion effectiveness
- Storage will become more valuable as gas supply options decrease (including Gippsland reserves), swing from suppliers reduces, and outages of aging gas production plant increases;
- Market demand will become peakier due to GPG requirements and reduction of the flat industrial load relative to peakier residential load;
- There is no contingency in the system and outages of plant such as Longford can have very significant impacts.
- Contracts in the market are being offered with relatively low 'swing'. (Swing is the ratio of maximum available supply to average supply.) This new norm requires participants to find a home for gas in the form of storing gas in the milder months, and then re-injecting gas into the system in the colder months.

More detailed statements of these requirements are provided in the MJA Report.

2.4 Analysis

The MJA Report presents detailed analyses of storage and pipeline capacity requirements in southern Australia and Victoria, using a range of assumptions regarding future gas supply capacity, i.e. how much of the decline in Figure 2-1 is filled in and where that capacity is located. All scenarios assume some reduction in production capacity available from the Gippsland and Otway Basins. With gas in Queensland and at Moomba in demand for LNG exports and likely to be less available in southern markets, increased IUGS capacity is critical to maintaining peak winter supply.

The increase in IUGS capacity must be matched by increases in SWP capacity, both its capacity to flow gas to Port Campbell and towards Melbourne. MJA's analysis found that even if IUGS capacity is not increased, the decline in Otway production that is partly used to refill IUGS during the summer would result in IUGS not being able to fully refill unless SWP capacity towards Port Campbell is expanded from 102 TJ/day to over 200 TJ/day. Incomplete refilling would restrict winter and emergency services provided by IUGS.

3. Market Benefits of the SWP Expansion

3.1 Overview

If the SWP expansion is to be included in the VTS AA, it is essential that APA is convinced that the capital expenditure will be approved by the AER, which in turn must be convinced that the expenditure meets the criteria set out in Rule 79 of the National Gas Rules, which governs approval of new capital expenditure. The Rule 79 criteria that appear to be relevant to SWP expansion include:

" (1) Conforming capital expenditure is capital expenditure that conforms with the following criteria:

(a) the capital expenditure must be such as would be incurred by a prudent service provider acting efficiently, in accordance with accepted good industry practice, to achieve the lowest sustainable cost of providing services;

(b) the capital expenditure must be justifiable on a ground stated in subrule (2).

(2) Capital expenditure is justifiable if:

(a) the overall economic value of the expenditure is positive; or

(b) the present value of the expected incremental revenue to be generated as a result of the expenditure exceeds the present value of the capital expenditure; or

(3) In deciding whether the overall economic value of capital expenditure is positive, consideration is to be given only to economic value directly accruing to the service provider, gas producers, users and end users.

(4) In determining the present value of expected incremental revenue:

(a) a tariff will be assumed for incremental services based on (or extrapolated from) prevailing reference tariffs or an estimate of the reference tariffs that would have been set for comparable services if those services had been reference services; and

(b) incremental revenue will be taken to be the gross revenue to be derived from the incremental services less incremental operating expenditure for the incremental services; and

(c) a discount rate is to be used equal to the rate of return implicit in the reference tariff.

(6) The AER's discretion under this rule is limited."

The following sections examine the proposed SWP expansion in this context.

3.2 Benefits to the Gas Market

3.2.1 Meeting Peak Demand

Considering the current eastern Australian gas market supply outlook, the key value of additional gas storage and the supporting pipeline capacity is its contribution to avoidance of customer curtailment i.e. of market failure.

The cost of curtailment has not been widely analysed in the Australian gas market context, however it is easy to compute in the power generation context. A typical peaking gas fired generator has a heat rate of 10 to 12 GJ of gas per MWh of electricity generated. The marginal value of gas used in generation for such a generator is the

electricity price divided by the heat rate. Gas values can range from \$8.33/GJ, if the electricity price is \$100/MWh, to over \$1,000/GJ when the electricity price approaches the electricity market price cap. If gas fired generators are constrained from generating at such times by a lack of gas, this is their cost of curtailment.

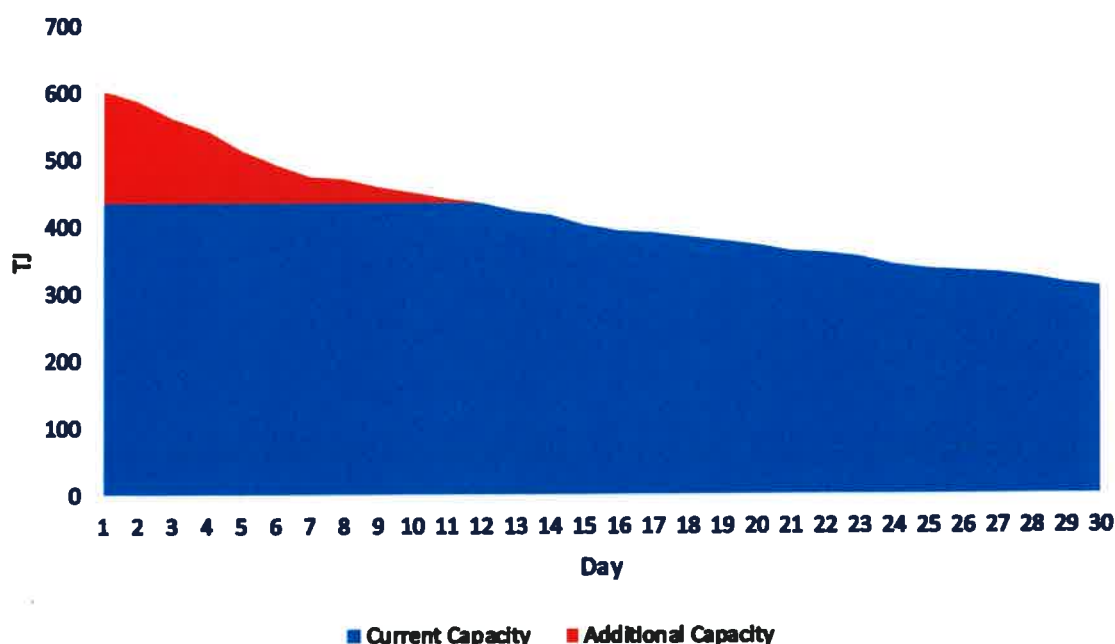
Other guidance on the cost of gas market failure is provided by the price caps in the Declared Wholesale Gas Market (DWGM) in Victoria and the Short-Term Trading Markets (STTMs) in Adelaide, Brisbane and Sydney. In these markets the Maximum Price Cap (MPC) is the maximum price that can be determined by the market operator, AEMO, and the Cumulative Price Threshold (CPT) is the maximum that the sum of consecutive prices is permitted to reach before AEMO is obliged to apply the Administered Price Cap (APC)

Table 3-1 DWGM and STTM Price Caps

Market	Maximum Price Cap	Cumulative Price Threshold	Administered Price Cap
DWGM	\$800/GJ	\$1,800/GJ	\$40/GJ
STTM	\$400/GJ	\$440/GJ	\$40/GJ

The value of additional IUGS capacity, supported by appropriate SWP capacity, can be estimated by valuing the avoided curtailment using the price caps. Firstly, Figure 3-1 illustrates how the 168 TJ of additional IUGS capacity requested by participants (603 TJ less 435 TJ current) is used to meet demand in southern Australia. Using the average southern Australian load duration curve over the past three years, a total of 824 TJ of curtailment would be avoided over the 12 highest demand days of the year.

Figure 3-1 Use of IUGS Additional Capacity





The lowest value that can be attributed to this avoided curtailment, assuming each GJ is worth just the \$40/GJ APC, is \$33m pa. However, if the peak day contribution is valued at the MPC, using the lower STTM MPC value appropriate across south-eastern Australia as a whole, the value attributed to avoided curtailment is \$93m pa.

Values in the range \$33m to \$93m pa would support very significant infrastructure programs. SWP expansion options developed by AEMO in its 2016 VGPR have construction costs ranging up to \$144m, which could readily be justified by market benefits in the above range. Further discussion of these options is provided in the MJA report.

3.2.2 Other Benefits

Other market benefits from additional gas storage include:

- Greater capacity during pipeline or gas plant outages
- Greater portfolio flexibility for a larger number of retailers, leading to more competitive retail markets.

4. Appropriate VTS Tariff Structures

4.1 Incremental SWP Usage and Revenue

In line with the usage of additional IUGS capacity, use of incremental SWP capacity to Melbourne is likely to be limited but of very high value. Such limited usage makes it unlikely that incremental SWP capacity to Melbourne will generate sufficient revenue to recover the expansion capital expenditure on the existing VTS tariffs.

In contrast, incremental SWP capacity to Port Campbell will be used consistently to refill IUGS and it is most likely that incremental usage of SWP capacity to Melbourne will generate sufficient revenue to recover the expansion capital expenditure on the existing VTS tariffs.

4.2 Suggested Approach to Cost Recovery

The benefits of incremental IUGS/SWP capacity to Melbourne, in the form of avoiding user curtailment and prolonged market operation at the APC of \$40/GJ, accrue to the market as a whole. It is therefore reasonable to consider recovering the costs of SWP capacity to Melbourne equally from all gas withdrawal tariffs, through an incremental charge on all throughput.

The annual revenue requirement for the most expensive (\$144m) SWP option assessed by AEMO in the 2016 VGPR, is estimated to be approximately \$14m in the first year of the AA, calculated by pro-rating the existing capital return and depreciation against the existing capital base (\$1,009m), and assuming no material contribution to operating costs. The resulting tariff increment, calculated by spreading the \$14m across the total Victoria system withdrawals of 217 PJ in the first year would be \$0.065/GJ or 10% of the VTS average tariff (total revenue divided by total withdrawals). Compared to recent wholesale and retail gas price increases, this is a very low cost.

Costs of the expansion of SWP capacity to Port Campbell could be expected to be recovered from incremental pipeline use, and subtracting these costs from costs of capacity to Melbourne will reduce the above.

5. Mechanisms to Ensure SWP Capacity is Delivered

5.1 Overview

Capacity planning and delivery in the majority of pipelines proceeds through the following steps:

- 1) Need for capacity
 - a) Pipeline users identify the need for additional capacity to meet demand from an expanding market or for an alternative supply route
 - b) The pipeline operator identifies a decline in capacity due to changing circumstances such as the location of customers, balance of gas injections or urban encroachment
- 2) Capacity solution
 - a) The operator designs alternative solutions and selects one that meets the requirement efficiently
 - b) The operator and users negotiate long term contracts which
 - i) Guarantee user access to the new capacity
 - ii) Guarantee access fee payments to the operator.
- 3) Capacity construction
 - a) The operator constructs the capacity and provides access
 - b) Users use their capacity and pay fees
 - c) If either party reneges on the contract, the other is entitled to withdraw access or fees, as the case may be.

This process provides high levels of certainty for the parties involved. For covered (regulated) pipelines planned capacity can be included in a revised Access Arrangement or if planning and construction take place during an AA the assets can be retrospectively included in the pipeline Asset Base at the next AA review, subject to AER approval.

VTS users have now identified their requirements for additional SWP capacity to transport gas to and from an expanded IUGS service but face a number of barriers to obtaining what they need:

- 1) Firstly, the regime under which the VTS operates does not provide for capacity to be contracted between users and network service providers. Users pay usage charges only, with no fixed capacity charges, exposing the operator to uncertain cost recovery. Consequently step 2) of the above process is not possible.
- 2) The only mechanism which establishes an obligation on the VTS owner to provide a set level of capacity is the Service Envelope Agreement (SEA) between the VTS owner and AEMO (refer to section 5.3.1 below). Market participants are not parties to this agreement and may be reluctant to rely upon it.
- 3) AEMO is required by the NGR to produce an annual Victorian Gas Planning Report (VGPR) which identifies network upgrades required to ensure capacity is available to meet projected demand. The VGPR is based on information provided by all Victorian gas market participants. The NGR requires the network operator to

consult with AEMO if it plans a capacity expansion, however the NGR does not place any obligation on the operator to implement or even to consider any upgrades identified in the VGPR.

In the 2016 VGPR Update, AEMO identified the need for additional SWP capacity in both directions but APA's VTS AA addresses only the SWP Capacity to Port Campbell. The Consortium is confident that the 2017 VGPR, the first full review since 2015, scheduled for release by March 31st, will identify greater need for increased SWP capacity in both directions.

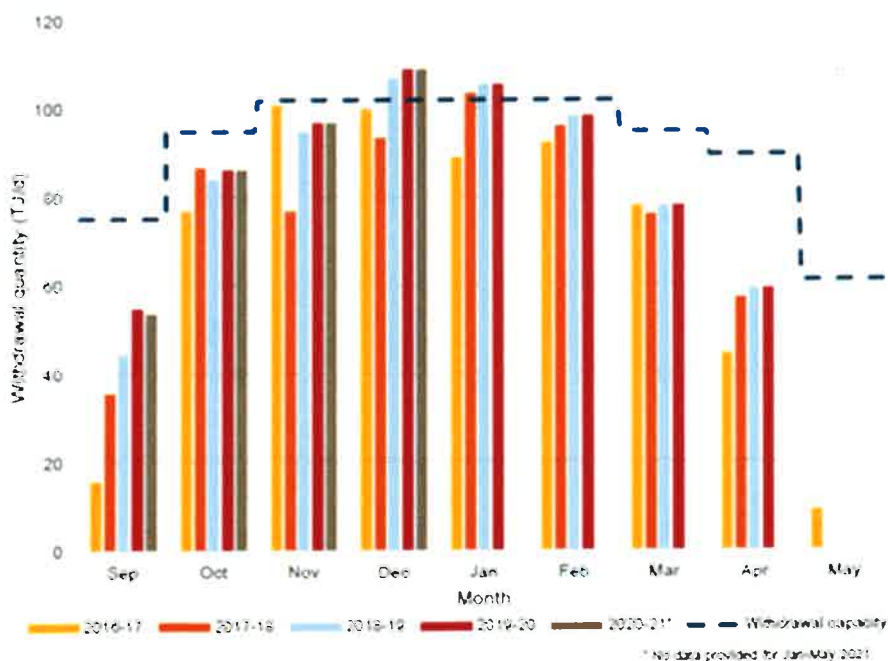
- 4) Under the National Gas Rules transmission service providers such as APA do not appear to be obliged to spend capital approved by AER as part of the AA approval and may spend more or less as circumstances change. It is understood that the reasoning for this approach is twofold, being that the AER does not have line of sight of a regulated entities capital works program (and should not have responsibility for directing it) and that it creates an incentive on the part of the regulated entity to not invest in the capital works if it determines they are no longer required.

5.2 Commitment to Spend Approved Capital Expenditure for SWP

A good example of this is the Brooklyn Compressor station upgrade which was first identified by APA in 2007 and subsequently approved by the ACCC in 2008-12 access determination. In subsequently completing capital works at Brooklyn, APA instead chose to spend less money on addressing pressure and safety issues but not increasing capacity to transport gas to Iona for underground storage refilling.

The following figure, prepared by AEMO, underscores the need for this investment to still occur (AEMO, Victorian Gas Planning Report pg. 19 - <http://www.aemo.com.au/Gas/National-planning-and-forecasting/-/media/DE3789E9F970422A985EB2DE2E060B87.ashx>). The proportion of the bar sitting above the dashed line is AEMO's forecast of the shortfall in the withdrawal quantity against the withdrawal capacity.

Figure 9 South West Pipeline projected daily withdrawal quantity²⁰, September – May



5.3 Options

The Consortium's priority is to overcome the barriers to construction of additional SWP capacity. Three steps in a possible path to removing these barriers are set out below but an alternative, successful path would be equally welcome.

5.3.1 The Service Envelope Agreement

The Service Envelope Agreement is a section of the NGL (section 91BE) which defines the level of service that the VTS owner will make available to AEMO. It is an agreement for the control, operation, safety, security and reliability of the VTS and states the capacity to be available to AEMO at points of injection or withdrawal from time to time. Failure of the VTS owner to adhere to the Agreement can result in congestion costs in the Victorian Gas Market (uplift payments) being allocated to the VTS owner.

The NGL permits the parties to renegotiate the Agreement but is silent on whether this can be forward looking, i.e. anticipate a change, or simply reflect changes that have already occurred. If forward looking renegotiation is possible, then on the basis of the 2017 VGPR, AEMO could trigger renegotiation of the Service Envelope Agreement to obtain an increase in SWP injection and withdrawal capacity at Port Campbell. The NGL gives AER the authority to make determinations in regards to disputes over the Service Envelope Agreement.

5.3.2 AER Draft Decision on the VTS AA

As noted in section 1.4, the revised VTS AA for 2018-2022 includes a project to expand SWP capacity to Port Campbell but does not include any projects to expand SWP capacity to Melbourne. This appears to be because APA's demand forecasts have identified the reduction in gas production at Port Campbell, and the consequent increased reliance of IUGS on the SWP for refilling.

The demand forecasts do not however identify the reductions in gas production capacity which necessitate IUGS expansion and expansion of SWP capacity to Melbourne. APA's assumptions regarding gas availability are not clear and peak usage of the key VTS pipelines (SWP, Northern Interconnect and Longford to Melbourne) in the AA is based on percentage utilisation from the current access period³. This approach cannot yield greater than 100% utilisation so appears to be incapable of identifying SWP expansion requirements, moreover given the gas market changes described above, it is also unlikely to prove realistic.

The Consortium considers that AER will most likely reach the same conclusions regarding APA's forecasts and the need for SWP capacity to Melbourne to be expanded. If, as we expect, the 2017 VGPR provides stronger guidance to this effect, AER could include the relevant VGPR capital expenditure in its Draft Decision.

5.3.3 Ensuring the SWP Expansion is Constructed

The suggested approach to cost recovery, namely from the market as a whole, will be attractive to APA and provide an incentive to APA to proceed with construction of the SWP expansion. It is further suggested that the incremental tariff under which this recovery is made could be established as a separate tariff and the rates could be made conditional upon completion of the expansion. This would not completely ensure that construction occurred but would protect VTS users from paying for capacity not provided.

³ VTS AA Revision Submission, p47



The Consortium also considers it appropriate for the AER to comment on whether the existing regulatory settings should be amended in order to provide stakeholders with sufficient confidence that a regulated entities capital works program, once approved, actually takes place – particularly when it is still identified as being required.

Appendix A. Abbreviations

AA	Access Arrangement
ACCC	Australian Competition and Consumer Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
APA	Australian Pipeline Trust
CO ₂	Carbon dioxide
CSG	Coal seam gas (natural gas released from coal seams after drilling)
GJ, TJ, PJ	Giga-, Tera-, Petajoule (10 ⁹ , 10 ¹² , 10 ¹⁵ joules)
GPG	Gas powered generator
GPP	Gas processing plant
GSOO	Gas Statement of Opportunities
IUGS	Iona Underground Storage
LNG	Liquefied natural gas (gas cooled to -161C)
MJA	Marsden Jacobs Associates
NGL	National Gas Law
NGR	National Gas Rules
SEA	Service Envelope Agreement
SWP	South West Pipeline
VGPR	Victorian Gas Planning Report
VTs	Victorian Transmission System