

From: Robin Coombe
Sent: Monday, 5 September 2022 12:27 PM
To: AER Inquiry
Cc: Kym Winter-Dewhirst
Subject: APA Victorian Transmission System - Access Arrangement 2023–27 Submission

Dear AER,

Venice Energy's proposed LNG import terminal could provide substantial volumes of gas to the SA and Victorian gas markets, especially during the winter peak demand periods, to provide energy security.

In order to be able to provide this security, the regulatory framework should provide the flexibility to expand the South-West Pipeline (SWP) within the Access Arrangement (AA) period.

Issues Venice Energy has with AER's draft decision on APA's VTS gas access arrangement are as follows:

1. **The AER it will use one forecast (page 27).** Our understanding is that AER will utilise an AEMO forecast based on a 1 in 2 peak day, which is a forecast that assumes that everything is operating as normal (or at least at high average reliability rates).

Venice Energy's position is that an annual forecast does not contain sufficient granularity, nor can it capture the range of uncertainties that the VTS is facing on a day-to-day basis (caused by outages of coal-fired power plants and other issues). That is, the AEMO forecasts assume that everything is working correctly as required – an assumption that we have seen challenged this winter.

The ACCC has recently reported that the East Coast gas market is facing a 56 PJ shortfall in 2023 (an annual forecast amount) that represents a bleaker outlook for 2023 than AEMO recently forecast. AEMO has found that under one-in-20-year demand conditions (a peak day forecast), small, infrequent supply shortfalls could occur in 2023.

To mitigate these shortfalls, AEMO noted that on-schedule completion of committed pipeline upgrades, greater operational management of LNG storage, and demand-side solutions are likely to be required.

2. **The AER should retain the flexibility of the Rule 80 application and related cost pass-through to enable pre-approval of additional expansion capex on the South-West Pipeline over the 2023-27 period (page 29).**

Venice Energy believes AER should enable capital enhancements at any point in the 5-year Access Arrangement (AA) period.

We consider that approving the "pre-approved capex" pass-through is a cost-free option. Should demand and supply developments occur such that augmentation of the VTS is not required, then the proposed pass through would never be used.

There does not appear to be any scope for harm in approving this proposed pass-through mechanism. Since any application would have to be approved by the AER.

Under the market carriage model, all expansions must be enabled through the AA process. While Rule 80 will allow for a pre-approval of conforming capital expenditure, there is

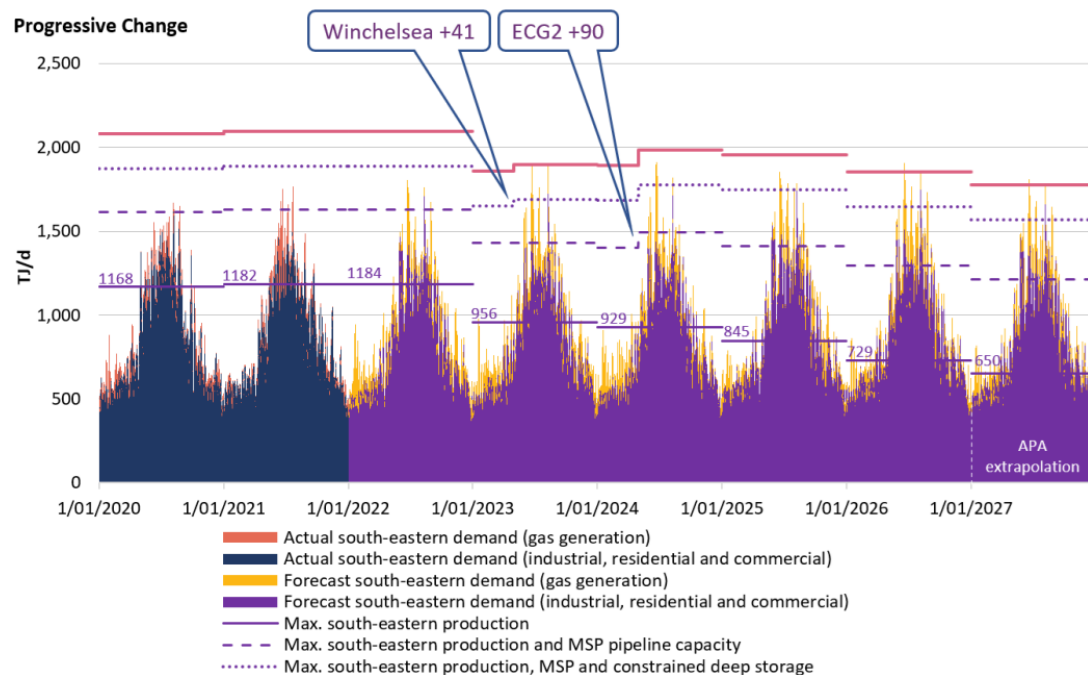
currently no mechanism for the service provider to earn a return on that capital until the commencement of the next AA period. As a result, the service provider is incentivised to delay any pre-approved augmentation to the very end of the current AA period to reduce the length of time in which this investment does not earn any return.

APA’s pass-through application would allow it to earn a return on invested capital from the time it is invested to the end of the AA period – this would remove the reluctance to invest and would allow that investment to occur earlier in the AA period when and if it is required.

Given the rapid changes in the market, we believe it is prudent for proponents to be given a cost pass through for enhancements made in the VTS.

Including the proposed “pre-approved capex” pass through allows the service provider to earn a return on capital once incurred, which removed the incentive to delay investment. This will be particularly important if circumstances dictate that further augmentation of the SWP is required for security of supply purposes.

Figure 1.3 of APA’s load and demand document shows that, even with the proposed Winchelsea compressor and APA East Coast Grid expansion, curtailments are likely in 2026 and 2027, particularly if Newcastle and Dandenong LNG storage is not available to supply:



If there are further declines in Longford production (particularly peak day production capability), then it will be critical to enable the VTS to accommodate additional sources of supply.

Venice Energy believes its customers are likely seek to additional compression at least at Stonehaven (circa \$60m) on the South-West Pipeline and an upgrade of the Brooklyn City gate (circa \$20m) to allow gas to flow towards Melbourne.

We are wondering how this spend can be enabled, for energy security purposes in a timely manner, without a cost-pass through arrangement? 2028 could well be too late given the gas shortages that are forecast for next year.

For this reason, it is important that APA, and others, can react nimbly with some certainty of return on capital, to cater for the need for increased capacity to transport of gas to demand centres as firming gas for renewables and to provide gas supply to areas where production from existing gas fields is declining. Further compression and expansion of capacity of the South-West pipeline is key to enabling this.

We are now very close to an effective investment “strike” – to not invest in required assets unless there is some guarantee of returns – the number of incremental investments being made is increasing (eg compressor additions on existing pipeline, small looping projects) ...Oakley Greenwood (ADGO, March 2022).

The supply and demand balance becoming so dynamic now that we believe it is important to have the Rule 80 and Pass-Through mechanism available to APA to be able to build the pipeline flow capacity needed to respond to gas supply demands in a timely fashion.

Regards,
Robin



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