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Rebecca Denton  
Senior Gas Market Analyst  
Australian Energy Market Operator  
[GBB\\_Redevelopment@aemo.com.au](mailto:GBB_Redevelopment@aemo.com.au)

Dear Rebecca,

Thank you for the opportunity to comment on the Australian Energy Market Operator's (AEMO) proposal to add a new Curtis Island LNG Demand Zone in Gladstone. It is understood that the intent of this proposal is to promote transparency of the gas market in the east coast, and assist gas market participants to make investment decisions and manage risk.

Attached is GLNG's submission. GLNG are of the view that this objective is best achieved by Option B discussed within the Impact and Implementation Report released by AEMO, namely the publication of *aggregate* LNG export pipeline flow information.

This is on the basis that it delivers the policy objective outlined in AEMO's proposal and provides consistency with regulations already effectively implemented by the Independent Market Operator in the West Australian Gas Market which also mitigates the risk that confidential or commercially-sensitive information may be exposed to third parties.

Option B balances the objective of informing the market of relevant changes in demand and reasonable information disclosure, complying with the National Gas Rules, is consistent with the National Gas Law and is also consistent with the National Gas Objective.

We would welcome the opportunity to further discuss the most appropriate mechanism(s) to achieve the stated policy objectives. In this regard please feel free to contact Jonathan Smith on (07) 3838 3107 in the first instance.

Yours sincerely,



Rod Duke  
Chief Executive Officer  
GLNG Operations Pty Ltd

## GLNG SUBMISSION ON AUSTRALIAN ENERGY MARKET OPERATOR IMPACT AND IMPLEMENTATION REPORT – CURTIS ISLAND LNG DEMAND ZONE

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### Introduction

GLNG Operations Pty Ltd (GLNG) is the operator of the Santos GLNG project.

GLNG welcomes the opportunity to comment on the Australian Energy Market Operator's (AEMO) proposal to add a new Curtis Island Demand Zone in Gladstone. It is understood that the intent of this proposal is to promote transparency of the gas market in the east coast, and assists gas market participants to make investment decisions and manage risk.

Since 2014 GLNG has engaged with AEMO on a broad range of market development initiatives contemplated under COAG's energy reform agenda<sup>1</sup>, and has provided input at various times during the consultation process undertaken by AEMO on the proposed Curtis Island LNG Demand Zone.

To that end, the purpose of a new Curtis Island LNG Demand Zone is to capture gas being delivered to the LNG processing facilities on Curtis Island near Gladstone, to be implemented by the addition of new gas transmission pipelines being defined as Gas Bulletin Board (BB) Pipelines and reporting to the National Gas Market Bulletin Board (GBB).

From the proposal outlined by AEMO, GLNG understands that operators will be required to submit forecast and actual delivery data, and capacity outlooks throughout the day, and will likely necessitate operators needing to establish new reporting processes to be established to achieve automatic data transfer systems to the GBB.

### Proposed AEMO Options

AEMO has reviewed three options in preparing its proposal, being:

- **Option A:** Any BB Pipelines will be required to provide data that would be published on the BB in accordance with the current procedures – such data would be single shipper data and would not be aggregated with data for the other BB Pipelines delivering to the LNG Demand Zone
- **Option B:** Any BB Pipelines will be required to provide data that would be published on the BB in accordance with the current procedures – however such data would be aggregated by AEMO with data for the other BB Pipelines delivering to the LNG Demand Zone
- **Option C:** Any BB Pipelines will be required to provide data based on netted flows between the LNG projects and the domestic gas market.

It is noted that AEMO's preference is for Option A.

### GLNG Response

GLNG supports Option B - publication of *aggregate* LNG export pipeline flow information.

This is on the basis that it would deliver the policy objective outlined in AEMO's proposal for the market to be informed of any change in gas supply/demand due to the LNG addressing any perceived information asymmetries.

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<sup>1</sup> Refer <https://scer.govspace.gov.au/workstreams/energy-market-reform/gas-market-development/>

GLNG is of the view that Option B balances the objective of informing the market of relevant changes in demand and reasonable information disclosure, without compromising the individual commercial positions of the LNG proponents. Further, Option B complies with the National Gas Rules, is consistent with the National Gas Law and is also consistent with the National Gas Objective.

If Option B is not supported by the majority of market participants, GLNG is of the view that Option A could be implemented with modifications that are consistent with the approach adopted by the Independent Market Operator (IMO) for the West Australian Gas Market Bulletin Board (WAGBB). To mitigate the risk of divulging commercial positions (long or short gas positions) for each LNG proponent, GLNG proposes that AEMO, like IMO, has the ability to grant an exemption to BB Pipeline operators for BB reporting where there is a single shipper on the BB pipeline.

In particular, GLNG proposes that where single shipper forecast and actual flow data is required to be provided to the GBB it is provided on an aggregated basis on the day following the gas day, and on a disaggregated basis at least 14 days after the gas day. This will ensure that commercially sensitive information is not provided to potential counterparties of LNG producers required to cover commercial positions that result from changed pipeline flows.

### **Implications of Option A**

AEMO's preferred Option A would require the independent provision and publication of daily actual flow data (previous day), a short-term forecast and capacity outlooks for each pipeline and attached production facility delivering gas into the LNG Demand Zone. While release of this disaggregated data to the public would provide the market with detailed information about individual LNG export proponents' supply-demand balance, it would also disclose potentially commercially sensitive information regarding market position.

The Australian Energy Market Commission (AEMC), in its consideration of the GBB capacity outlook period, also recognised the importance of mitigating the risk that confidential or commercially sensitive information may be exposed to third parties.

AEMO's proposal indicates a position that the risks of publishing data sensitive to the LNG export project operators have been sufficiently reduced by delaying the effective date of this procedure change and the publishing of data for this demand zone until two or more LNG export facilities are in operation.

This mitigation may be effective in the immediate term but fails to protect the commercial interests of the LNG proponents following the effective date of the LNG Demand Zone being established.

GLNG believes that Option A is not an appropriate solution for the following reasons:

- LNG proponents are single shippers of gas on the various export pipelines that will become BB Pipelines when the LNG Demand Zone is established;
- Commercial positions (long or short gas positions) for each LNG proponent could be readily determined based on the pipeline flow information required to be provided by each BB Pipeline operator. Such disaggregated information is not only sensitive in the Eastern Australian Gas market, but also sensitive in an international LNG Market context;

- To the extent that the LNG BB Pipelines remain single shipper pipelines, the level of information disclosure sought from the LNG proponents (via the BB Pipeline operator) is not consistent with that required by other participants in the Eastern Australian Gas Market; and
- Option B achieves the AEMO stated policy objectives without disadvantaging LNG proponents.

As highlighted in the Impact & Implementation Report (I&IR), other industry participants, including Origin Energy, Alinta Energy, and Energy Edge, have expressed a view similar to that of GLNG that information pertaining to the three LNG export pipelines could be published on an aggregate basis to protect the commercial interests of the LNG players while still providing sufficient information to the market.

These industry participants, in addition to the LNG proponents, recognise that any policy must be applied consistently across the market, a point raised several times throughout the consultation process carried out by AEMO in 2014/15.

### **Why are individual LNG pipeline flows commercially sensitive?**

LNG businesses operate under multiple commercial agreements, from the production and supply of natural gas to the plant such as equity development agreements, gas supply agreements, gas transportation agreements, through to LNG shipping and LNG Sales and Purchase Agreements that account for plant production.

As with any such commercial agreements LNG producers devote considerable time to mitigating associated risks, as would a large industrial user of natural gas. For example, a large industrial user of natural gas is likely to have a contingency plan in place to manage a natural gas supply interruption, such as contractual arrangements for alternative supply, arrangements for demand reduction/storage, or investment in dual-fuel capability so they can continue operating during a supply interruption event.

One of the key risks for an LNG producer is that an LNG plant interruption puts at risk the delivery of an LNG cargo that is scheduled months in advance. When fully operational, each of the three LNG plants at Gladstone will be capable of producing a cargo of LNG every three to four days, meaning even a one or two day interruption to the plant could delay a cargo and have a knock on effect through the future cargo schedule.

A key mitigant for an LNG producer against such a risk is access to the international LNG spot market. Where a cargo of LNG has been committed to a customer, but a plant interruption puts at risk delivery of this shipment, the penalties for non-delivery to the purchaser may make it economic for the LNG producer to enter the LNG spot market and purchase a replacement cargo for their customer. In the normal course of events an LNG spot purchase may be undertaken by the LNG producer for a number of non-plant reliability related reasons, hence this entry into the LNG spot market is unlikely to of itself reveal the strength of the need to purchase a cargo.

If, however, the individual actual and forecast flows on LNG pipelines are published by the LNG producer, LNG sellers into the LNG spot market will know within a day that the LNG producer, being the potential buyer of their cargo, is doing so because they have an interruption at their LNG Plant, with the logical conclusion being that they are a distressed buyer.

This considerably weakens the negotiating position of the buyer, and is likely to directly impact on the final terms, including price, that can be negotiated. It is important to note that LNG spot

cargoes are currently negotiated bilaterally, meaning that under AEMO's current proposal it is very unlikely a sale could be agreed prior to the LNG pipeline flow information being published.

In a similar way, an interruption at the LNG plant is likely to require an adjustment of shipping schedules with contracted ship providers. This is likely to result in some vessels being pushed back, and potentially other vessels pulled forward. Negotiating with a counterparty that has full knowledge of recent LNG plant throughput and interruptions will result in an uneven negotiation, to the commercial disadvantage of the LNG producer.

For both of the above examples, the publication of actual flow data, and forecast flow data creates the same commercial competitive disadvantage.

### **The West Australia Gas Bulletin Board framework**

The IMO has already implemented regulations in the West Australian Gas Market that mitigate the risk that confidential or commercially sensitive information may be exposed to third parties, thereby exposing the market participant to excessive gaming.

Of particular relevance, the following rules provide examples of relief provided by the IMO under the WAGBB reporting requirements:

- Sub-rule 78 (2) allows the IMO to grant an exemption to a Registered Large User from the requirement to provide the IMO with Daily Actual Consumption Data for its WAGBB Large User Facility where the IMO is satisfied, based on evidence provided by the relevant operator, that for each Delivery Point at which the facility is connected to a WAGBB Pipeline, the facility is the only recipient of gas withdrawn at that Delivery Point.
- Sub-rule 86 (1) requires the IMO to publish on the WAGBB pipeline Nominated and Forecast Flow Data for Receipt and Delivery Points aggregated by Zone and Gas Day.
- Sub-rule 87 (1) requires the IMO to publish on pipeline Daily Actual Flow Data for Receipt and Delivery Points aggregated by Zone and Gas Day.
- Sub-rule 89 (1) requires the IMO to publish on the WAGBB aggregate Daily Actual Consumption Data by WAGBB Large User Facilities.

GLNG supports the approach adopted by the IMO in creating a level playing field for information reported on the WAGBB and would support AEMO adopting a similar approach in the development of its LNG Demand Zone proposal.

### **Demonstrated benefits**

GLNG is of the view that the case for the disaggregation of LNG export pipeline data is not convincing in terms of meeting the stated policy objectives of AEMO and COAG.

Given the current stage of market development, GLNG would welcome further engagement to explore the likely material market benefits from LNG proponents providing pipeline data to the market individually rather than on an aggregated basis through AEMO.

GLNG are supportive of ensuring a fair and equitable gas transacting environment. To that end, in the event that AEMO can demonstrate through its modelling that material market benefits are derived from disaggregated data being published to the GBB, GLNG would seek a commitment from AEMO to pursue a consistent policy approach ensuring that all BB Pipeline operators are treated similar by providing disaggregated flow data by shipper.

## **Conclusion**

The LNG proponents support the publication of relevant information to underpin gas trading and improved decision making by market participants, however information reported on the GBB needs to create a level playing field and not disadvantage some stakeholders over others.