



15 August 2014

Attention: Group Manager, Development and Capacity
Independent Market Operator
PO Box 7096
Cloisters Square WA 6850

Dear Ms Ryan

DEVELOPMENT OF A WHOLESALE GAS MARKET IN WESTERN AUSTRALIA

Thank you for the opportunity to comment on this topic. Apache has been actively involved in the conversation around the State's energy future for several years and we welcome the opportunity to discuss changes which impact our industry.

Background

Apache Energy Limited is the principal Australian subsidiary of Apache Corporation, an independent energy company that explores for, develops and produces oil and natural gas. Apache has been operating in Western Australia since 1993 and recently became the largest domestic gas producer in Western Australia. We operate both the Varanus Island and Devil Creek facilities and we are a participant in the recently commissioned Macedon facility.

The IMO has asked for submissions from Gas Market Participants on two areas, firstly the need for the development of a wholesale spot gas market and secondly, the high level design proposed by the IMO to develop a wholesale spot gas market in WA. I will address each of these points within this submission.

The Wholesale Gas Market in Western Australia

Key to the proposal by the IMO for further development of the WA wholesale gas market is first determining whether there is in fact a failure of the market. Apache believes the market is functioning effectively with multiple options for buyers looking to purchase spot gas. A buyer looking to purchase gas in WA can engage with any of the following:

1. **Producers** from gas facilities Varanus Island, Devil Creek, Macedon and NWS.
2. **Resellers** who are gas buyers who have excess gas to their portfolio and wish to on sell.
3. **Third Parties** such as Gas Trading Australia Pty Ltd and Energy Access Services Pty Ltd.



Apache, as the largest gas producer in the WA market, has been active in supporting the development of the WA spot market in order to maximize our use of spare capacity and to keep production rates strong during periods of customer downtime. To encourage spot sales and to meet the needs of our customers, we have created a Master Spot Agreement (MSA) platform to allow customers large or small to have access to gas at short notice and with little administrative burden or cost.

The MSA platform is a standard set of terms and conditions which governs the sale and purchase of gas under a spot transaction. The volume, term, price, delivery point plus any special conditions are agreed on a case by case basis under a 1-2 page summary sheet which is executed if and when a spot sale is made. Apache has MSA's with a large share of WA gas market participants and we have received positive feedback on the introduction of this new style of contracting.

Apache will continue to transact with the gas customers under our MSA platform into the future as it provides the lowest cost option to our customers both from an administration and a transport perspective. We provide clarity to buyers on price and delivery point to best suit their individual needs. Apache does not see the need for costly government intervention into a small portion of the gas market where gas is being traded in a number of cost effective ways for the benefit of WA gas market participants.

The Proposed Design for a new Wholesale Gas Market in Western Australia

The scope for the proposed design of a new wholesale gas market in WA states, *"the gas market should be voluntary, simple, liquid, inexpensive to implement and operate and should minimise the impact on current supply and transport contracts."*¹ The design, as presented in the Industry Workshop on Gas Market Development held on 16 July 2014, does not achieve these fundamentals in favour of the accessible, low cost spot market we currently operate in.

Firstly, the WA spot market is small. On average it represents less than five percent of the total WA gas market. With liquidity characterized by a high level of trading activity, the amount of spot gas traded under a new, voluntary trading platform would need to capture all of the existing spot gas that is currently traded through low cost bilateral agreements or it must grow the market significantly. The IMO have assumed that to recover costs, it would need to have a significant share of the existing spot gas traded transferred to its platform. It did not represent that it would grow the market. Without liquidity, the data collected will not be able to achieve reliable transparency on pricing and volumes which is understood to be a key driver of developing this new platform. Apache, as a significant supplier of gas to the current spot market, will continue to transact under our bilateral MSA platform in preference to an imposed platform which carries additional costs to participants.

The market reform scope seeks to create an inexpensive and low cost option to trading. The current IMO estimate of A\$1 Million dollars plus annual operating expenses (which Apache believes to be underestimated) will eventually pass through to all members of the industry and/or government. This has the effect of increasing the cost of gas supply in an already high cost environment. When the proposed

¹ High Level Gas Market Design Presentation



reform is reliant on the transferal of existing spot arrangements to support its liquidity, it is difficult to see how this reform has achieved its principle of "inexpensive to implement and operate" when it will have costs that are greater than the currently operating spot market.

Apache also sees an increase in costs to the market through the development of new flexible transport contracts and their ongoing fee structures. The proposed base design is the "Carnarvon Hub" which combines six delivery points. Participants will be required to ensure they have shipping from multiple hubs to ensure they can receipt the gas they purchase under an anonymous delivery point bidding process. To facilitate this, the Dampier to Bunbury Natural Gas Pipeline (DBNGP) will need to provide support in the form of agreements that allow individual shippers to receipt gas from multiple supply points. Consider this for a participant which may only purchase gas for two days in the year due to a spike in gas needed to support maintenance operations. Rather than maintain shipping from multiple entry points, at a cost, they would be better off approaching any of the spot gas sellers directly to ensure they can utilize their existing shipping rather than utilize this new platform and have to maintain and pay for flexible shipping for an entire year.

Conclusion

Apache is an active participant in the WA gas spot market. We have responded to the needs of customers by providing transparent contracting terms which are equally available to all buyers. As the largest producer of gas in WA and with multiple entry points we believe the current system is operating well with engagement from producers, gas buyers and third party private investment. We encourage a low cost spot market with diversity in supply options for the benefit of all buyers.

The IMO has not provided a sufficient case that the current spot gas market is not functioning nor have they provided a proposed design that is sufficient to meet their stated objectives. We believe their proposal increases costs to the market for the benefit of a small number of participants and will not achieve the liquidity required to provide reliable data on the spot market.

Apache also endorses the submission on this matter by the Australian Petroleum Production and Exploration Association (APPEA).

Should you have any queries on this submission, please contact me on 08 6218 7490.

Yours Sincerely,

GRAHAM WEAVER
Director Oil and Gas Marketing