

## Response to the AEMO Impact and Implementation Report – LNG Zone

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### *Introduction*

QGC welcomes the opportunity to respond to the Australian Energy Market Operator's (AEMO) Impact and Implementation Report (IIR) on developing an LNG demand zone at Curtis Island. We recognise this IIR process will establish the procedures for how LNG export pipeline information will be publically reported. Our active participation in the lead-up phases to the IIR reflects the importance to QGC of how LNG is accurately and appropriately incorporated into the Gas Bulletin Board (BB).

QGC supports the publication of relevant information to appropriately inform the market of supply and demand changes. This will underpin gas trading and improve decision making by stakeholders. Information, however, needs to create a level playing field and not disadvantage some stakeholders over others. QGC has previously advised that the form in which LNG export pipeline information is publically released could result in the publication of confidential information that would commercially disadvantage LNG producers. In other jurisdictions <sup>1</sup>there are rules in place to ensure this is avoided.

The IIR proposes to declare a new LNG demand zone (Curtis Island) and establish processes to publish individual LNG pipeline flow data (and associated information) on the BB. According to the IIR, this will commence once it has been confirmed that the first cargo has been loaded for the second LNG project. We appreciate the proposal to defer the "effective" date of reporting as a means of mitigating some of the risks of publishing commercially sensitive information (particularly for QGC as the first LNG producer to commence operation).

The requirement, however, to provide disaggregated LNG export pipeline information after this date would create on-going issues for LNG producers. It does not represent a balanced and reasonable long-term solution consistent with achieving the National Gas Objective (NEO) or arrangements in place in other relevant gas/LNG markets<sup>2</sup>. As an alternative, QGC recommends once reporting commences, AEMO publishes only aggregate LNG export pipeline flow information. Our view is formed on the basis of the following principles:

- The three LNG producers are or will be single shippers of gas on the respective pipelines – a relatively unique situation in the East coast gas market.
- Individual commercial positions (long and or short) would be readily determined based on individual pipeline flow information.
- This level of disclosure is not required by other parties trading in the East coast gas market.
- Aggregate data would provide the necessary level of information on supply-demand conditions to ensure market participants and other stakeholders are appropriately informed.

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<sup>1</sup> For example, Western Australian Gas Market, UK and Europe gas markets (under the Regulation for Energy Market Integrity and Transparency (REMIT) and transparency rules in the UK.

<sup>2</sup> It is also inconsistent with the principles underpinning the provision of information in the Western Australia Gas Market. QGC understands there are specific provisions that mitigate the risk that confidential or commercially sensitive information may be exposed to third parties.

The following discussion considers specific aspects of the IIR.

### *1. Declaring the effective date*

QGC agrees with AEMO concerning the preferred option to declare the “effective date” of the BB procedures. Effectively this would be 15 business days after there is confirmation that the first cargo has been loaded for the second LNG project. The alternative option could result in unintended outcomes. Under the alternative, AEMO would estimate (based on public information or notice from the second LNG project) the likely date of the loading of the first cargo of the second LNG project. The commissioning profile of major infrastructure projects can change at short-notice and as such the timing of the first cargo. If this is the case, for a period, QGC would have a reporting obligation despite being the only project in operation. This outcome would be contrary to the intent behind the decision to defer the overall commencement date of LNG export pipeline reporting.

### *2. Demonstrated Benefits*

QGC does not consider that stakeholders have outlined a convincing case for the publication of disaggregation LNG export pipeline data as opposed to the aggregation of flows. It has not been articulated how it will directly improve business operational and risk management decisions and or will assist in achieving broader policy objectives. Before a decision is made to publish disaggregated information, QGC considers further engagement is necessary to fully understand the material market benefits from the provision of this level of information.

### *3. Specific market Issues applying to disaggregated LNG pipeline reporting*

Disaggregated LNG export pipeline flow information would provide the market with detailed information about an LNG producers’ short-term supply-demand balance. This market information would allow others to assess, with reasonable accuracy, if an LNG producer was long or short and as such gain an unfair commercial advantage when LNG producers are experiencing near term imbalances.

The proposal calls for the provision of actual flows (previous day), a short-term forecast and a capacity outlook. Although actual flows are published after the fact (day after), there may still be ongoing supply demand issues from previous days impacting real time decision making which other stakeholders could use to their advantage. For example, if production upstream reduced and LNG export pipeline deliveries remain stable (for example due to the use of short-term available line pack), the market could clearly determine that and LNG producer was or will be “short” and sourcing gas from third parties to meet LNG requirements.

In this situation the LNG producer’s negotiating position would be significantly impeded and could be considered a “distressed buyer” of gas if it was to enter the market. This issue is exacerbated by the requirement to provide short-term forecast flows. It would clearly remove an LNG producer’s ability to manage its short-term position without commercial disadvantage. This situation undermines market confidence and could discourage LNG producers’ from looking to the market as a means to buy or sell gas. This is not in the long-term interest of gas customers and contrary to the NEO.

Furthermore, the provision of disaggregated information may comprise an LNG producer’s position if it need to source cargos in the international LNG spot market to meet contractual commitments following a plant disruption. If individual flows on the respective LNG export pipelines are published, participants in the LNG spot market will be able to identify the specific LNG producer experiencing

supply issues. This would considerably weaken their negotiating position as a buyer in this market. 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 transaction could be agreed prior to the LNG export pipeline flow information being published.

#### *4. Overall Preferred Solution*

Publication of aggregate LNG export pipeline flow information strikes an appropriate balance. It would inform the market of any overall change in LNG supply-demand position (addressing any perceived information asymmetries) without compromising individual commercial positions. As noted in the IIR, other industry participants<sup>3</sup>, have expressed a similar view that the three LNG export pipelines could be published on an aggregate basis to protect the commercial interests of the LNG producers while still providing sufficient information to the market. This is because there is only one shipper on each of the three pipelines. The Australian Energy Market Commission (AEMC), in its consideration of the BB capacity outlook period also recognised the importance of mitigating the risk that confidential or commercially-sensitive information may be exposed to third parties.

Overall, LNG export pipeline reporting should commence with the publication of aggregated flow data. If stakeholders consider it necessary to move to more granular reporting, a case should be made supported by demonstrated evidence of the market impacts. Notwithstanding these comments, in the event AEMO recommends the disaggregated reporting of LNG export pipeline information, consideration should be given to delaying the release of disaggregated pipeline information until sufficient time has passed that it would not commercially disadvantage individual LNG producers. This could be in the order of 14 days after the "gas day", but AEMO would need to consult industry to determine the appropriate period. Aggregated information could be released within this time window. This would 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.

#### *5. Concluding comments*

QGC considers that the provision of disaggregated LNG export pipeline information would commercially disadvantage LNG producers relative to other players operating in East coast gas market and international LNG markets. Rather pipeline information provided at an aggregate level would appropriately inform the market of any supply-demand changes, without comprising individual commercial positions.

Moving forward, QGC is focused on improving liquidity within the East coast gas market and consider more substantive changes (e.g. the delivery of real-time information within an appropriate timeframe) to the way gas market information is reported are necessary to support better trading and risk management decisions. We note other industry players acknowledged the benefits of moving the BB in this direction. To be effective, however, enhancements to information provisions need to be progressed in conjunction with other market reforms (e.g. access to capacity and hub development). Access to additional information without creating additional flexibility in other areas of the market could have unintended consequences and result providing opportunity to those with existing market positions. We look forward to working with AEMO during the next phase of the BB redevelopment and the AEMC as broader market reform issues are progressed developed through the East Coast Wholesale Gas Market and Pipeline Frameworks Review.

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<sup>3</sup> Origin Energy, Alinta Energy, APA, GLNG and Energy Edge.