06 August 2021

Submission: Gas-Fired Recovery: Infrastructure and Investment Consultation Note

The Australian Pipelines and Gas Association (APGA) represents the owners, operators, designers, constructors and service providers of Australia's pipeline infrastructure, with a focus on high-pressure gas transmission. APGA's members build, own and operate the gas transmission infrastructure connecting the disparate gas supply basins and demand centres of Australia, offering a wide range of services to gas producers, retailers and users.

APGA welcomes the opportunity to contribute to the Gas-Fired Recovery: Infrastructure and Investment Consultation Note (the **Consultation Note**), which focuses on the upcoming National Gas Infrastructure Plan (**NGIP**) and the proposed Future Gas Infrastructure Investment Framework (**FGIIF**).

In the immediate term, APGA recommends the federal government implement measures that focus on facilitating the availability of gas supply at sufficient volume and price for gas market needs. Designed appropriately, this would represent the highest return on government investment in achieving the goals of the NGIP.

Prioritising investments to secure upstream supply are needed to ensure adequate gas supply over the medium to longer term. This will in turn ensure adequate gas is available to meet the needs of Australian businesses and households while driving gas infrastructure investment. Once adequate supply has been appraised, the pipeline sector will compete to ensure the lowest cost pipeline solution is delivered to get that gas to market.

The single greatest immediate action which the federal government could take to promote future gas *pipeline* investment would be to introduce an effective greenfield exemption which protects new gas pipeline infrastructure from the risks associated with the Part 23 commercial arbitration. New merchant pipeline infrastructure is contracted within a workably competitive market, the commercial arbitration of which undermines revenue certainty for these multi decadal investments.

Looking past the immediate term, the word *gas* does not need to be restricted to meaning *natural gas* across both the NGIP and FGIIF. APGA proposes that the NGIP focus on supporting development of a future renewable gas industry, to both ensure future supply security and to decarbonise Australian the use of gaseous energy into the future.

Please see APGA responses to the specific questions posed by the Consultation Note in the pages that follow. APGA further refers DISER to its submission lodged on 26 February 2021 in response to the Gas Fired Recovery Plan consultation which explores all points within this submission in more detail[1].

To discuss any of the above feedback further, please contact APGA's National Policy Manager, Jordan McCollum, on +61 422 057 856 or jmccollum@apga.org.au.

Yours Sincerely,

JORDAN MCCOLLUM
National Policy Manager

[1] APGA Submission: Gas Fired Recovery Plan lodged 26 February 2021
https://www.apga.org.au/sites/default/files/uploaded-content/field_f_content_file/210226_apga_submission_-_gas_fired_recovery_plan.pdf

National Gas Infrastructure Plan Question Response

The Department has sought information from stakeholders to inform development of the NGIP, particularly feedback in relation to the following questions.

How do you consider domestic and international demand for Australian LNG may affect production from existing and new basins?

Regardless of the type of supply or demand, new supply and demand will interact with a market on basis of relative commercial viability. Wherever new commercially viable supply or demand of gas has been identified in Australia, the Australian merchant pipeline industry has demonstrated a track record of making the necessary investments to ensure supply is connected to demand. This holds regardless of whether the supply or demand being considered is LNG, or any other commercially viable gas supply or demand.

In what sequence should new basins (and associated infrastructure) be developed, having regard to uncertainties in the LNG outlook, and what are the most appropriate infrastructure solutions needed to connect these new basins to the market?

New gas supply is best developed in the order that the private sector is willing to invest. APGA does not have access to relative forecast cost of gas basins so is unable to comment further. Once the private sector has identified new commercially viable supply, the Australian merchant pipeline market will build upon its track record of ensuring that additional gas infrastructure is developed along the lowest cost pathway to connect supply to demand.

What infrastructure options will help ensure sufficient gas is available to southern demand centres? What are the most critical actions that need to be taken in the short term to provide greater clarity and certainty to support timely infrastructure investment in the east coast gas market?

Aside from other impacts identified within this submission, APGA is mindful that the Pipeline DRIS remains unresolved, with legislation currently being drafted. As identified in the APGA Submission dated 17 January 2020 in response to the Pipeline DRIS development consultation, the greenfield exemption as it is currently proposed within the Pipeline DRIS does not protect against commercial arbitration on newly developed gas infrastructure, resulting in escalated commercial risk for any new gas pipeline[1].

This proposed greenfield exemption contemplated under the Pipeline DRIS is entirely inconsistent with minimising long-term revenue risk, as it undermines revenue certainty, reduces the upside potential for projects and ultimately impeding pipeline investment decisions. The prospect of binding arbitration setting prices for uncontracted capacity increases uncertainty, and thus project risk, about the future revenue of a project.

The unique use of the Recovered Capital Methodology for asset valuation in Part 23 of the National Gas Rules is particularly damaging. It requires returns be capped at a rate relevant to regulated monopolies with no regard to the risks associated with building merchant pipelines with uncontracted capacity. It does this while leaving investments exposed to all the downside risk of failing to contract spare capacity at a future point in time. It also allows assets to be revalued over time using regulatory rates of return rather than the internal rates of return required to meet FID.

These features of the regime are of high consequence to greenfield investments and failure to recognise this in the proposed greenfield exemption degrades the investment environment for new infrastructure by a much greater degree than it can benefit from the support contemplated through the National Gas Infrastructure Plan or under the Future Gas Infrastructure Investment Framework.

The most critical action that needs to be taken in the short term to provide greater clarity and certainty to support timely infrastructure investment in the east coast gas market would be to extend the greenfield exemption to protecting eligible assets from commercial arbitration, as well as expanding eligible asset criteria to cover upgraded throughput capacity for existing gas infrastructure. This will remove the current greatest government-imposed source of revenue uncertainty impeding pipeline investment decisions.

How will infrastructure investments be influenced by the potential future demand for new gas technologies (e.g. hydrogen, biogas) that can be blended into these assets, alongside natural gas?

Through their own actions and through engagement with the Future Fuels CRC, Pipeline companies are actively pursuing the requirement for their assets to be viable in a net zero 2050 future. Pipeline companies are leading the way in renewable gas production development while investigating actions to ensure their investments are future proofed.

Without any additional expense, existing pipelines and pipelines built today already offer a path to market for biomethane and other renewable methane production to be developed in the regions which they pass through. Green hydrogen produced behind the meter in Australia’s proposed Renewable Energy Zones also have the potential to find the cheapest path to market through hydrogen pipelines to major demand centres.

While hydrogen transport through existing pipeline assets still requires additional research, Australia’s merchant pipeline market is looking to build upon its track record of ensuring that additional gas infrastructure is developed along the lowest cost pathway to connect all supply, including renewable gas supply, to all demand. APGA encourages the Australian Government to consider future renewable gas infrastructure requirements and future demand for renewable gas technologies as a matter of importance within the NGIP.

Future Gas Infrastructure Investment Framework Question Response

The Department has sought advice to identify the barriers to investment that could be addressed through government support.

What conditions are required to support investment in long term gas infrastructure assets?

The most influential condition required to support investment in long term gas infrastructure assets is policy certainty. This includes a regulatory environment that encourages investment, as well as a consistent national approach to emissions policy which creates certainty around the role of gaseous energy in Australia's energy future. Without these, the revenue certainty of new and existing gas infrastructure is undermined.

Revenue certainty is the key to investment in long term gas infrastructure. Revenue certainty exists where sufficient revenue streams can be reasonably forecast and secured. In the current environment, pipeline companies have evolving risk appetites, undertaking investments with less than 100% revenue certainty, making these companies best placed to weigh up various influences on revenue certainty and undertake the investment decisions which are most appropriate for their business and their shareholders.

In what circumstances would government support of critical infrastructure projects assist projects to reach FID?

APGA finds it very difficult to envisage any circumstances where government support for pre-FID activities in the pipeline sector will assist critical infrastructure projects in reaching FID. As highlighted above, the level of revenue certainty combined with each pipeline companies' revenue risk appetite will be the determining factor as to whether pipeline projects achieve FID.

What technical, regulatory and financial risks do proponents encounter in seeking to reach FID and how may government support help investigation and management of these risks?

The greatest risk which pipeline companies need to manage to achieve FID is financial risk. This is most greatly impacted by regulatory risk, while technical risk has all but zero impact on FID in the technologically mature high-pressure gas pipeline industry.

The greatest help which Australian Government support could provide would be in reducing regulatory risk. Specifically, reducing regulatory risk which undermines revenue certainty would be the greatest help in managing financial risk in achieving FID for pipeline assets.

Throughout the multi-year Pipeline DRIS process, APGA has advocated for an effective greenfield exemption which protects against revenue uncertainty, including in the APGA Submission dated 17 January 2020 in response to the Pipeline DRIS development consultation[1]. As it is currently proposed, the Pipeline DRIS does not deliver an effective greenfield exemption which protects against revenue uncertainty. Instead, it leaves pipeline investments exposed to substantial financial risk through the ability of a commercial arbitrator to determine prices. This has a direct negative impact on revenue risk.

Social risks such as regulatory and environmental approvals, cultural heritage and native title considerations are all taken very seriously by pipeline companies. Optimising these processes for increased consistency and faster processing without compromising environmental or social outcomes would help optimise the pathway to achieving FID. APGA proposes the Federal Government focus on optimising risk management processes while ensuring appropriate environmental and social outcomes remain achievable.

What types of activities may proponents need to undertake in developing a project to FID and what barriers do they face in undertaking these activities?

Each pipeline company has its own requirements to achieve FID, alongside its own processes to achieve those requirements. In order to achieve FID, gas infrastructure generally needs to be reasonably ready to commence construction, with commercial gas contracts being reasonably ready for execution, with both construction and commercial gas contracts being progressed at FID. Each company and projects risk profile will determine how advanced these must be to achieve FID.

How could support be provided to enable timely investment decisions?

APGA finds it difficult to envisage government support for early works materially altering investment decision timing. Where support is going to be provided, it is important that it is provided through an open and competitive process that considers greenfield and brownfield options to deliver new gas supply to the east coast market.

This is best achieved by establishing clear criteria through which projects will be rated and identified for support. Criteria should include:

- Ability for project to deliver new supply to market;
- Cost of delivered gas to market including project costs;
- Level of advancement / timing of associated upstream project to supply additional gas to market; and
- Ability of project proponent to deliver the project, including credit rating as its ability to secure finance is critical to project success.

These are the factors which generally determine successful FID in the Australian merchant pipeline market today.

Aside from ability for the project proponent to deliver the asset, the other three criteria are predominantly influenced by availability of gas at sufficient volume and price to meet market needs. In the absence of this, projects cannot proceed. As such, it may be more appropriate for government to consider availability of gas at sufficient volume and price to meet market needs as the focus of government support.