2 July 2015

Our Reference: APLNG – COR - 0009400

East Coast Gas Inquiry
c/- Australian Competition and Consumer Commission

via e-mail to: gas.inquiry@accc.gov.au

To Whom it May Concern,

RE: APLNG Comments on ACCC East Coast Gas Inquiry Issues Paper

Australia Pacific LNG Pty Limited (APLNG) welcomes the opportunity to provide comments on the ACCC East Coast Gas Inquiry Issues paper (the Issues Paper) dated 4 June 2015.

APLNG is a coal seam gas (CSG) to liquefied natural gas (LNG) incorporated joint venture among ConocoPhillips, Origin Energy and Sinopec.

APLNG is the largest supplier of gas for use domestically in Queensland and was the second largest producer in Eastern Australia in 2013 with over 110 PJs of production, according to a report by EnergyQuest[1]. APLNG will see an increase in the near future in its gas production to supply both its ongoing domestic gas business and, from late 2015, an export market through its LNG facility on Curtis Island, near Gladstone, which will receive and process natural gas. From mid-2016 the APLNG LNG facility will have a capacity of 9 million tonnes per year (equivalent to approximately 500 PJs per year) and will export the LNG to customers in China and Japan. APLNG will continue contracting for domestic sales and does not consider that a domestic gas reservation policy is necessary.

APLNG has carefully considered the Issues paper and would like to emphasize four key points as part of this public process:

1. **APLNG is and will continue to be a major supplier domestically under long term contracts which extend well beyond the commencement of LNG production;**
2. **APLNG supports the continued development of a competitive trading of gas on an efficient and transparent basis;**
3. **Historical gas prices are significantly below the current cost of development and production; and**
4. **APLNG is supportive of policies that encourage development of future supplies of natural gas, including exploration and production activities.**

To further expand on these points:

1. **APLNG is and will continue to be a major supplier domestically under long term contracts which extend well beyond the commencement of LNG production.**

APLNG has over 1400 PJs of gas supply committed to domestic use from 2015 under long term contracts. APLNG has also entered into significant long term contracts for LNG exports to customers in China and Japan.

[1] See Section 2.6 of the Eastern Australian Domestic Gas Market Study published in 2014 by the Australian Government Department of Industry.

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APLNG has close to 20% of its total volumes through to 2020 committed to domestic customers and continues to engage confidentially with domestic customers on new volumes as existing contracts expire. APLNG also actively supports the development of the AEMO Wallumbilla Hub to further enhance development and sustainability of domestic supply, as noted below.

2. **APLNG supports the continued development of competitive trading of gas on an efficient and transparent basis.**

APLNG continues to support the development of active trading of gas on the East Coast and has recently conducted a number of transactions on the AEMO Wallumbilla Hub. APLNG is also participating in the COAG Energy Council's Vision for Australia's Future Gas Market. As part of that process, APLNG has written to the Australian Energy Market Commission in support of regulatory changes in three focus areas (as outlined in that letter) including:

- Increased sharing of information;
- Further development of voluntary gas market hubs; and
- Elimination of barriers to increase access to transportation capacity.

Although the Wallumbilla Hub continues to develop, it still has not reached a significant level of liquidity. Achieving significant levels of liquidity in the marketplace requires producers and buyers to transact a significant percentage of their volumes on a short term or spot basis. Contracting all volumes through long term agreements runs counter to developing a robust liquid market and creates barriers for new entrants who need to acquire and develop acreage and then have ready access to market buyers. Departing from the historic norm of long term contracting requires the confidence achieved from a transparent marketplace.

Establishing such a market requires a number of key activities occurring in concert, including ready access to acreage, streamlined regulations for development and transportation (including a stable fiscal regime), a well-developed and competent infrastructure services industry, open access transportation to and from a liquid market hub (specifically the implementation of the Wallumbilla Hub) and orderly and developed gas trading and gas transport systems.

3. **Historical gas prices are significantly below the current cost of development and production.**

Costs of development and production have increased and thus the historical basis for gas prices is no longer an accurate reflection of current costs.

APLNG is developing one of the largest CSG to LNG facilities in the world. The size and scale of such projects have driven large scale CSG developments which are far more expansive in size, scale and complexity than historical developments.

In addition, the current development of production facilities have been designed and constructed to international standards of reliability and integrity that are higher and more costly than the initial well developments.

Uncertainties in the regulatory framework (discussed further at item 4) also add a significant layer of compliance cost, which undoubtedly adds to the current costs of development and production.

There is not a significant amount of information available in the public domain to quantify this increased cost of development and production, however, we are aware of a recent equity research report by Credit Suisse. In that report, dated 9 February 2015, Credit Suisse has, from publically released company data and Credit Suisse estimates, projected the lifecycle upstream wellhead cash costs for each of the three LNG proponents to be ~A$6.25/GJ for APLNG, A$7.25/GJ for GLNG and A$8.00-9.50/GJ for QCLNG. [2]

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[2] The source data is from an Australia CSM-LNG series paper entitled "How deep is your love?" and has been quoted herein with permission.

4. **APLNG is supportive of policies that encourage development of future supplies of natural gas, including exploration and production activities.**

APLNG supports a sound and certain regulatory framework which is vital in helping to ensure the safe and responsible development of Queensland's CSG resources, whilst facilitating further investment and participation in the industry. APLNG also encourages governments, both at Federal and State level, to consider how regulatory certainty can be improved in the upstream sector of the gas industry through reducing red/green tape. Reducing red/green tape would allow for increased and timely exploration and production, which in turn would assist in ensuring that gas supply can continue to effectively and efficiently meet gas demand requirements.

APLNG is supportive of recent Queensland State government efforts to improve tenure and license reform including as it relates to the new paradigm of large projects with multiple tenures.

APLNG is pleased to be afforded an opportunity to provide these comments. Should you have any questions or would like to discuss this submission further, please contact Wendy King on (07) 3021 3350.

Sincerely,

Mark McCabe
Chief Financial Officer & Deputy CEO
Australia Pacific LNG Pty Limited