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Our Reference: APLNG - COR - 0013971

Dr Kerry Schott AO  
Independent Chair  
Energy Security Board

Sent via email: [info@esb.org.au](mailto:info@esb.org.au)

Dear Dr Schott

### **Draft Detailed Design of the National Energy Guarantee Consultation Paper**

Australia Pacific LNG Pty Ltd (**APLNG**) is pleased to provide our views on the National Energy Guarantee (**NEG**) draft detailed design consultation paper (**the Paper**) for the Energy Security Board's (**ESB**) consideration. APLNG is an incorporated joint venture among Origin, ConocoPhillips and Sinopec which produces coal seam gas and is the largest single supplier into the Australian domestic gas market. APLNG is also a large electricity consumer in Queensland.

APLNG supports a national energy policy that integrates energy and climate change policy and that provides certainty to all market participants over the long term. The objective of the NEG is to create a reliable and affordable energy market that delivers on Australia's emission reduction commitments. APLNG supports this goal, on the basis that the proposed scheme must ensure that the introduction of additional mechanisms to achieve these objectives is balanced with the pursuit of affordable prices. APLNG is of the view that the scheme, as proposed, is likely to increase end user costs. Thus, we offer the following comments regarding the NEG as currently proposed.

This submission builds on APLNG's March 2018 submission to the ESB on the draft design consultation paper.

#### **Emissions Requirement**

1. APLNG supports a flexible approach for market customers to meet their compliance obligations. In particular, APLNG supports the carryover or deferment of compliance obligations.
2. The ability to bank over-achievements for future years allows for the lowest cost of compliance over a given period of time. Therefore, limits on banking are not supported. If the ESB intends to implement a banking limit, APLNG suggests that the limit be significantly higher than the 5% proposed in the Paper.
3. APLNG is supportive of the concept of the emissions register. An emissions registry process would need to provide flexibility to allow for fluctuations across a given scheme year, as it is unlikely that parties will be able to perfectly match their emissions obligations and contracted position. This is especially important during the first years of the NEG as parties adapt to the new requirements.
4. To the extent the Commonwealth intends to apply the exemption of EITE load, APLNG requests a review into the current definition of LNG Production. This is to ensure that LNG receives effective assistance, which is aligned with the intent of the Renewable Energy Target and NEG Schemes. The current definition of LNG Production precludes APLNG, an

energy intensive and trade exposed LNG business, from being eligible for effective EITE assistance. APLNG recommends a review focused on all facets of LNG Production including its foundation in upstream operations.

5. APLNG also note that meeting Australia's emissions target will require the implementation of a range of abatement measures and that offsets provide an important way to support lower cost emissions reduction. APLNG supports the use of credible domestic and international offsets to meet the Guarantee's emissions requirements. These should be selectively applied to sectors of the economy with less ability to reduce emissions. APLNG suggests that further consultation be undertaken to enable agreement on equivalent standards for international units.

### Reliability Requirement

6. APLNG has a high level of concern that a reliability obligation under the NEG could impact price affordability. APLNG believes that by forcing a requirement to enter into sufficient qualifying contracts to cover demand at the time of a reliability gap to meet possible future non-compliance limits, it is likely to impede the ability of liable entities to cover the reliability gap at least cost. Affordability was one of the cornerstones of the NEG and therefore APLNG requests the ESB consider whether the current design is a least cost approach.
7. If the reliability obligation is triggered, large customers will potentially be forced to adjust contract commitments and/or contract with a limited number of retailers or generators at a similar point in time to close the gap. This has the possibility to result in higher prices. APLNG believes the NEG should be designed with a least cost approach for end users.
8. APLNG supports the broadened range of qualifying contracts proposed by the ESB in the Paper. The inclusion of a wide range of financial contracts and the movement away from overly prescriptive contractual mechanisms will better enable large users to manage their liability. APLNG supports the proposal that any existing arrangements of large users that reduce exposure to the spot price and cover the period of the reliability gap should be considered qualifying contracts and therefore be excluded from firmness adjustment requirements.

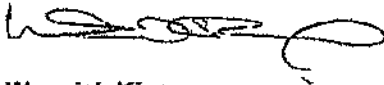
APLNG also feels strongly that such agreements put in place prior to the implementation of the NEG should be eligible to be grandfathered as qualifying contracts, as opposed to being excluded by the 20-April 2018 cut-off date. At the time of the grandfathering cut-off, there was still significant uncertainty around the proposed detailed design of the NEG. Without an amendment to the grandfathered date, liable large users would otherwise incur additional compliance costs despite having proactively supported system reliability through recent agreements.

9. APLNG is concerned about the use of forecasts prepared for ES00 reporting as the basis for determining the existence of a shortage in the market, as the ES00 was not designed for this purpose. APLNG recommends a review to identify which adjustments may be required to make the ES00 fit for use as required by the NEG.
10. Where a reliability gap is identified, APLNG support a rigorous review process to verify the forecast. APLNG would also recommend that if a forecast gap is triggered, that there is a consultation with market participants to validate the data, for example, as is done in the peak gas supply guarantee. Last, if AER also participates in this review role, APLNG is concerned that it would have to add capability in duplication to that already at AEMO, potentially increasing cost. This proposal should be assessed from a least cost perspective.
11. The Paper proposes that large users would be required to directly comply with the reliability requirement, should AEMO identify a gap. APLNG does not agree with this approach, as imposing similar obligations to those placed on retailers negates a key benefit of entering a

retail contract. If the ESB elects to impose the reliability obligations on end users rather than the generation sector, APLNG would prefer for the default position to be that large users who have entered into a retail contract have their liability managed by their retailers, with a voluntary "opt-in" for large users to manage their own liability. APLNG considers that the added complexity involved with managing reliability compliance is likely to create additional costs and inefficiencies for many large users.

APLNG appreciates the opportunity to provide input to this draft consultation. Should you have any questions or would like to discuss this submission further, please contact please contact Darren Meznarich at 07 3021 3350 or [Darren.meznarich@aplng.com.au](mailto:Darren.meznarich@aplng.com.au).

Yours sincerely



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