

always  
powering  
ahead

apa

**Victorian Transmission System Stakeholder Engagement Group. 2023-27 access arrangement (AA6).**

**Roundtable 14 – Updates on Winchelsea. Demand and Supply. Discussion about stakeholder submissions.**

25 May 2022



# Today's discussion & format

	Topics	Purpose
1	Welcome & Acknowledgement of Country	
2	Update on Winchelsea	Inform
3	Update on demand & supply information	Inform
4	Discuss stakeholder submissions	Consult & involve
5	What to do from here?	Consult & involve
6	Next steps	Consult & involve

Note that the meeting will be recorded to assist updating issues register.  
Video will not be distributed outside of APA.

Purpose of today's discussion is to inform, consult & involve.  
We do encourage your views and feedback today.

# Updates – Winchelsea. Demand & supply forecasts

# Winchelsea compressor

## APA announcement to market (24 April 2022)

21 Apr 2022

Media Statement

Leading Australian energy infrastructure business, APA Group, today announced it has reached a Final Investment Decision for a \$60 million expansion of the South West Pipeline in the Victorian Transmission System, through the installation of an additional compressor facility at Winchelsea Compressor Station.

This \$60 million investment is expected to enable additional capacity in the Victorian Transmission System ahead of gas supply shortfalls highlighted by the Australian Energy Market Operator (AEMO) in the 2022 Gas Statement of Opportunities (GSOO), which assesses forecast supply and demand out to 2040.

APA CEO and Managing Director, Rob Wheals, said the investment was consistent with APA's purpose to strengthen communities through responsible energy.

"As a leading provider of energy solutions for communities across Australia for over two decades, APA has a proud track record of supporting the Victorian Government in ensuring energy security for Victorian homes, business and industry," Mr Wheals said.

"The vast majority of residential gas customers in Victoria use gas to cook with and to heat their homes in winter. AEMO's 2022 GSOO flagged potential gas shortfalls in Victoria from winter 2023 and suggested that in extreme conditions, this could result in demand curtailment, including asking households to 'voluntarily reduce their use of gas during forecast extreme peak day events'.

"In response, APA has worked collaboratively with the Australian Energy Regulator and the Victorian Government to expedite augmentation of the South West Pipeline to provide further capacity, recognising the critical importance of natural gas to Victoria's energy system. We anticipate this will be rolled into our asset base from 2023."

Mr Wheals said work on the additional compressor would begin immediately, targeting the compressor to be in place ahead of AEMO's forecast gas shortfalls to enable additional capacity in the Victorian Transmission System.

## New business case submitted to AER

- AEMO's Gas Statement of Opportunities (GSOO 2022) and Victorian Gas Planning Report (VGPR 2022) have predicted a risk of shortfall in gas supplies in the Victorian Transmission System (VTS) to meet winter demand as early as 2023. This shortfall is driven by the declining gas supplies from Longford.
- Due to risk of supply shortfall in winter 2023, APA was approached by the Victorian Government and AEMO to investigate possibility of a fast-tracked solution to install a second compressor at Winchelsea before winter 2023.
- The Winchelsea compressor site has provisions for a future second unit to be installed. The availability of space for a second compressor substantially shortens the time required for design, engineering and approvals.
- While the schedule is very tight, APA has established that the installation of a second compressor at Winchelsea before winter 2023 is possible.
- APA is proposing to install a second Taurus 60 (5.6 MW) compressor at Winchelsea which will increase Iona's injection capacity to 517 TJ/d, that is, 41 TJ/d (from post WORM 476 TJ/d) of additional gas supply capacity to the VTS during the winter peak period.
- The cost of Capital expenditure forecast to be \$60.01 million (\$37.2 million in CY2022 and \$22.81 million in CY2023).
- Operating expenditure of \$250,000 per annum starting in CY2023.
- The proposed second compressor at Winchelsea is necessary to maintain security of supply during the potential gas shortfall predicted by AEMO starting in winter 2023.
- Regarding the original SWP570 proposal, we will consult and involve stakeholders in preparing the revised proposal in response to AER's Draft Decision.

## What's in it for consumers & customers?

- Reducing the risk of gas shortfalls will help to ensure Victorian households have gas available to meet their needs and in particular heating needs during winter 2023.
- Victorian businesses, in particular, those who rely on gas for heating processes, will benefit from with reduced risk of interruptions to gas supply and to their operations.

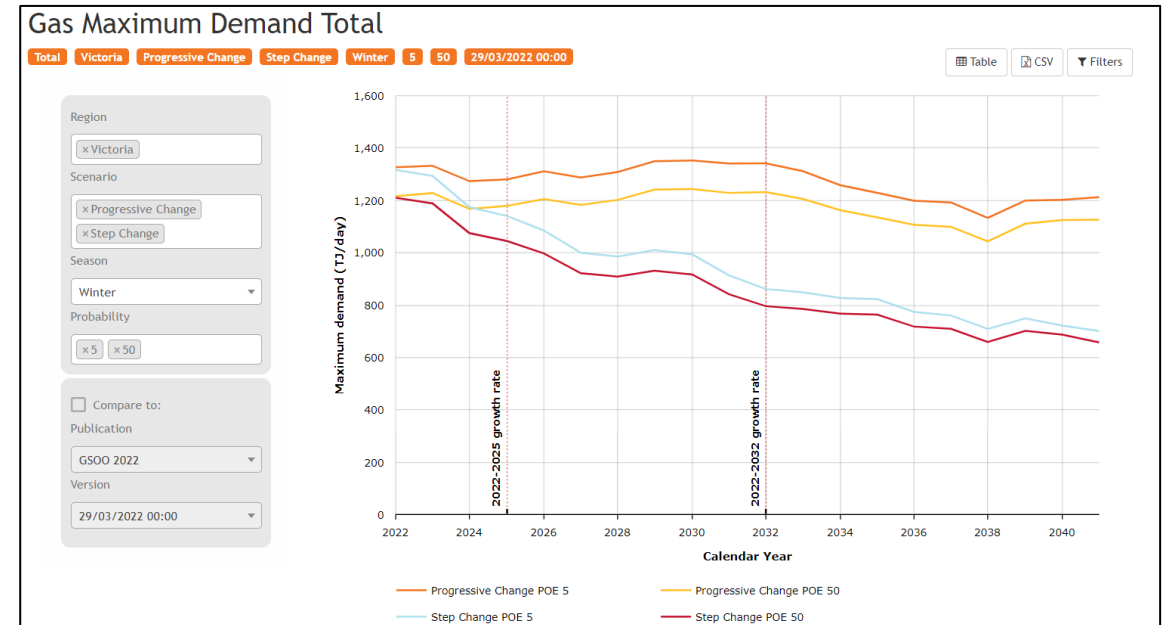
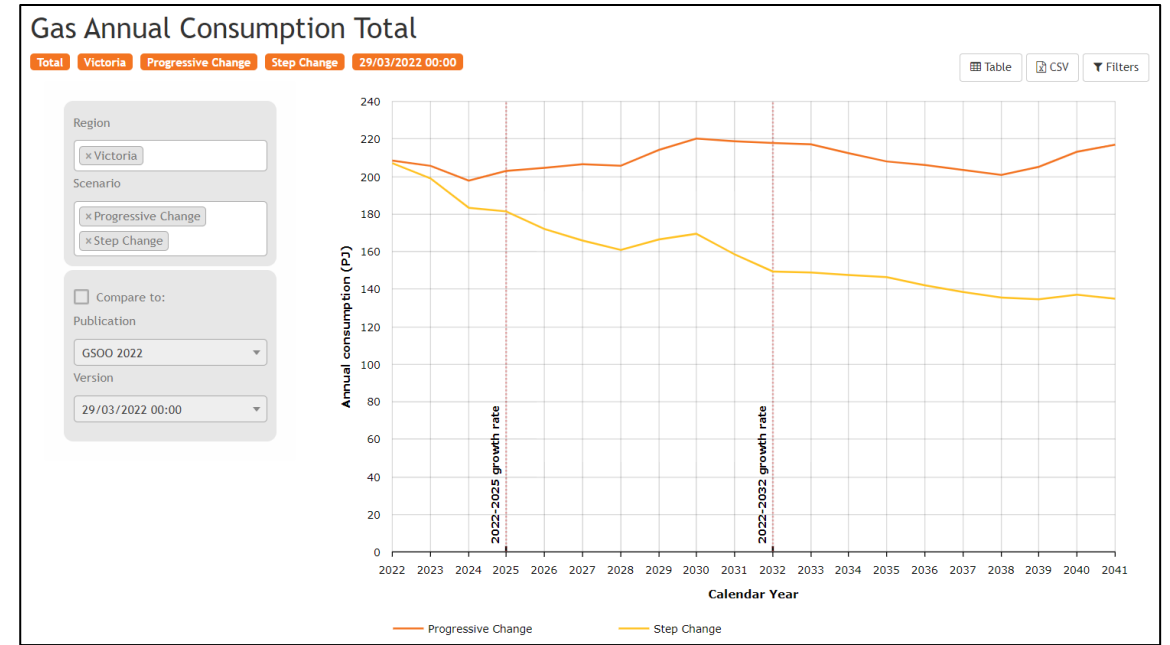
# Demand & supply update

APA VTS has prepared updated supply forecasts based on AEMO's 2022 Gas Statement of Opportunities. These have been submitted to the AER.

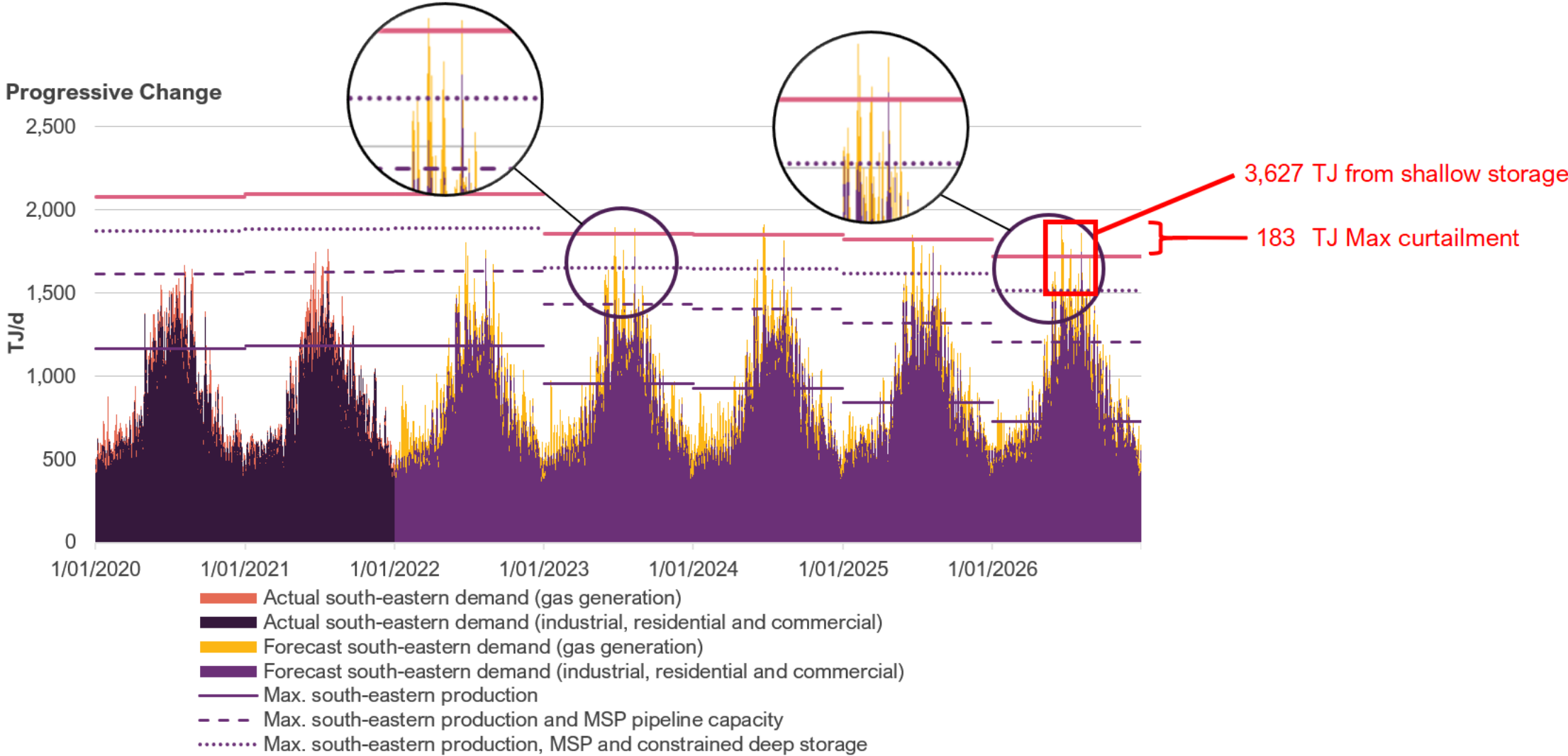
The updates include:

- Choice of scenario
  - we propose to adopt AEMO's *Progressive Change* scenario
  - We agree with AEMO regarding:
    - Public policy and private investment in energy efficiency and electrification, which would reduce gas consumption, would need to speed up to rapidly reduce gas consumption.
    - The pace and impact of hydrogen deployment will rely on the proposed VTS Hydrogen Safety study, technology improvement and consumer uptake.

We have adopted AEMO's forecasts associated with this scenario



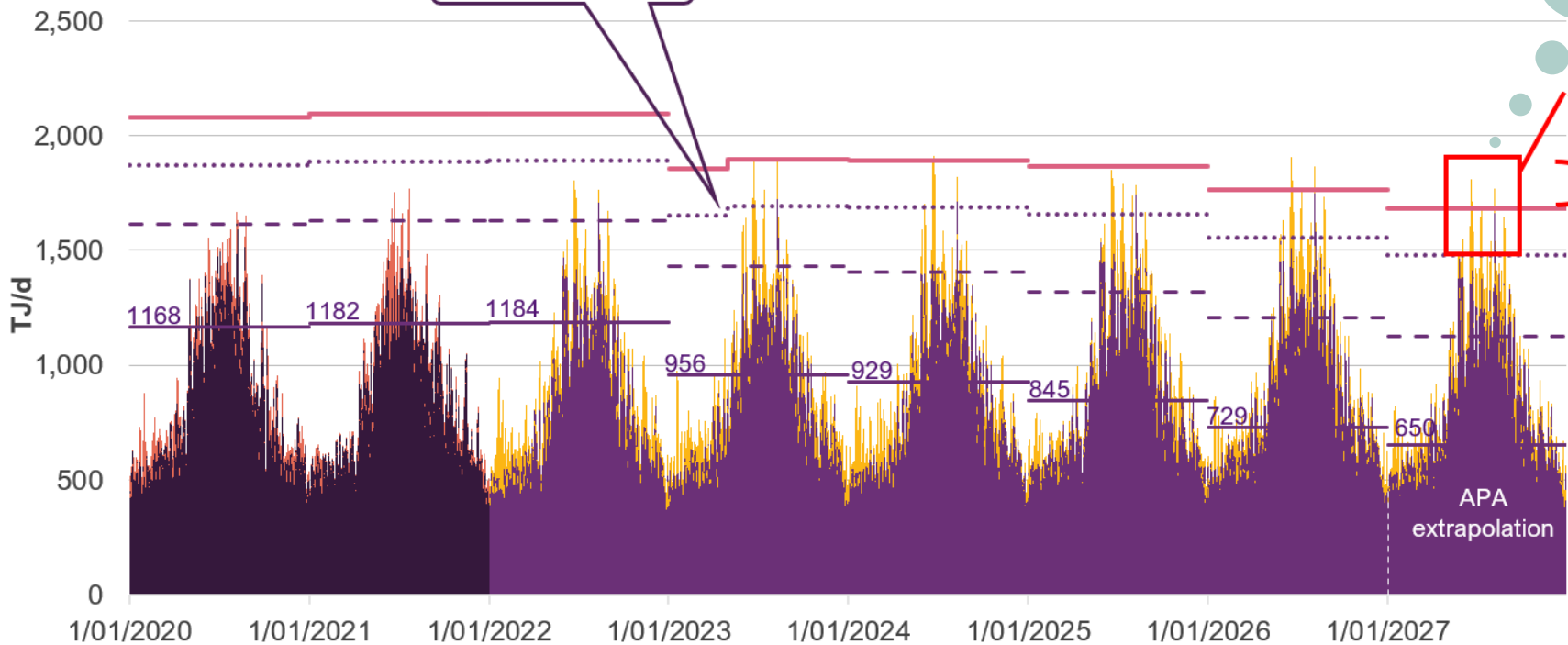
# Demand & supply update – AEMO’s 2022 GSOO – (pre Winchelsea)



# Demand & supply update – extrapolated with Winchelsea

What do we do about this?

## Progressive Change



2027 demand settings:  
 -5% Change in GPG demand  
 -5% Change in Res/Com/Ind demand  
 650 Max South-eastern production

- Actual south-eastern demand (gas generation)
- Actual south-eastern demand (industrial, residential and commercial)
- Forecast south-eastern demand (gas generation)
- Forecast south-eastern demand (industrial, residential and commercial)
- Max. south-eastern production
- Max. south-eastern production and MSP pipeline capacity
- Max. south-eastern production, MSP and constrained deep storage

# Stakeholder submissions – summary & discussion



# Summary & discussion

## What's in it for consumers?

How can we better demonstrate the benefits to consumers?

Energy affordability -

What is the size of any tariff change that we should target?

How do we balance need to meet regulatory obligations with uncertain gas demand & uncertain energy policy?

Update on Winchelsea and implications for SWP proposal – what are your views?

How can we better engage?

What are topics you want further information about?



# CCP28 & submission

- **Stakeholder engagement** was commended as a 'significant step-up' but wanted better articulation of diverse consumer views, more details in proposal overview, and information sent to stakeholders earlier.
- Concern about **increase in tariffs**.
- Proposed capex program and forecast growth in the RAB was a concern. **Increase in capex is inconsistent in an environment where gas demand is falling**
- Major capital investments at this time will be exposed to significant asset **stranding risk**, leaving customers exposed to uncertain costs.
- Considers there can be no **accelerated depreciation** without a reasonable view of the future
- **SWP expansion** should be treated under speculative capex arrangements 'until the need is proven'. Consider cost and risk sharing arrangements, including the possibility of capital contributions.
- **WORM requires re-assessment** of business case in light of the changed circumstances since 2017. Like SWP570, expansion should be treated under speculative capex arrangements 'until the need is proven'.
- **Questioned regulatory obligation to conduct hydrogen study** and if so that Victorian Government should fund it.
- **Do not support Fixed Principle** and exemption from capital redundancy provisions in perpetuity. Questioned how the fixed principle would impact allowed rate of return.
- Asked for an **IT Strategic Plan** and Roadmap setting out direction of IT portfolio
- Urges AER to establish a **demand management** mechanism.

# Victorian Community Organisations (BSL. Renew)

- **APA Roundtables were open and constructive.** The information presented by APA was clear and useful in supporting a discussion regarding the key points of contention of the proposal. But some of APA's documented responses **do not reflect BSL's feedback**
- **Focus on affordability.** Affordable energy is critically important to allow access to essential energy services. Delivering affordable energy costs will be an important way to support the recovery for those impacted by the pandemic, as well as for the economy at large. An adequate response to the emerging risks for gas consumers is essential to secure long-term affordability for Victorian consumers through the ongoing transition.
- **Accelerated depreciation not supported because it:** incentivises businesses to continue to propose higher risk investments; does not replicate how a business would respond in a competitive market; adversely impacts on consumers who either cannot afford to switch to electricity or cannot substitute gas for electricity; will disincentivise operators from investing once capital is recovered, putting service quality at risk; raises costs for today's consumers at a time where there is already increasing cost pressure.
- Given the identified stranding risk, and the proposal for fixed principle projects and accelerated depreciation, **all augmentation (SWP & WORM) should be avoided if possible.**
- **Do not support fixed principle as redundancy provision** has been included in the NGR to manage the type of asset stranding risk that APA has identified as likely for the SWP. This is consistent with the terms of the NGL's Revenue and Pricing Principles, that don't guarantee full cost recovery, especially where investment is not efficient. Government policy not the key driver for stranding risks.
- The proposed **hydrogen study** is a research project that does not comply with the conforming capital expenditure criteria in the NGR. Accommodating a hydrogen blend in the high-pressure transmission network is a low priority for commercialising hydrogen, and there is **no strong consumer-centric case to make this investment now.**
- Opex. Nominated **base year is higher than others in the period.** Question whether there is sufficient evidence that this is an efficient base level of operating expenditure. Step changes for SWP, WORM and carbon offsets not supported.

# Big energy users

## EUAA

- Consumer engagement was a significant improvement on the current period reset APA still have **some way to go to approach best practice**.
- Best practice network engagement now involves the **co-development of a comprehensive business narrative**.
- Based on current information, **do not support the proposed 20% increase in capex** from the current period.
- Do not support the business case for the South West Pipeline expansion; consumers are likely to bear considerable **stranded asset risk with the costs magnified by accelerated depreciation**.
- **Do not support construction of the WORM**; again, consumers are likely to bear considerable stranded asset risk with the costs magnified by accelerated depreciation; we encourage the AER to consider whether the rules allow a re-consideration of their previous approval of this project given the change in demand outlook and future of gas issues owe do not support the use of Rule 80 to get pre-approval for projects associated with possible future LNG import terminals.
- Support a **demand management** mechanism to help address short-term and intermittent mismatches.

**Consortium** (AGL, Alinta Energy, Cooper Energy, EnergyAustralia, GloBird Energy, Lochard Energy, M2 Energy, Venice Energy)

- **Supportive of SWP570** but SWP capacity expansion must be provided **more quickly than envisaged by APA**, to meet potential supply shortfalls in 2023, as identified by AEMO in the 2021 GSOO.
- Stonehaven compressor needs to be installed by winter 2023 instead of 2024 and Pirron compression preferably also a year earlier in 2024.
- With increased uncertainty role of **gas storage** likely to become more important.

# Retailers & AEMO

## Red Energy/ LUMO

- **Do not support SWP570.** Consumers should not be required to underwrite the cost of an expensive long term solution to mitigate a short term system security problem. APA has not yet demonstrated that it has investigated alternative solutions to mitigate the problem including demand side solutions.
- **The PKGT project** has been classified as a “committed project” under AEMO’s 2021 GSOO mitigating any gas shortfalls in Victoria until 2026. While understanding that the project owners have yet to reach their Final Investment Decision (FID) on this project, APA’s investment plans should primarily be driven by AEMO’s 2021 GSOO.
- **Request APA to reform the VTS tariffs.**
  - 1. Injection tariffs don’t work well because they are charged in advance and gas buyers are not able to respond to price signals. This makes it impossible for retailers to forecast the projected revenues that will be recovered under these tariffs.
  - 2. Withdrawal tariffs are flat and overly complex even if APA argues they are cost reflective on a geographical basis.

## AGL

- **Commended APA on engagement with stakeholders** to develop their revenue proposal for the VTS.
- **Supported the expansion of the SWP** to 570 TJ/day to allow for an additional 102 TJ/day in delivery from Lochard’s Iona LNG facility. SWP570 expansion important contribution to the security of supply during the winter peak over the next regulatory period. The cost of this expansion is forecast to be minimal, adding 2.2c/GJ to tariffs while retailers face a market price cap (Value of Lost Load) of \$800/GJ in the Victorian wholesale gas market if there is a shortfall.
- **Tariffs.** Considered that VTS pricing approach using injection and withdrawal charges is too complex to replicate in retail gas prices. Supports review of VTS tariff structures.

## AEMO

- **Supported hydrogen study, Integrity and unspigables programs, turbine overhaul, critical spares, station logic, SoCI, WORM, and Rule 80 application.**
- **WORM supported**
- Raised questions about Brooklyn Compressor Station units 8 & 9 and whether the units are to be decommissioned; need for Iona aftercooler project; and scope of liquids management program. Questioned method for / appropriateness of allocating APA Grid (IT) costs to APA VTS.
- Did not support Wollert A Safety project as it no longer operates these compressors and it will be redundant with the WORM commissioning; nor Dandenong City Gate Gas quality as it is not a DTS injection point. AEMO would prefer a working flow meter.

# Lochard & Viva Energy

## Lochard

- **Support SWP570.** Customers of Iona have made it clear that they need and will contract for a total of 570 TJ/d of storage deliverability, and Lochard has reached FID on expanding Iona to this capacity. Lochard has committed to expanding the Iona Facility to accommodate 570TJ/d. Further expansion to 670TJ/D is identified for use later this decade.
- **Iona and Dandenong LNG storage play a role** in reducing extreme price events and providing supply security options even when their capacity is not fully utilised. **This should provide protection to SWP capacity against redundancy.** Accordingly, Lochard supports APA's request as the investment will provide value to customers, compared to APA not investing in the SWP capacity. Refers to using VoLL as proxy for value of customer reliability.
- On affordability, increases in VTS costs are not the appropriate basis for comparison of VTS options as each option also has implications for other costs in Victoria (gas production **costs, Otway vs others**) and **costs of supply outside Victoria, as discussed above.**

## Viva Energy

- **Viva proposing to undertake a project to import LNG** into a new terminal located adjacent to its petroleum refinery. (Geelong Gas Terminal Project GTP). At full capacity, could supply 140PJ per year into VTS. FEED complete, partners announced, FSRU supplier appointed, EES submitted. Project will be able to inject 600TJ/d into VTS at Brooklyn-Lara Pipeline and SWP at Lara City Gate installation. This will make a material contribution to the state's future gas supply needs, including seasonal requirements.
- By virtue of its location at Geelong, the GTP provides the VTS with some 270TJ/d of additional overall capacity. This is achieved without the need for any large system upgrades (assuming the WORM is constructed as planned). So, it is fair to say that with the GTP Victorian gas consumers essentially get an additional 270TJ/d of capacity "for free" with no system tariff impacts.
- Business Case 603 (Rule 80) represents a demonstrably more economic outcome for Victorian consumers than relying on gas supply arriving from one of the other proposed LNG import terminals or indeed from new field developments in NSW, Qld or the NT.
- **Strongly supports the need for the capital proposed in the AA to complete the Western Outer Ring Main (WORM) project.** Not completing the WORM would mean most of the injection and mass balance assumptions underpinning network planning (including for the GTP) would need to be reviewed, potentially delaying and changing the project's viability.

**Ok, so what should we do from here?**

# Next steps

# Next steps

We understand AER draft decision will be published end June 2022

Should we hold another roundtable before the draft decision? What would you like to cover?

We will start prepare Discussion Papers on key topics to get your views.....

These discussion papers will form our revised proposal.

## VTS key activities and dates

### Phase 4 - After we've submitted proposal

Who	Date	Activity	Topics
APA VTS	26/05/2022	Roundtable 14	Updates & discussion of submissions
APA VTS	Mid June 2022	Roundtable 15 [TBC]	Discuss feedback from submissions
AER	End June 2022	AER Draft Decision	AER publishes Draft Decision
APA VTS	Early July 2022	Roundtable 17	Discuss AER Draft Decision & APA VTS revised proposal
APA VTS	August 2022	Revised proposal	APA VTS submits revised proposal
Stakeholders	[TBC] 2022	Stakeholder submissions	Submissions on revised access arrangement proposal and draft decision
AER	November 2022	AER Final Decision	AER publishes final decision
APA VTS		Implement final AA	Publish on website. Inform commercial.
APA VTS	TBA	Annual stakeholder sessions	

Thank you for participating today!



**For further information**

**Scott Young or Nives Matosin**

E: [scott.young@apa.com.au](mailto:scott.young@apa.com.au) or

E: [nives.matosin@apa.com.au](mailto:nives.matosin@apa.com.au)

[www.apa.com.au](http://www.apa.com.au)

**apa**