



Level 8, 70 Franklin Street
Adelaide SA 5000
Australia

GPO Box 1819
Adelaide SA 5001

Tel (Aust.): [REDACTED]
Fax (Aust.): +61 8 8100 4997

customerservice@cooperenergy.com.au
www.cooperenergy.com.au

20 October 2021

Gas Inquiry Unit
Australian Competition and Consumer Commission
Via email: gas.inquiry@accc.gov.au

ACCC review of upstream competition and timeliness of supply – Issues Paper

We refer to your email dated 15 September 2021, in which gas producers, gas users and other stakeholders were invited to provide feedback on the matters set out in the ACCC's issues paper for its review of upstream competition and the timeliness of supply (being conducted as part of the 2017-25 Gas Inquiry) (the **Issues Paper**).

Cooper Energy Limited (**Cooper Energy**) is grateful for the opportunity to participate. We have set out our suggestions as to matters we consider relevant to the review.

Cooper Energy is Australia's first carbon neutral gas producer¹ and is committed to finding, developing, and delivering gas to Australian industries and households utilising local resources. We do this with an emphasis on care, shareholder value and sustainability.

Cooper Energy is proud to be an enabler in society's transition to a cleaner energy future. We support and stand for providing indigenous gas supply to support domestic consumers and industries. With a focus on minimising energy intensity and emissions, we seek to develop and supply gas as close as possible to where it is needed by utilising existing infrastructure, local services and partnering with stakeholders for the betterment of Australia.

As a gas producer and supplier to customers in south-east Australia, Cooper Energy is committed to fostering a competitive and sustainable long-term domestic gas market. This is achieved where gas prices balance at levels where gas remains a competitive source of energy for end users, whilst being sufficient to incentivise existing and new producers to explore and develop new gas supply.

Cooper Energy believes the lowest cost source of new gas supply available for south-east Australia will continue to be from conventional gas accumulations in the basins offshore south-east Australia, and the onshore Otway Basin and Cooper Basin. This is consistent with the gas supply to date. Whilst future supply from undeveloped discovered and undiscovered gas fields in these areas are expected to be higher cost than the larger existing fields, Cooper Energy is confident that new sources of supply can be discovered and developed at typical forecast

¹ Cooper Energy Sustainability Report 2021

wholesale gas market prices² utilising existing gas processing and transport infrastructure where possible.

Cooper Energy's recent investments and contributions to the south-east Australian domestic gas market include:

- In 2020 production commenced from the \$605 million Sole Gas Project, south-east Australia's first new offshore gas supply in three years. Sole will supply industrial users and utilities for at least 10 years. Cooper Energy acquired an interest in the Sole gas field in 2015 as a key component of the company's strategy to meet the emerging gas needs in south-east Australia.
- Establishing a portfolio of domestic gas supply agreements with buyers including utilities AGL Energy, Origin Energy, Alinta Energy and Energy Australia, and industrial buyer Visy.
- Existing supply of gas to south-east Australia from its operated Casino, Henry and Netherby fields.
- Together with our joint venture partner Mitsui Exploration and Production Australia (part of the Mitsui Group), currently completing the upgrade of the Athena Gas Plant, and planning a further exploration and development campaign in 2023/24 in the offshore Otway Basin.

This submission addresses the themes highlighted and as numbered in the Issues Paper, focussing on those areas that are particularly important for smaller independent gas producers like Cooper Energy who have demonstrated the capability to operate in the gas sector.

3.1 Government process

Timeliness of upstream gas supply must be supported by government processes that are consistent where possible between the Commonwealth, State and Territory Governments, between onshore and offshore supply sources, and between the departments that administer these processes. Duplication of reporting and differing approval processes for the same development (often under the same Act) can impact development, with resulting constraints on supply.

By way of example:

- Victoria's *Pipelines Act 2005* is regulated not only by the Department of Environment, Land, Water and Planning, but also by Energy Safe Victoria and sometimes Worksafe Victoria.
- The *Commonwealth Offshore Petroleum Greenhouse Gas Storage Act* (the **OPPGS Act**) and the *Petroleum Resource Rent Tax Act* (the **PRRT Act**) are in some cases misaligned. To illustrate – the OPPGS Act enables licensing projects from production to retention and back to production, but the PRRT Act only contemplates licensing projects from retention to production. The provision of Treasury and the ATO guidance consistent with the recommendation 6 of the Callaghan Review would provide industry with confidence that past cost deduction is possible to support future investment.

The misalignment creates uncertainty for the industry and potentially discourages some upstream supply developments, particularly for smaller producers and/or new entrants.

In addition, Governments could enable the development of further upstream supply by supporting gas supply sources closest to the major demand areas. Gas supplied to the domestic market from local sources where the least transport is required has a lower emissions and energy intensity profile when compared to other supply options such as importation and regasification of LNG, or gas transported long distances (e.g., from the Northern Territory) via the pipeline network to south-east Australia.

² Energy Quest's latest East Coast Gas Outlook to 2040 report released in August 2021 predicts a Melbourne gas price of \$11.05/GJ in 2030.

3.2 Barriers faced by producers

To support the development of new gas supply, long term and bankable gas sales agreements are often required. Due to development lead times, negotiation of gas sales agreements (**GSAs**) can be required up to three years or longer, before gas supply is scheduled to commence. This timing requires buyers to agree terms earlier than is typical, and where no material public pricing markers exist. The ACCC may consider how it can support longer term confidence over pricing through activities such as publishing longer-dated pricing markers, encouraging the establishment and liquidity of futures markets, and providing certainty regarding future energy policies.

Ultimately if the required level of new supply is not sanctioned, prices can be expected to rise, and a supply side response would follow. However, considering the life cycle of developing a new gas project, the supply response is long dated. In order to smooth price consequences for the benefit of producers and end users, the Government could consider potential mechanisms that financially underwrite new gas supply developments. This could be in the form of a Government finance/loan instrument or a grant that applies to new supply being developed within a certain time frame.

4.1 Joint venture arrangements

Appropriate introduction of new joint venture partners could facilitate upstream supply options without being viewed as restrictive to competition. For example, downstream gas users (in an aggregation structure) could enter upstream supply joint venture arrangements to combine and foster demand to allow commerciality and transparency of gas supply without being considered anti-competitive. Cooper Energy is open to consider these types of arrangements.

4.2 Mergers and acquisitions involving producers and/or individual tenements

Cooper Energy supports mergers and acquisitions that are based on the fundamentals of the market. As a number of existing large legacy assets supplying the south-east Australian gas market reach late life production phase, the current owners may seek to exit and leave undeveloped gas resources.

Cooper Energy supports transition of these assets to smaller producers who are motivated and best placed to commercialise the remaining resources in the most efficient and timely manner, utilizing existing assets and infrastructure. Key barriers to be resolved include clarity of financial assurance arrangements over future abandonment and decommissioning activities, and the implications of these activities under the PRRT Act.

4.3 Marketing arrangements

Separate marketing arrangements are an established way of facilitating competition. As supply sources transition from large scale field production to smaller development opportunities, a reasonable threshold test could be implemented for joint marketing of smaller volumes and declining late life assets where volumes make up a relatively small share of the total market.

A threshold test for smaller volumes which can be jointly marketed would help ensure smaller volumes of gas are brought to market sooner by:

- removing the need for complex gas balancing and separate processing and lifting agreements; and
- mitigating the need to pursue a lengthy process for approval of joint marketing.

4.4 Exclusivity provisions in GSAs

In the scenario where a smaller scale producer is negotiating with a large investment grade off taker, exclusivity provisions are sometimes required to be able to secure commercial terms that will support and underpin new gas supply. This is common where particular confidential aspects that relate to the supplier (project economics, subsurface and reserves information, funding elements) are disclosed to the buyer in an effort to support a long-term business relationship that secures gas supply. It is therefore important that exclusivity arrangements can continue where it will lead to new gas supply. In any case, the Reserves from a new project are not typically provided to a single off taker; other customers benefit from the new supply, even if a tranche of the offtake is made under exclusive terms with a foundation off taker to get the project off the ground.

4.5 Producer decisions to develop new sources of supply

Cooper Energy makes decisions to develop new gas supply using a formal and gated project governance process. The process is staged and decisions are driven from opportunity identification through to execution, including Board, financier, and joint venture partner approvals.

Capability and capital allocation are critical. Activity levels across the Cooper Energy organisation need to be managed to ensure projects are delivered safely and successfully within scope and budget as planned. The level of capital investment in projects at any one time relative to liquidity and cash flow will often influence the timing decision to develop new gas supply.

For a smaller producer, prior to a new gas project sanction decision, the economics of the project need to be robust to support equity and debt funding. The funding process requires a large portion of the project Reserves to be underpinned by long term gas supply arrangements and this needs to occur up to three years or longer, prior to the commencement of gas supply. Project financing arrangements require the producer to deliver a project under agreed terms, which in some cases encumber the producer from committing to other projects until all funding terms have been satisfied.

Access and availability of drilling rigs, subsea equipment and services are key determinants on when to develop new sources of supply, particularly in the offshore industry sector. Long lead times for equipment are common and drilling rig mobilisation is a high cost and significant commitment. The level of collaboration between offshore gas producers can often influence a decision as to when more than one party commits to an offshore drilling campaign and mobilisation costs are shared which reduces the overall cost of new gas supply.

Cooper Energy welcomes the opportunity to discuss this submission with the Gas Inquiry Unit at a convenient time to address any question or queries. Please do not hesitate to contact Mr Eddy Glavas on [REDACTED] or by email [REDACTED]

Yours sincerely
Cooper Energy Limited

[REDACTED]

Eddy Glavas
General Manager, Commercial & Business Development