

22 October 2021

Warren Vosper
Australian Competition & Consumer Commission
GPO Box 2603
SYDNEY NSW 2000

(via email to: gas.inquiry@acc.gov.au)

Dear Warren

REVIEW OF UPSTREAM COMPETITION and TIMELINESS OF SUPPLY – SUBMISSION BY GLNG OPERATIONS PTY LTD

Dear Warren,

GLNG Operations Pty Ltd (GOPL) welcomes the opportunity to provide comment on the ACCC's review of the factors that may be (a) limiting competition in segments of the east coast gas market; (b) affecting the timeliness of development.

GOPL is the operator of the GLNG Joint Venture which owns the Gladstone LNG Plant and pipelines. The ownership of the GLNG JV consists of the Australian listed entity, Santos (30%), the Malaysian listed entity, Petronas (27.5%), the French listed entity, TotalEnergies (27.5%) and the Korean listed entity, Kogas (15%).

ACCC has already identified the key factor in its interim reports – increasing gas development in southern states

In its interim reports the ACCC identified the key issue facing the east coast gas market was that the southern states were expected to continue using more gas than they produce and that the factor most impacting gas supply was the “various restrictions to onshore gas exploration” in Victoria and New South Wales.

Quite correctly, in GOPL's view, the ACCC Chairman stated “Gas users in the southern states already face higher gas costs due to the declining local production and significant limits on new exploration. This is made worse by constraints on pipeline capacity to bring gas down from Queensland. This

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limits competition in the supply of gas to the southern states" (Press Release 12 December 2017 'Some improvements in gas market but prices still too high).

Between 2001 and 2012, 35 separate exploration licences were granted in Victoria - all of which are now cancelled, expired, surrendered or dormant (16 current) ('Inquiry into onshore unconventional gas in Victoria, Final Report', 2015). For almost 10 years since August 2012, the Victorian Government has had effective holds on approvals to undertake onshore gas exploration and the issuing of gas exploration licences. The ensuing moratorium only partially lifted this year in July 2021.

Similarly, gas developments in NSW have been impeded by moratoria and regulatory reviews and legislative changes since around 2012. NSW went from one of the least regulated systems to one of the most convoluted regimes. NSW has ready to develop reserves but its recently released Future of Gas Statement means that only the Narrabri Gas Project can ever be developed. It was only in October this year that the NSW Land and Environment Court dismissed an appeal against the September 2020 approval of the Narrabri Gas Project by the NSW Independent Planning Commission [REDACTED] GOPL understands the development of Santos' onshore Narrabri project alone could produce up to 70 PJ a year in a relatively short timeframe.

Government policies can impact how gas can be brought to market in a timely and efficient manner. However well intended policies do not always deliver the required market behaviors.

The Queensland Government has implemented a policy (and process) that releases some new tenements with a condition that the gas production be reserved for domestic consumption only. GOPL supports this policy given that it is prospective and not retrospective. The Queensland Government has tended to prefer bids from smaller participants. However, a recent case example suggests that even a positive policy such as this can be undermined.

Central Petroleum was awarded ATP2031 in August 2018 by the Queensland Government for the acreage dedicated to the domestic market. Incitec Pivot Limited acquired a 50% JV interest in the tenement around the same time. It was anticipated to yield gas in 2022 (Incitec Press Release 1 March 2018 'Queensland Government Gas Tender Update').

Recently, Incitec ran an 'EOI' seeking complying and alternative responses [REDACTED]

[REDACTED] Production was initially planned to begin well ahead of the December 2022 end date to Incitec's supply agreement with APLNG. However, production has been delayed a number of times and the most recent update forecasts 2025 for first gas. [REDACTED]

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Thus, we urge the ACCC to continue to target the biggest contributing factor effecting gas supply in the east coast gas market being the regulatory and political restrictions placed on onshore development, not the prudent utilisation of joint venture structures by market participants to efficiently fund expensive and time-consuming developments. Without these joint ventures which often provide much-needed foreign investment, many gas developments would never occur.

Correction requested to Table 2.1

Table 2.1 is misleading as it mistakenly combines the reserves held individually by Santos and the GLNG JV when, in fact, the two are separate and distinct entities. Santos is only a 30% owner in the GLNG JV, and it does not control the GLNG JV as it does not have the capacity to practically influence or determine the outcome of decisions about the GLNG JV's financial and operating policies as defined in Section 50AA of *Corporations Act 2001*. We also note that Santos and the GLNG JV were reported differently to Origin and APLNG (in which Origin holds a higher share than Santos does in GLNG), and QGC and Arrow (in both of which Shell has a much higher interest than Santos does in GLNG). Further information is provided in the Response Template.

To achieve accuracy and to ensure consistency of approach, GOPL requests that the ACCC correct Table 2.1 (and Chart 2.2) and, in the interim, not use Table 2.1 (and Chart 2.2) in the current form as it misleads the reader in relation to the reserves and resources held by the upstream affiliates of the GLNG JV.

Large holdings of reserves and resources are necessary and underpin long term contract commitments

Both upstream oil and gas producers and LNG producers are capital intensive businesses with very large upfront capital investment requirements. The GLNG JV, invests ~A\$1 billion per annum on ongoing upstream development and production. To secure finance for original development and to support the significant ongoing capital costs, projects need to be backed by long term contracts, supported by gas reserves and resource certainty. These reserves provide customers and investors with comfort that production can be maintained throughout the life of the contract.

Consequently, there is a need for large holdings of reserves and resources to provide contract coverage. As resources move from contingent (2C) resources to 2P reserves and production, further reserves and resources will be needed requiring ongoing investment in more wells and upstream development.

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Warehousing

GOPL does not accept the assumption that larger producers may have an incentive to 'bank' or 'warehouse' gas. Producers have no incentive to delay production. Deferral of gas production has a negative impact to project economics. Further information is provided in the Response Template.

JV Arrangements

JV arrangements are a common feature of resource development and are generally utilised to defray upfront capital expenditure associated with risked development and timely production. Such arrangements allow smaller players to enter the market diversifying investment, increasing gas supply and suppliers and ultimately improving competition in the market.

Impeding the use of JV arrangements or imposing unnecessary regulation on those arrangements would deter the foreign investment the industry relies upon and likely adversely affect future investment and timelines of gas exploration and bringing that gas to market.

Australia would be the outlier jurisdiction if it imposed further regulatory restrictions on foreign and domestic entities entering into JV arrangements in order to invest in Australian based projects.

Final Comments

GOPL urges the ACCC to take up the challenge of campaigning to end the moratoria and regulatory restrictions in Victoria, NSW and Tasmania (which are effectively "warehousing" available gas reserves and resources) and impeding or preventing onshore exploration and development of potential reserves and resources.

As observed by the ACCC in the September 2017 interim report, *"the best way to address or mitigate the impacts of the shortage in the Southern States is to increase production of gas in the Southern States"*.

State, territory and Commonwealth governments can address this by streamlining regulation (especially environmental regulation which has duplication between state and commonwealth processes by lifting moratoriums) and by ensuring that affordable finance and insurance arrangements are available to investors.

Government policy and regulatory changes must not undermine the significant domestic and foreign investment made in gas development and production and the long-term export contracts that underpin that investment. To do so is contrary to the Federal Government's strategy to develop a gas fired COVID economic recovery and will adversely impact the many Australians who benefit from the continuing multi-billion investment in the Australian gas industry.

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If you would like to discuss any of the matters raised, please contact [REDACTED]

Yours sincerely

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