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Mereenie gas joint marketing application for authorisation – further interested party submission

This submission provides the response of Power and Water Corporation (**PWC**) to:

- the Application for Authorisation dated 28 July 2021 (**Application**) lodged by Central Petroleum Mereenie Pty Ltd as trustee for the Central Petroleum Mereenie Trust, Macquarie Mereenie Pty Ltd (**Macquarie**) and Central Petroleum Limited (**Central**) (together, **the Applicants**);
- the letter dated 2 August 2021 from the Australian Competition and Consumer Commission (**ACCC**) to interested parties concerning the Application;
- the letter dated 27 August 2021 from the ACCC to Allens seeking further information from the Applicants (**Request**).

Summary of submission

1. PWC does not support the Application because the Applicants have not discharged their onus of establishing that the claimed public benefits will outweigh the detrimental effects on competition and consumers.¹
2. The Application would extend the authorisation of joint marketing of gas from the Mereenie field for a further 5 years (10 years giving effect) following the authorisation granted to the Applicants on 29 March 2018 (**Previous Authorisation**). Accordingly, it might be expected that the Application would substantially draw upon and present information from the period of the Previous Authorisation that would assist the ACCC to better understand the effect of the Previous Authorisation and thus provide support for this Application.
3. However, the Application lacks detailed information and evidence, including:
 - 3.1. detailed information in relation to joint and several marketing activities, pricing and non-price terms during the preceding three years;
 - 3.2. evidence to support the prominent assertion in the Application that separate marketing is not commercially feasible for the Mereenie participants; and
 - 3.3. evidence to establish that claimed public benefits will result from joint marketing.

The lack of evidence is apparent from the contents of the Request.

4. PWC considers that the ACCC should conclude that:
 - 4.1. separate marketing of gas was viable and did occur during the Previous Authorisation;
 - 4.2. predicted public benefits are not dependent upon joint marketing;
 - 4.3. continued joint marketing of Mereenie gas is likely to prolong the relative illiquidity of gas supply in the Northern Territory and confer power upon the Applicants in the supply of gas in the Northern Territory; and
 - 4.4. insufficient evidence is presented as to the certainty of the Alice Springs to Moomba pipeline proceeding and of the additional quantities of gas likely to be available for the east coast Australia gas market.

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5. If Authorisation is granted, the period should be no longer than necessary to secure the additional investment foreshadowed in the Application. A shorter period than five years would be appropriate in the circumstances.

Public benefits

6. The Application relies on claimed public benefits, including:
 - 6.1. "aligning ... commercial interests to facilitate" the Mereenie Stairway appraisal drilling and other investments; and
 - 6.2. "enhanc[ing]" the prospects of the Amadeus to Moomba Gas Pipeline (**AMGP**).
7. Each asserted benefit should be examined with some scepticism.
8. Appraisal drilling using existing wells on the Mereenie Stairway has been planned for some time. Central's 2020 Exploration Plan dated 21 October 2019 refers to these plans.¹ The relevant passage describing the opportunity states:

"Approximately 60% (54 PJ CTP) of Mereenie 2C is attributed to Stairway - successful appraisal will convert a portion into reserves and inform future Stairway development opportunity. Any Stairway production can be quickly commercialised through existing Mereenie production facilities."

9. Notably, there is no reference to this work being contingent upon or facilitated by authorisation of joint marketing.
10. Central's website currently states:

"The current priority of the joint venture is to optimise existing gas production and plan development and appraisal activities to access additional resources to supply the east coast gas market. Two new crestal production wells are to be drilled in mid-2021. Appraisal of the Stairway Formation is also being planned, with cost-saving options to re-use existing bores being prioritised. The Stairway Formation holds in excess of 100 PJ of gross contingent resource."

11. PWC queries whether the appraisal drilling at the Mereenie Stairway is accurately presented as a public benefit that would result from authorised joint marketing. Central's own public statements provide no basis to find any causal connection between joint marketing and this investment. To make the case that a causal connection existed, the Application should provide evidence of the business case for appraisal drilling, including any milestones and decision-making records to demonstrate that joint marketing has any real influence or relevance. Otherwise, the ACCC should not take this proposed investment into account in its public benefit analysis.
12. Similarly, PWC understands that FID on the AMGP is due in late 2021. At this stage of the project, PWC expects that the Applicants would be in a position to provide more detailed information in relation to the relevance of joint marketing from Mereenie gas to the AMGP, including the extent to which joint marketing may be relevant to FID. In PWC's experience, investment decisions on the scale of the AMGP are driven more by an assessment of total demand, likely pricing and

¹ <https://centralpetroleum.com.au/wp-content/uploads/2019/10/CY2020-Exploration-Programme-final.pdf>

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adequate supply (in the order of 100 TJ/day) for at least 20 years, than by the marketing arrangements of joint venture participants.

13. Central's CEO was reported as stating that:²

"The AMGP is strongly aligned with various initiatives to boost east coast gas supply as traditional supplies from Bass Strait and the Cooper Basin decline.

"When you look at the distribution of untapped gas resources across Australia, the AMGP makes perfect sense given the large volumes of onshore and offshore gas available in the NT.

"What makes the AMGP stand out above other potential east coast supply proposals, is the pipeline efficiently connects significant known conventional gas reserves from proven producing fields to east coast demand centres from 2024 which is forecast to have gas supply shortages. The initiative should also stimulate new gas development from the NT's large and diverse array of prospective gas resources."

"I am very excited to be working on this important energy infrastructure project with Macquarie Mereenie and AGIG, two highly competent and proven participants in the gas and pipeline sectors," added Mr Devaney.

14. PWC accepts that alignment of commercial interests may be desirable for the Mereenie participants to commit to foundation contracts with AGIG. However, that is not the relevant question. The ACCC should investigate whether:

- 14.1. joint marketing is the only, or even the best path to any such alignment; and
- 14.2. even if so, whether that alignment significantly or substantially contributes to the viability or timing of the pipeline's construction.

15. Contractual arrangements between JV partners may be capable of addressing any such issues without conduct that is inherently detrimental to competition. If so, it is reasonable to suggest that such arrangements ought to be no more time consuming or expensive than seeking authorisation.

16. PWC agrees that the AMGP will require considerable, firm and long term volumes of gas so that firm pipeline capacity can be booked. However, gas from the Amadeus fields alone may not be sufficient to underwrite investment decision-making. Indeed, how many other gas producers/suppliers would be required to join the current parties under the proposed authorisation to underpin the project and what public benefit would result? Any suggestion that joint marketing authorisation for Mereenie producers is a decisive or powerful factor in decision-making regarding the AMGP requires clear evidence to support that claim. In this respect, evidence or information from AGIG may assist the ACCC to assess the veracity of the Application on this issue.

17. The ACCC's counterfactual analysis of the future with and without the authorisation should focus only on benefits that the evidence establishes would result from the authorised conduct.

² Oil & Gas Australia 18 August 2020 <https://www.oilandgasaustralia.com.au/amadeus-to-moomba-gas-pipeline-amgp-proposal-a-boost-to-east-coast-gas-supplies/>

Public benefits claimed from the previous authorisation

18. PWC encourages the ACCC to critically examine claims in the Application to the effect that information from the previous authorisation period vindicates the ACCC’s authorisation determination. In particular, the ACCC should compare the extent and timing of expansion activities against claims made in the Application and the application for the previous authorisation.

19. While PWC agrees that additional investment did occur and this resulted in increased supply of gas from Mereenie, expansion activities and increase in supply should not be overstated. The following table summarises PWC’s understanding of the Applicants’ well activity over the past three years.

Table 1 - Well Activity

Date	Event
23.05.2018	Mereenie WM26 Spuds
25.06.2018	West Mereenie 26 has reached the targeted Lower Stairway 2 sandstone. While minor gas shows and connection gas have been observed, there is evidence of fracture plugging with minerals. Horizontal drilling progresses as per plan. The well will be evaluated for completion design at the end of this segment of the well e.g. open hole, cased hole or stimulated.
06.07.2018	The 6 1/8" hole of the West Mereenie 26 well was drilled horizontally from 1495 meters measured depth through to 2388 meters measured depth. This equates to a horizontal lateral length of 893 meters through the Lower Stairway 2 formation. The well was then logged and is currently being suspended and made secure. The logs will be analysed in light of the gas shows experienced in West Mereenie 26. The rig will be released from West Mereenie 26 by the 7th of July 2018.
Q3 2018	WM26 was completed, with minor gas shows attributed to mineralisation
First half 2019	The West Mereenie 26 well was successfully drilled but did not encounter commercial flowrates. WM26 has been suspended pending a review of alternative options to commercialise the well.
22.10.2020	Funding from the gas supply agreement with Macquarie announced that it would be used for the recompletion of four existing wells and drilling two new crestal production wells at the Mereenie Field in 2021.
22.04.2021	Recompletion operations commenced on WM20, the first well in the Mereenie Development Programme. The 2021 Mereenie Development Programme consists of the recompletion of four existing wells (WM 14, WM15, WM19 and WM20) followed by the drilling

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	of two new development wells (WM27 and WM28). These activities are intended to return field production capacity back towards 45 TJ/d (100% JV) and produce at least an additional 40 PJ of gas over the lifetime of the field (20 PJ net to Central). This will enable the Mereenie JV to commit to new gas sales into what is anticipated to be an increasingly tight east coast gas market.
04.06.2021	Mereenie Development Well WM27 Commences
21.07.2021	Mereenie Development Well WM28 Commences

20. The ACCC should also examine claims that every increase in supply over the relevant period is the result of joint marketing. Some of Central’s public statements suggest that for supply increases, marketing arrangements between JV partners are secondary to demand conditions in Eastern Australia. For example, Central’s Quarterly Activities Report dated 30 October 2020 states:³

“Mereenie field production was 13% higher than the previous quarter, averaging 29.1 TJ/d (100% JV) (June quarter: 25.8 TJ/d) as demand for spot and as-available gas improved. The field remained market-constrained and operating below capacity, reflecting challenging market conditions.”

21. Of course, supply can only respond to demand conditions when sufficient capacity exists, and joint marketing may play a role in capacity expansion. However, the ACCC should not accept bare assertions to the effect that all work to enhance production capacity is the result of joint marketing.

[REDACTED]

[REDACTED]

[REDACTED]

24. The Application should explain why gas sales into the East coast differ from sales within the Northern Territory. It is likely that the presence of greater competitive constraint outside the Northern Territory, and the cost of transportation explains the difference.

25. The Application focuses on competition outside the Northern Territory and as a consequence, does not address competition concerns within it. Within the NT, PWC finds that the most substantial constraint on the price of Mereenie gas is gas from the Blacktip field, which sets a

³ See Appendix 5B

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generous ceiling on supply prices in the NT because of its higher costs and export parity effects. Blacktip therefore offers only a weak constraint on the Mereenie producers in the NT.

Capacity in the AGP - correction

26. In section 6.3(g) of the Application, the Applicants state:

“there are limitations imposed by the existing contractual arrangements in relation to the AGP. In particular, Power and Water Corporation's existing contractual rights have the effect of overriding the AER's access arrangements for firm transport on the AGP (including tariffs and priority rights through queuing), resulting in reduced competition in short term spot markets and hindering the Applicants' ability to bid for longer term gas contracts, both of which require firm transport.”

27. This aspect of the submission does not present a full picture of the availability of firm transport on the AGP for the following reasons:

- The firm capacity reserved by PWC is required in order to meet existing customer demand (i.e. PWC does utilise its full MDQ at times).
- Although firm capacity is not presently available on the AGP, it is open for parties to procure additional firm transportation capacity through compression expansion of the pipeline. [REDACTED]
- PWC has entered into arrangements to make available its existing firm transportation rights to other shippers on the AGP. [REDACTED]

Competition in the Northern Territory and day ahead auctions

28. The structure of the domestic gas market in the Northern Territory does not facilitate strong rivalry. As is frequently observed, the relatively small numbers of both suppliers and commercial and industrial customers means that gas supply is illiquid and rivalrous behaviour is limited.

29. In such a structure, joint marketing authorisation may be justifiable to cover foundation contracts for major investments, but care should be taken in relation to less lumpy investments, because of the obvious increase in effective market concentration and power.

30. The relative lack of competition in NT domestic gas supply is also the reason for the delay in the application of the day-ahead auction of contracted but un-nominated capacity to Territory transportation facilities. If joint marketing remains authorised when the application of the day-ahead auction occurs, the Applicants are likely to be the only bidder. The outcome will be substantially more competitive with separate marketing.

If you have any questions in relation to this submission, please contact Antoni Murphy, General Manager - Gas Services on 0429 369 298 or antoni.murphy@powerwater.com.au.

Power and Water Corporation

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ⁱ ACCC Authorisation Guidelines at pp42, *Queensland Co-operative Milling Association Ltd* (1976), ATPR 40-012, at 17,244.