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27 September 2019

Measures to Improve Transparency in the Gas Market – Consultation RIS

AGL Energy Limited (**AGL**) welcomes the opportunity to comment on the COAG Consultation Regulation Impact Statement on Measures to Improve Transparency in the Gas Market (**Consultation RIS**).

AGL is one of Australia's leading integrated energy companies and the largest ASX listed owner, operator and developer of renewable generation. Our diverse power generation portfolio includes base, peaking and intermediate generation plants spread across traditional thermal generation as well as renewable sources. AGL's gas assets include the Torrens Island and Barkers Inlet Power Stations in South Australia, the Kwinana Swift plant in Western Australia, Somerton power station in Victoria, as well as gas storage in central Queensland and Newcastle, New South Wales. We are also assessing the potential for new gas-powered generation in Newcastle.

AGL is also a significant retailer of energy and provides energy solutions to 3.7 million customers in New South Wales, Victoria, Queensland, Western Australia and South Australia. In FY19 this involved 167 PJ of gas sales across AGL's small customer, large business customer and wholesale customer base. We are also developing, in close consultation with the community, a proposed LNG import terminal in Victoria to provide additional sources of gas supply to south-eastern Australia.

Given the complexity of the East Coast gas market, it is vital to achieve the right balance between the publication of information that is necessary for the market to operate efficiently, and the regulatory burden and potential competitive effects of such requirements. Achieving this balance will mitigate unnecessary business risks to the industry.

AGL supports the COAG Energy Council making a critical assessment as to what information is beneficial for the market and will be actively used by businesses to make more efficient investment decisions. On the other hand, there are classes of information that do not require public reporting. AGL suggests that if the ACCC has specific concerns about certain market conduct then an ad-hoc investigation could be carried out. This approach would assist to minimise the reporting burden, while balancing with the needs of the market for increased transparency.

There are several proposals raised in the Consultation RIS that should be considered thoroughly and with care, given the complexities of the impact that information can have on market participants, investment and market activities.

On the proposals to publish gas prices, AGL cautions that there are many terms in a GSA that contribute to the agreed price. Aggregation of bespoke contracts to provide an average price can be misleading and can result in customers entering negotiations with unrealistic expectations of what price is achievable for their requirements. We are already experiencing this confusion following the information published as part of the



current ACCC Gas Inquiry. If any of these proposals are to proceed, the AER and AEMO will need to be very clear about how the data has been aggregated to determine a price, and exactly what that price reflects and in what circumstances it can be relied on by customers (if at all). These concerns are explained in further detail in response to individual questions below.

On the other hand, AGL considers that greater levels of information about the supply sources would be valuable to the market, in particular to assist with investment decisions across the supply chain. In the tight supply market, it is vital that diverse sources of gas supply are encouraged to be brought online. AGL notes that In the United States it was greater levels of supply that ultimately brought down the price of gas.

We anticipate that the LNG import terminal in Victoria would contribute to greater levels of competition in gas supply and assist with the tight supply conditions in the southern gas markets.

Attachment A of this submission provides feedback on each of the options put forward in the Consultation RIS.

If you have any queries about this submission, please contact Jenessa Rabone on (02) 9921 2323 or JRabone@agl.com.au.

Yours sincerely,

Meng Goh

Senior Manager Regulatory Strategy



Attachment A

1 Prices

1.1 Production cost estimates

AGL has no comments on this suggestion.

1.2 LNG netback price series

AGL does not consider LNG netback prices to be a useful reference point for customers as international prices for long term LNG supply are typically linked to the price of oil (Brent), rather than JKM. Using JKM to calculate the netback prices at key locations around the east coast can be misleading as a user, as it's not representative of the actual price suppliers deliver to at those locations.

There have been some issues with customers believing that they should be able to secure gas at the LNG netback price, where this is not the case. The LNG netback price should not be used to inform contract expectations.

1.3 Standing prices for storage and stand-alone compression facilities

To the extent there is a "standard" product or service being offered by the facility operator, it would be useful for the prices, terms and conditions to be published by the facility operator. However, we acknowledge that there may not always be a standard product and some gas market participants may be more inclined to negotiate a bespoke service.

It is important that gas market participants can negotiate bespoke services to accommodate the individual needs of the customer. This should not be discouraged through imposing onerous reporting requirements on participants.

1.4 Short term GSAs

AGL considers that the short-term trades that occur on the gas supply hub and within the facilitated markets are a good representation of the short term or spot price of gas. Off-market trades occur because the standardised products do not always fit the exact needs of the parties involved, not because participants are attempting to hide prices from publication.

It is simple to compare standardised products and monitor trends over time. This is not the case with bespoke GSAs, which cannot be easily compared. Variations in the percentage of take-or-pay; load factors (MDQ/DCQ); receipt Point location; receipt Point flexibility; renomination rights; maintenance Days; permitted Interruptions; banking rights; term duration; can all influence the price. These terms have value as they shift certain risks between the parties to the GSA and it is not possible for AEMO to aggregate these contracts and publish information on the Bulletin Board in a way that is accurate and comparable over time.

Our concern with the aggregation and publication of these types of contracts is that the “average price” could be misleading for a market participant who does not fully understand that it is not a ‘standard’ price for moving gas from A to B.

Should this recommendation proceed, we strongly suggest AEMO exercise caution in the way it publicises average OTC prices. There is a strong chance that it could be misleading and set up false price expectations for customers.

In addition, the requirement to report the trade within 1 business day is extremely onerous. AGL suggests that this be extended to 5 business days. Given AEMO would anonymise and aggregate this information before publication, it will need multiple trades to occur to aggregate. We do not envisage that this could be done on a daily basis. Therefore, there does not seem to be a compelling case to require the information within a business day.

1.5 Long term GSAs

The aggregation issues discussed above will also apply to estimating the forward price from long term GSAs. In addition, these contracts may have been entered at different times under different market conditions. Again, there is a real risk that this provides customers with an unrealistic price expectation. As suggested above, the AER would need to be very clear about the way it has aggregated data and the way in which the forward price can be relied upon.

As a buyer and seller of significant volumes of gas, AGL cautions that the publication of gas prices can inadvertently result in price convergence and reduced the levels of competition in the market.

We also note that in the current market with few producers, it is not onerous for gas users seeking long term contracts to contact each producer separately (search costs are not significant).

1.6 LNG export prices

AGL does not consider the LNG export prices to be directly relevant for the domestic market. LNG has been and continues to be sold under long-term (e.g. 20 year) contracts and the LNG export price(s) is irrelevant to the price at which that gas would be sold domestically in Australia.

1.7 Actual prices for storage and stand-alone compression facilities

Should facilities be required to publish actual weighted average prices paid by users, we consider the rules should specify that the average is to be calculated based on volume throughput and not MDQ. MDQ would be misleading because it is not representative of the gas that actually flows through the facilities on a day to day basis, it merely reflects the maximum that can flow through the facility. This can be particularly misleading as the price of an underutilised pipeline could appear inflated compared to the efficient prices of a fully utilised pipeline.

AGL notes that the ACCC has made further recommendations that these facilities should publish minimum and maximum prices, or the actual individual prices paid by customers. AGL suggest caution with these recommendations, as the minimum and maximum prices reflect bespoke products



and services that are not the same as the 'standard' product. As described in other sections above, AGL is concerned that this could set misleading price expectations or deter the service provider from offering bespoke services to customers.

1.8 LNG import prices and producer actual costs

AGL does not consider production costs and LNG import prices to be a useful reference point for negotiating for gas supply. LNG importers would never sell gas at the landed price, given the costs involved with gasification and transport. We also note that in no other markets must suppliers provide their production costs as a floor to inform negotiations.

1.9 Gas swap prices

A gas swap is in essence two GSAs, and therefore AGL would expect that a gas swap agreement would be captured by a requirement to report short term GSAs to the Bulletin Board and therefore should not be required to be reported separately.

That said, we note that the price of a gas swap is not as important as the differential between the prices. It may be possible for participants to manipulate "average" gas prices through swap agreements, if swaps are compared to regular transactions.

1.10 Historic retailer and producer price series

As discussed above, we note the difficulties in aggregating bespoke agreements and the risk that this misleads customers with their price expectations.

For example, AGL has recently worked with ACCC to aggregate retailers' costs and margins across all states and market segments for the gas retail market. There is no one simple calculation or formula that can be applied, and the bespoke nature of GSAs add another layer of complexity to that aggregation. This is particularly true because of the large number of terms that can be varied and negotiated.

AGL is also unclear of the additional value that this option would provide, as we consider this price series would show the same price trends as, say, the DWGM in Victoria.

1.11 Gas price offer series

AGL considers this option would impose a significant reporting burden on participants.

We are also concerned with this option providing misleading prices, not only because bespoke contracts cannot be easily aggregated and compared, but because it relies on offers made and not accepted. Prices could be artificially inflated or depressed as a result.

1.12 Listing of all gas supply requests and offers

AGL would not oppose a voluntary listing service being facilitated by AEMO on the Bulletin Board.

However, any mandatory requirement to list all gas request and offers in one location would stifle innovative and bespoke negotiations between parties, which is vital for gas supply agreements, innovation and the flexibility of the gas market as a whole.

1.13 Secondary trades of storage capacity

AGL does not consider this information to be a useful transparency measure for the business decisions of market participants. Information around which participants have rights to a storage facility would be sufficient information to facilitate gas trading.

In addition, the reporting burden and timing is onerous. If this obligation is adopted, information should be reported within 5 business days, to align with AGL's suggestions for other reporting requirements.

2 Supply

2.1 Reporting of 2P reserves

AGL is supportive of greater transparency of 2P reserves.

2.2 Reporting of reserves and resources

AGL is supportive of greater transparency of reserves and resources information. This type of information directly assists with understanding the future supply and demand balance and informs investment decisions across the gas supply chain. For example, if there are inadequate commercially recoverable reserves and resources to meet future demand, businesses have a strong case to either invest in additional supply sources (such as LNG import terminals) or to shift demand to other fuel types.

AGL is largely supportive of the reserves and resources reporting framework recommended by the ACCC. However, we consider that attempting to streamline the assumptions that underlie the reserves and resources data to be unrealistic and will add unnecessary expense.

Specifically, the requirement to engage an independent auditor to routinely assess the assumptions is an expensive exercise and does not add significant additional benefit, given there would be a requirement for participants to calculate reserves and resources information in accordance with PMRS, along with other rule requirements.

With regard to reporting the assumptions to the AER, AGL notes that this information is highly confidential and would be difficult to aggregate and publish. We do not consider this information to be useful for industry decision making and should not be published.

2.3 Drilling activities

AGL does not consider information on drilling activities and associated expenditure to be necessary for the market. This information does not directly assist with business negotiations or investment decisions.

2.4 Contracted volumes of reserves

AGL is supportive of greater transparency of the contracted volumes of reserves and expected production each year. Combined with knowing the volumes of reserves and resources (in 2.2 above), this would give industry an indication of the levels of spare supply, which assists with negotiating GSAs and informs investment decisions across the supply chain.

2.5 LNG import facility information

AGL is supportive of LNG import facilities reporting operational information (such as nameplate rating, capacity outlooks, nomination information and actual gas flows), provided the reporting requirements take into account the physical capabilities of each individual facility. For example, an LNG import facility may be able to “store” gas until it receives pipeline nominations, but not in the same sense as a traditional storage facility as the import terminal may not be able to receive gas back from the pipeline or store gas for long periods of time. AGL would be happy to be involved in further discussions on this issue.

AGL queries whether it’s necessary to report on the volumes of LNG in each shipment when those flows would be captured by information on nominations into the pipeline or storage facility information (if there is a “storage facility” on site).

As discussed above, AGL does not consider the publication of pricing information to be necessary or adding value and transparency to the market.

2.6 LNG export supply-demand balance

AGL would find this forward-looking information on the supply and demand balance useful.

However, AGL do acknowledge that international LNG companies may be able to meet contracted volumes across a portfolio of sources, so a “shortfall” in their Australian supply and demand balance does not necessarily mean they will purchase that gas from the Australian market. Also, this type of information is not reported by LNG companies in other countries and it may place Australian LNG exporters at a competitive disadvantage if their counterparts are aware of their position.

3 Demand

3.1 Large user reporting basic information

Given this requirement is a new reporting obligation on large user participants that may not otherwise be involved in gas market reporting, AGL suggests that COAG Energy Council ensure that all affected

participants are identified and consulted through this process. This will ensure large users are aware of these new reporting obligations and have the opportunity to comment.

3.2 LNG export facility reporting operational information

AGL is supportive of LNG export facilities reporting operational information (such as nameplate rating, capacity outlooks, nomination information and actual gas flows), like other gas facilities.

3.3 LNG export facility reporting shipment information

AGL is unclear of the value of information about LNG export shipments, as gas flows to the LNG facility would have already been reported through pipeline data.

As discussed above, AGL does not consider the publication of LNG export pricing information to be necessary or helpful for the market.

3.4 Large user reporting forecast consumption

AGL is not supportive of large gas users being required to report forecast consumption for the upcoming 12 months. We consider this could have competitive impacts for those businesses in other markets.

It may also be impractical for some types of large gas users to provide those forecasts with the required level of accuracy. For example, a peaking gas-powered generator responds to electricity demand and prices. While it may have some indication of likely gas needs closer to the relevant gas day based on temperature and other factors, future forecasts for gas needs each day are unlikely to be accurate.

We also note that short term forecasts would be captured through pipeline nominations, albeit in aggregated form.

4 Infrastructure

4.1 Committed gas infrastructure developments

AGL is supportive of committed gas infrastructure developments reporting project information to the Bulletin Board. This reflects what is required in the National Electricity Market and will assist AEMO with the Gas Statement of Opportunities.

4.2 Availability of capacity for storage and compression

AGL is supportive of information on the 36-month outlook for uncontracted capacity. This would allow users to find out whether capacity is available.

We note that some gas facilities already provide this type of information on their websites.



4.3 Information on compression facilities

AGL considers information about the utilisation of compression facilities to be useful for the market – as it indicates the spare capacity available to move supply from A to B.

4.4 Proposed gas infrastructure developments

AGL is supportive of proposed gas infrastructure developments reporting project information to the Bulletin Board. This reflects what is required in the National Electricity Market and will assist AEMO with the Gas Statement of Opportunities.

4.5 Availability of capacity for production facilities

AGL is supportive of information on the 36-month outlook for uncontracted capacity as this would allow users to find out whether capacity is available.

4.6 List of users with contracted capacity

AGL is supportive of gas facilities being required to provide AEMO with lists of users with contracted capacity as this may facilitate secondary trading.

4.7 Materiality threshold

AGL is not supportive of amending the materiality threshold to the “lesser of” 10% of the nameplate rating and 30 TJ.

The original definition (the “greater of” 10% of the nameplate rating and 30 TJ) was intended to capture large intra-day changes that would have a significant impact on the gas market, such as changes within an LNG facility that may result in large volumes of gas being flooded into (or being withdrawn from) local markets.

If the definition is amended as proposed, it would capture intra-day changes as little as 1 TJ (10% of a 10 TJ per day capacity facility). These intra-day changes would not have a significant impact on the market, and such an amendment may create an unnecessary reporting burden on those participants.

If there are certain circumstances that COAG Energy Council considers should be reported intra-day, then perhaps a different definition should be considered. For example, if a 10 TJ per day capacity facility becomes completely unavailable.

5 Gas Statement of Opportunities

5.1 Mandatory participation

AGL notes that the information it currently provides to AEMO for the GSOO (particularly on the status of proposed projects and projected gas supply) would now be reported to the Bulletin Board under the



requirements proposed above. We would anticipate that this information would not need to be reported separately to AEMO for GSOO purposes, to avoid duplication.

AGL is supportive of an information standard being applied to GSOO reporting.

5.2 Northern Territory

AGL is supportive of the GSOO being expanded to include the Northern Territory, given it is now connected to the east coast gas market.