

COAG Energy Council
GPO Box 787
CANBERRA ACT 2601

26th September 2019

Submitted via e-mail to: gas@environment.gov.au

Dear Sir/Madam,

Measures to Improve Transparency in the Gas Market

The Australian Energy Council (the “**AEC**”) welcomes the opportunity to make a submission in response to the COAG Energy Council’s *Measures to Improve Transparency in the Gas Market – COAG Regulation Impact Statement Consultation Paper*.

The Energy Council is the industry body representing 22 electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. These businesses collectively generate the overwhelming majority of electricity in Australia, sell gas and electricity to over ten million homes and businesses, and are major investors in renewable energy generation.

Introduction

At face value, improved gas market transparency offers the benefits of improving market responsiveness and fostering efficient investment decisions. However these benefits come at the cost of increased compliance costs and possibly detrimental effects on competition. It will be important for the analysis being conducted by Frontier Economics to be considered fully in any decision the COAG Energy Council makes as to the extent of changes it introduces.

Although interconnections between supply sources and demand centres have increased, provision of gas to customers remains a twofold process, with supply from gas fields being the first element, and transportation the second element. It is the combination of the two which determines delivered price, and retailers and major customers must optimise this combination to meet their needs and provide the value they seek.

A further characteristic of the gas markets is the physical nature of supply, compared with electricity markets. As a result, temporal considerations have a significant bearing on the safe and reliable supply of gas to customers, and planning and contracting to meet annual, daily & hourly timeframes is critical to meeting gas demand in a timely fashion.

These characteristics mean that while natural gas is a commodity which generally meets the *Natural Gas Specification*,¹ it cannot be bought “off the shelf”, since transportation and supply shaping is also required, and while gas supplies may have similar properties, they should not be considered to be direct substitutes for one another, again because of the associated transportation and supply shaping components.

This means that requiring more information to be provided can assist in buyers’ assessments of the best option for the supply they’re seeking, but their final decision will be based on the value and characteristics which meet their individual requirements and particular corporate risk appetites.

¹ AS4564-2011 Specification for general purpose natural gas

Discussion

The Value of Transparency

Transparency will improve the ability of organisations to make these purchasing decisions, but such transparency must be comparable across the supply chain.

To this end the Energy Council is broadly supportive of measures to improve transparency in the gas market, although it does not believe that any of the proposed “superset” options proposed are warranted, since they are likely to be:

- unduly burdensome and intrusive;
- only marginally more useful than implementing all the AEMC and ACCC-GMRG’s recommendations;
- potentially challenging for commercial confidentiality given the additional transparency required; and
- possibly detrimental to competition, by encouraging coordinated conduct.

Therefore, in the absence of further justification, as a broad position, the Energy Council does not see the need to implement the options proposed in excess of the default implementation of all the AEMC and ACCC-GMRG’s recommendations.

Coverage

It will be important to ensure that all areas of the gas market are covered, and to this end the Energy Council supports extending the regime to the Northern Territory, and also to liquefied natural gas export and import terminals. However the Energy Council does note that such transparency will need to ensure that it does not compromise Australia’s international competitiveness, by disclosing information (inadvertently or otherwise) which is commercially sensitive. In addition, it is important that detailed information isn’t sought unfairly, and for little additional utility. For example, it is proposed that short-term gas supply agreements should be reported for customers greater than 10TJ per annum.² While this won’t capture routine contracts with major customers, it is likely to capture an increased volume of contracts, with an unclear justification, given the small quantities and values which may be involved in such transactions. Similarly considering long-term gas supply agreements with annual contract quantities of 0.5PJ or more will oblige contracting parties to report transactions with values perhaps significantly less than \$5m.³

This materiality test is applicable to other proposed obligations as well. For example the Consultation Paper suggests that the materiality threshold for intra-day reporting on the Bulletin Board be amended to 30TJ.⁴ This means that a change in value of, perhaps, less than \$300,000 will trigger a reporting obligation.

On this basis the Energy Council believes that more consideration should be given to the materiality threshold which triggers reporting obligations, to ensure that trivial quantities, which do not have market effects, are not required to be reported.

Supply & Availability of Gas

As discussed above, the availability of gas at the production source is only one element of ensuring the necessary supplies reach customers. Therefore the significantly detailed transparency measures required under Option 3,⁵ which oblige producers to declare field level data, drilling activity and contracting positions, are only partially relevant to parties determining whether they can source gas at the price they seek. The Energy Council therefore believes that implementation of this highly intrusive option is unnecessary, and in this instance prefers Option 2 “AEMC proposed transparency measures (sub-set)”.

Gas Statement of Opportunities

The Consultation Paper proposes that the Australian Energy Market Operator’s (“AEMO’s”) Gas Statement of Opportunities (“GSoO”) be strengthened by mandating participation in data collection. The consultation paper reports that numerous stakeholders have questioned the quality of information obtained through AEMO’s voluntary market participant surveys, yet the evidence of a shortcoming appears anecdotal rather than

² p.56

³ p.57

⁴ p.93

⁵ p.72

concrete. On this basis the Energy Council has doubts about the justification for mandating data provision obligations from market participants.

However the Energy Council does agree that the utility of the GSoO would be improved by including the Northern Territory, given it is now physically connected to the East Coast Gas Market. In addition the Energy Council supports requiring AEMO to include an expectation of future projects, as it does with the comparable Electricity Statement of Opportunities, as this will assist in ensuring duplicate infrastructure is not built.

Conclusion

The Energy Council looks forward to the work being conducted by Frontier Economics to determine the cost-benefit, regulatory burden and competition effects of the proposed changes. While supportive of increasing gas market transparency, the Energy Council remains concerned that the additional compliance burden will provide little improvement in the market, due to structural and physical characteristics which cannot be altered.

Any questions about this submission should be addressed to the writer, by e-mail to Duncan.MacKinnon@energycouncil.com.au or by telephone on (03) 9205 3103.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Duncan MacKinnon', with a long horizontal flourish extending to the right.

Duncan MacKinnon
Wholesale Policy Manager
Australian Energy Council