

11 February 2016

Mr John Pierce
Chair
Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

Dear Mr Pierce

**RE: *EAST COAST WHOLESALE GAS MARKET AND PIPELINES FRAMEWORKS REVIEW:
STAGE 2 DRAFT REPORT: COMMENTS FROM THE AUSTRALIAN PETROLEUM
PRODUCTION & EXPLORATION ASSOCIATION***

The Australian Petroleum Production & Exploration Association (APPEA) welcomes the opportunity to provide comments on relevant areas of the Australian Energy Market Commission's (AEMC) *East Coast Wholesale Gas Market and Pipelines Frameworks Review: Stage 2 Draft Report* (the Draft Report). This follows on from APPEA's 2 April 2015 submission on the AEMC's Public Forum Paper and our 4 June 2015 submission on the Stage 1 Draft Report.

Since 1959, APPEA has been the peak national body representing the upstream oil and gas exploration and production industry. APPEA has more than 80 member companies that explore for and produce Australia's oil and gas. In addition, APPEA's more than 220 associate member companies provide a wide range of goods and services to industry. Further information about APPEA can be found on our website, at www.appea.com.au. A number of APPEA members are also represented on the Review's Advisory Group.

APPEA has been a long and active supporter of the development of arrangements to support Australia's east coast gas market both directly and through its membership of the (former) Gas Market Leader Group (GMLG), the industry-led body that drove the development of the Gas Bulletin Board (GBB), Gas Statement of the Opportunities (GSOO) and the gas Short-Term Trading Markets (STTMs).

In addition to the APPEA submission, a number of APPEA members have made individual submissions to the AEMC on the Draft Report. This response should be read in conjunction with those submissions from individual APPEA members.

APPEA's submission addresses specific aspects of the Draft Report, focusing on those areas that are particularly important for the upstream oil and gas industry.

General comments

APPEA has noted in previous submissions our disappointment that the Terms of Reference for the review do not include identifying and mitigating the regulatory barriers to increasing supply to the east coast market. As the AEMC rightly points out in section 2.1.1 of the Draft Report, onerous regulatory restrictions in some jurisdictions (notably New South Wales and Victoria) is impeding gas supply resulting in higher wholesale prices and less market liquidity than would otherwise have been the case. The outcomes from this Review must support and reinforce the removal of regulatory restrictions impeding the efficient functioning of the east coast gas market.

Specific comments on the Draft Report

With that in mind, APPEA offers the following comments on some of the specific recommendations and questions raised in the Draft Report. APPEA supports further development of the east coast gas market where that would enhance overall productivity and economic efficiency. Any reforms should be market-based, support efficient market outcomes and be based on robust cost-benefit analysis.

Information provision

As the AEMC has previously reported, a number of steps have been taken by policy makers and market participants over the last ten years to increase the level of transparency in the east coast gas market and enable more informed decisions to be made about the consumption, production and transportation of gas and longer-term investments.

While APPEA supports the proposal to include exploration and reserves information on the GBB as a step towards developing a “one-stop-shop” of gas market information, such a move should not place an additional reporting burden on gas producers. The COAG Energy Council appears to have identified a concern around the “opacity” of market information that its individual jurisdictions already collect and hold, as shown in the table of reserves reporting obligations by jurisdiction at Appendix 1.

The table shows that individual jurisdictions already collect and hold the information the AEMC is recommending be collecting. Instead of duplication reporting requirements, the AEMC should recommend that the Energy Council members task their respective agencies to work through the barriers to sharing information that they already hold. APPEA and our members stand ready to work with the Energy Council to assist in that process and ensure that the ultimate presentation of information balances the public interest and commercial sensitivities.

APPEA supports the extension of coverage of the GBB, and its associated information requirements, to large gas users. This is consistent with APPEA’s input to the development of the Western Australian GBB. That said, we disagree with the AEMC view that the publication of an LNG Facility’s capacity outlook and usage information “*is unlikely to have any effect on competition in the LNG markets.....*”¹. Forward LNG plant capacity is highly commercially

¹ Stage 2 Draft Report: Information Provision, p.30

sensitive to both sellers and buyers in LNG markets, particularly in the case of an unplanned outage. Such information reported on a plant-by-plant basis is likely to place Gladstone based LNG exporters at a commercial disadvantage compared to export competitors who do not currently signal this information to the market.

With that in mind, APPEA requests that the AEMC works with LNG exporters to develop an appropriate solution that balances the needs of GBB users and commercial sensitivities.

Wholesale gas trading markets

APPEA notes the recommendation to establish two trading hubs, a physical hub in the north (Wallumbilla) and a virtual hub in the south (Victorian transmission system), with common trading mechanisms applying to each, along with the proposed transition to simplified balancing STTM hubs.

Future wholesale trading at Moomba will also benefit from adopting common trading mechanisms, and these benefits should not be overlooked given Moomba's strategic interconnection to the northern and southern gas markets.

APPEA supports the move to simplify and more closely align the existing and proposed market mechanisms. Such alignment could improve the efficiency and effectiveness of the east coast gas market and produce market arrangements that are more closely aligned with the AEMC's objective of ensuring natural gas flows to its highest value use.

Pipeline capacity trading

APPEA supports the introduction of a transparent market mechanism to allocate unused pipeline capacity and allow owners of pipeline capacity to sell any available capacity in a traded market place.

Any new market mechanism should aim to balance the efficiency of pipeline transportation services and provide greater transparency in relation to existing capacity trade, while ensuring existing property rights are preserved and that there are no adverse impacts on future pipeline investment.

Allowing gas to flow efficiently through the transportation system will improve the operation of the east coast gas market. APPEA considers that efficient access to pipeline capacity is fundamental to market development and must be a key a feature of any reforms. Aligned with this, APPEA supports moves to improve transparency in pipeline markets that interface with the facilitated markets, so capacity can be traded more actively.

Conclusion

Ongoing gas market reforms, based on the competitive market principles and only results in intervention in the presence of clearly identified market failures (that can be improved through intervention), should remain an important feature of government policy responses and a key feature of the Review's Final Report to the COAG Energy Council.



The upstream industry has been a key focus of and participant in reform over the past decade and stands ready to participate constructively in future gas market reform processes.

If you or your project team require additional information about our submission, please do not hesitate to contact Adam Welch on (08) 9426 7205 or at awelch@appea.com.au.

Yours sincerely

A handwritten signature in black ink that reads "Damian Dwyer". The signature is written in a cursive style with a long, sweeping underline.

Damian Dwyer
Director – Economics

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PETROLEUM RESERVES REPORTING IN AUSTRALIA

JURISDICTION	ONSHORE/OFFSHORE	REPORTING FREQUENCY	ACT/REGS	PUBLISHED
Commonwealth	Offshore	Annual	OPGGS Act 2006 (Cth) OPGGS (RMA) Regs 2011 (Cth)	Yes – by basin
New South Wales	Onshore	Nil	Petroleum (Onshore) Act 1991 (NSW) Petroleum (Onshore) Regs 2007 (NSW)	No
Northern Territory	Onshore	Annual	Petroleum Act 1984 (NT) Petroleum Regs 1994 (NT)	Yes – by basin
Queensland	Onshore	Six Monthly	Petroleum Act 1923 (Qld) Petroleum Regs 2004 PG (Production and Safety) Act 2004 (Qld) PG (Production and Safety) Regs 2004	Yes – by permit
South Australia	Onshore	Annual	PGE Act 2000 (SA) PGE Regs 2000 (SA)	No
Victoria	Onshore	Annual	Petroleum Act 1998 (VIC) Petroleum Regs 2011 (VIC)	No
	Offshore	Annual	OPGGS Act 2010 (VIC) OPGGS Regs 2011 (VIC)	No
Western Australia	Offshore	Annual	Petroleum (Submerged Lands) Act 1982 (WA) Petroleum (Submerged Lands) Regs 1990 (WA)	Yes – by basin
	Onshore	Annual	PGER Act 1967 (WA) PGER Regs (RMA) 2015 (WA)	Yes – by basin