

2 April 2015

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: PUBLIC FORUM PAPER: 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: Public Forum Paper* (the Paper).

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 250 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.

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

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

General comments

APPEA notes the Terms of Reference for the Review requires AEMC to consider three of the four work streams agreed at the December 2014 Energy Council meeting, namely enhancing transparency and price discovery, improving risk management and removing unnecessary regulatory barriers. This means the first work stream, encouraging competitive supply, is not covered by this review (including issues relating to the investment environment for gas supply). This is a disappointing omission.

While each form important parts of the east coast gas market development process, the issues considered by this review are not independent of the broader investment environment for gas supply.

In particular, it is not a lack of natural gas but onerous regulatory restrictions in some jurisdictions (notably New South Wales and Victoria) that is impeding gas supply. Any outcomes from this review must support and reinforce the removal of regulatory restrictions impeding the efficient functioning of the east coast gas market.

In addition, both directly and through its membership of the (former) Gas Market Leader Group (GMLG), the industry-lead 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), APPEA has been a long and active supporter of the development of arrangements to support Australia's east coast gas market.

The industry has demonstrated its willingness to participate actively in gas market development processes in the past and expects this to continue into the future. These developments have arisen through both evolution of the gas market, industry led initiatives and government actions. The range and pace of these developments is, in many cases, not readily apparent to those that have not been directly involved in them and are often underappreciated by those not actively involved in the gas market development program on an ongoing basis.

The relatively small size of the east coast gas market by international standards has historically placed limitations on the liquidity and complexity of gas markets across Australia, including on the east coast. It is also the case, as the Paper recognises on page 3, that the market has been traditionally based around bilateral contracts. However, the market has experienced growth in diversity and complexity in recent years.

APPEA recognises the importance of ensuring a competitive and well informed east coast gas market continues to develop and also recognises the importance that bilateral contracts have played in underpinning market development on the east coast.

APPEA also recognises the significant gas market development that has been pursued over the last decade, in which the upstream industry has, as noted above, been an active participant. As such, APPEA does not support reform options being pursued just for the sake of reform, but rather to ensure gas is developed and allowed to flow to its highest value use, thus providing the greatest return to the ultimate owner of the resource. It should also be built upon an acknowledgement of the important role bilateral contracts have played in underpinning market development across Australia.

Specific issues

With that in mind, APPEA offers the following comments on some of the specific issues raised in the Paper. APPEA supports further development of the east coast gas market 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.

Assessment framework

APPEA endorses the AEMC's focus, outlined in page 3 of the Paper, on the economic efficiency of gas market arrangements and any proposed developments or enhancements, including those that would best allow gas to flow to where it is most highly valued and for the market to most readily adapt to changing supply and demand conditions over the longer-term.

Facilitated markets

APPEA notes the east coast gas market currently has three forms of facilitated markets in operation (the STTMs, discussed on pages 4-5 of the Paper, the Wallumbilla GSH, discussed on pages 5-6 of the Paper and the Declared Wholesale Gas Market (DWGM), discussed on pages 6-7 of the Paper). As the Paper notes on pages 7-8, each of these markets is different and these differences require participants who operate in each of these markets to have different information technology, administrative and compliance systems in place to participate in each of these markets. These differences add to costs for participants and can be a barrier to entry, particularly for smaller companies, into these markets.

APPEA recommends the AEMC investigate ways to more closely align these markets. 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 also supports the introduction of a pipeline trading capacity initiative. Such an initiative should aim to improve the efficiency of pipeline transportation services and provide greater transparency in relation to existing capacity trade, while ensuring existing property rights are preserved and there are no adverse impacts on future pipeline investment. It should also address the lack of a transparent market mechanism to allocate unused pipeline capacity, which would allow companies that own pipeline capacity to sell any available capacity in a traded market place.

Allowing gas to flow efficiently through the transportation system will be a key way to improve the operation of the east coast gas market. This means efficiently accessing capacity is fundamental to market development and must be a key 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 reform, that is based on the operation of competitive markets and only supports intervention in the presence of clearly identified market failure (that can be improved through intervention), should remain an important feature of government policy responses.



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 me on 6267 0902 or at ddwyer@appea.com.au.

Yours sincerely

A handwritten signature in blue ink, appearing to read "D. Dwyer". The signature is fluid and cursive, written in a professional style.

Damian Dwyer
Director – Economics