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01 June 2015

Mr John Pierce  
Chairman  
Australian Energy Market Commission  
Level 6, 201 Elizabeth Street  
Sydney NSW 2000

Dear Mr Pierce

**GPR0003: Draft Report on Stage 1 of the East Coast Wholesale Gas Market and Pipeline Frameworks Review**

Santos welcomes the opportunity to comment on the Australian Energy Market Commission's (AEMC) draft report on stage 1 of the east coast wholesale gas market and pipeline frameworks review.

As a proudly Australian company, Santos is a leader of the Australian natural gas industry, with more than 60 years of responsible gas exploration and production across the nation. Santos is one of Australia's largest domestic gas producers, supplying natural gas to all mainland Australian states and territories, ethane to Sydney and oil and other liquids to domestic and international customers.

It is in this context that Santos believes it is well placed to comment on the comprehensive stage 1 draft report. Our submission will broadly follow the draft report and comment on:

- Issues that can be progressed in the short term; and
- Directions for stage 2 and treatment of medium to longer term issues

Santos is broadly happy with the direction of the review, although notes an efficient market with limited gas supply is not something that we should be aiming for or celebrating. Gas producers and users alike are united in calling for additional supply to be brought to market; unfortunately this review is only looking at gas once it is already in the pipe.

## Issues that can be progressed in the shorter term

### *Improving price transparency*

Santos fully supports the aggregation of existing publicly available information into a semi regular document. It will be surprising to some, the level of detailed information that is currently out in the public domain regarding all areas of gas demand and supply. Equity investment analysts have for years been able to construct sophisticated market and company models based only on this publicly available data, proving the information is there for those who are willing and have the expertise to look.

The question of transparency of information in the gas markets has often been raised. Santos believes that the aggregations of existing information will enable those who do not have the time or expertise to collated this already public data into one place. This recommendation alone should be put in place before any addition information is requested, as we believe that this will enable all market participants to have a rich source of information to enable superior decision making.

The survey-based gas price index proposed in the report is not something that Santos believes would be a practical or useful tool. In our experience any customer who is looking for a price has certain individual contract and load characteristics that render any vanilla contract price to be largely irrelevant. It is often the specifics regarding the shape and variability of the load that define the pricing. These characteristics require individual negotiation at the very large customer end (greater than 1 PJ) where Santos is engaged. Santos is a very active participant in this very large customer space and ensure we remain active and competitive on all our contracts conversations. Customers do request prices from various suppliers, enabling them to decide on the best contract option after considering both price and terms. We are currently engaged in negotiations with multiple customers where we are discussing individualised prices for them, something a survey would not be able to adequately represent.

It should also be noted that price is just one consideration in this equation, another important factor is gas availability. There are occasions when a supplier will simply not have adequate supply availability for a particular period to meet all customers requested demand profiles. The physical and bilateral nature of the gas markets will result in some market participants pricing differently due their specific gas portfolios, or result in them not pricing at all if they have already sold their existing supply. Again these nuance's will not be picked up in a survey based index.

### *Bulletin Board "one-stop shop"*

Many of the suggested improvements to the Bulletin Board either require the aggregation of existing market data or functionality improvements. Santos supports these ongoing improvements of the Bulletin Board. The Bulletin Board should be flexible enough to keep up to date with the ever growing requirements of the market and we fully support this being the one-stop shop for gas market information.

Other improvements mooted include the requirement for new information, or reconsidering current procedures. Santos is cautious about changes to the information provision without a full cost benefit analysis. We would like to understand more about what these suggestions may mean in practical terms as there is very little explanation in the report, including **what** the specific information request is, **why** it would benefit the market, **how** it could be delivered and **when** these requests could occur?

#### *Addressing additional information gaps*

As previously mentioned any rule changes that are proposed will need to go through a rigorous process to determine the costs and importantly the benefits of the increasing the level of currently commercially sensitive information. Santos looks forward to making comment on these proposed rule changes with the AEMC when then they are under review.

Storage information was one of the areas mentioned as a potential gap. It should be noted that not all storage facilities are the same. Some have quick injection and withdrawal while others are slow, some have high requirements for cushion gas while others are low, some are actively marketed to third parties, others just to meet existing gas supply obligations. Some storage, like many of Santos' current facilities are really just a part of the processing facility, whereby gas that comes out of the storage facility may still require processing, therefore there is not necessarily a separate injection point into a pipeline.

#### *STTM simplification*

Santos and other market participants have also been calling for greater consistency in the facilitated markets and the broader market design framework. Santos is willing to be part of a broader technical working group to scope how we can transform the STTM into a relevant and cost effective market place. It is encouraging that this review will be under the umbrella of the broader market design framework as it is important each facilitated market has key objectives and deliverables and it is clear how each contributes to the east coast gas market as a whole. This is our chance to redesign the market for the future, and not just to settle with adequacy for today.

#### *Harmonising the gas day start times*

Any adjustments that can be made that result in more commonality to the facilitated markets is greatly encouraged and harmonising the start times of all east coast gas markets is a simple, yet powerful step in moving to an east coast gas market as opposed to multiple regional markets. Santos supports aligning all gas day start times to 6 am EST. We note that NEM start times occur at 4 am, but see little relevance in joining the two markets. These are completely separate markets in fuel origination, structure, settlement and delivery, with only a few participants that cross both markets actively. From Santos' perspective there would be minimal cost in administering the change to the start times.

#### *DWGM rule change*

Santos believes that this proposed rule change would add value to the DWGM by decreasing the time for any successful rule change request to be implemented and allowing all eligible participants to request a change. It is also consistent with our theme of broader harmonisation among the facilitated markets, ensuring we continue to strive for an integrated east coast gas market, which will over time drive down barriers to entry for new players and reduce transaction costs.

## **Directions for stage 2 and treatment of medium to longer term issues**

### *Redesigning the STTM and DWGM*

Consistent with comments above, Santos believe that this is an opportunity to redesign the facilitated markets for the future. Any changes would still need to have stringent assessment criteria, ensuring that any change benefitted the market as a whole and the benefits of such changes are clearly articulated with a clear understanding of the costs to all participants.

### *Develop a long term strategy for the location of facilitated markets*

Santos supports the development of a long term strategy for the location of facilitated markets. We have been consistent in our support of the establishment of a Moomba Gas Supply Hub, or another mechanism that would allow gas to be traded ex-Moomba. Moomba is the only point of the system that has connections with all the major gas markets, making it an important site for the development of the market.

Santos believe that a move to add a Moomba trading location would enable all Cooper Basin producers to trade volumes ex – Moomba, this is especially important for the smaller producers who may have transport capacity constraints ex-Wallumbilla, it may also provide a route to market if a Northern Territory tie in were to go ahead. It should be remembered that not all participants want or need to trade ex-Wallumbilla.

Santos would welcome the opportunity to assist the AEMC in determining the best approach for Moomba. We do not believe either issues raised in the report regarding the delivery of southern gas to Moomba (odourised gas) or the current limited volume of uncontracted gas from Moomba should impact on the decision on a delivery point or hub, this is simply the gas market evolving. We would recommend that any decision should be made in the context of the broader and priority list of issues of this review.

### *Further develop of the Wallumbilla Gas Supply Hub*

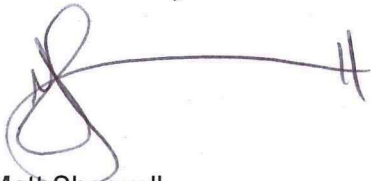
Priority should remain the continued focus on the development of the Wallumbilla hub. This hub should be the model rolled out if and when future hubs (including a Moomba hub) are agreed. Wallumbilla is still in its infancy, and while Santos believes that all market participants have benefited from the experience gained in its first full year, there are obvious areas where AEMO and its working group, which Santos is a member, have identified improvements which would make it a more efficient service.

We note that the AEMC has put on the table the prospect of economic regulation for the provision of hub services for stage 2. Santos believe that all options should be considered but are wary of leaping to any conclusions prior to the conducting the due diligence necessary to determine whether a market or regulatory response provides the greater outcome for the whole east coast gas market.

Santos notes there is minimal reference in the draft report for the need to increase supply in the east coast gas market. The report references rightly COAG's vision including stream 1 "encouraging competitive supply" although states it is "*largely outside the scope of the review*". Santos agree it is very important to review facilitated markets and pipeline frameworks, however we also believe that the major issue facing the east coast gas markets are the impediments to bringing on much needed new supply.

Should you have any questions in relation to this submission, please contact me at [matt.sherwell@santos.com](mailto:matt.sherwell@santos.com) or on (08) 8116 5824.

Yours sincerely

A handwritten signature in dark ink, consisting of a large, stylized 'S' followed by a horizontal line and a small vertical stroke at the end.

Matt Sherwell

**Strategy, Portfolio and Markets Manager  
Santos Ltd**