SUBMISSION

OPTIONS TO IMPROVE THE AUSTRALIAN DOMESTIC GAS SECURITY MECHANISM – 22 AUGUST 2022

The Energy Users' Association of Australia (EUAA) is the peak body representing Australian commercial and industrial energy users. Our membership covers a broad cross section of the Australian economy including significant retail, manufacturing, building materials and food processing industries. Combined our members employ over 1 million Australians, pay billions in energy bills every year and in many cases are exposed to the fluctuations and challenges of international trade.

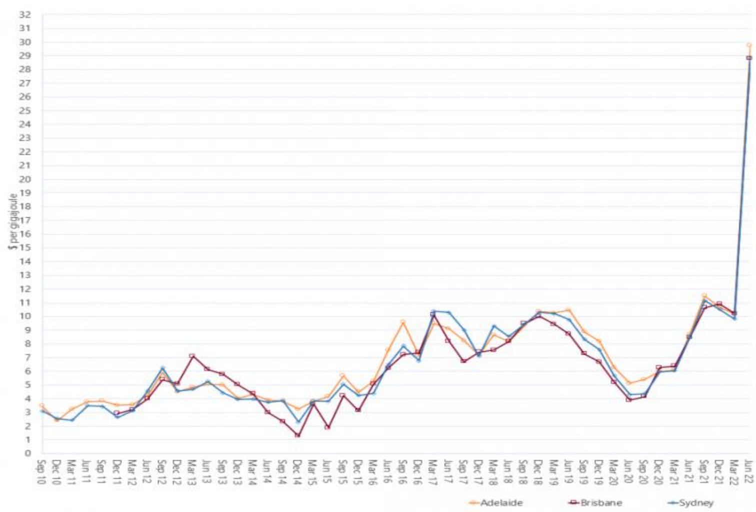
As large energy users, our members are highly exposed to movements in both gas and electricity prices and have been under increasing financial stress due to escalating energy costs. These increased costs are either absorbed by the business, making it more difficult to maintain existing levels of employment or passed through to consumers in the form of increases in the prices paid for many everyday items.

Introduction – What's at risk

As we have observed recently, the lack of affordable gas was a significant contributor to the National Electricity Market suspension as gas fired generators withdrew bids as they could no longer cover fuel costs under an administered price cap of $300MWh. We are also observing a significant increase in the cost of many everyday items at the supermarket. The cost of producing everything from pasta sauce and other processed foods through to beer and toilet paper has gone up due to unsustainably high gas prices, feeding the surging cost of living pressure being felt by households and business alike.

Given what is at stake, we welcome this opportunity to provide a submission to the ADGSM review and hope that it signals the start of a broader set of meaningful gas market reforms that puts the domestic gas user and national interest at the centre of policy and regulatory design.

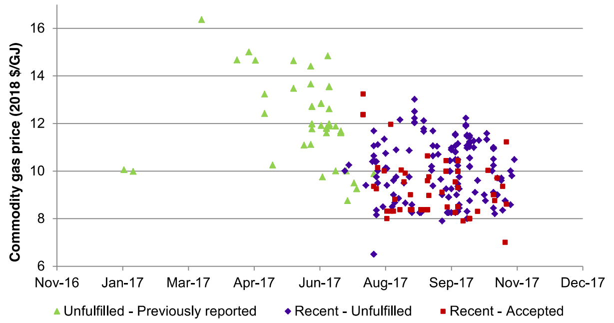
While this recent extreme surge in gas prices is being driven in part by global events, as the following STTM average quarterly spot gas price graph produced by the AER[1] clearly shows, it is by no means the first time that gas users have felt the pain of the domestic market being linked to volatile global gas markets (although the recent increase is extreme)



[1] https://www.aer.gov.au/wholesale-markets/wholesale-statistics/sttm-quarterly-prices

Successive gas market reports produced by the ACCC over the last 5 years also shows significant price volatility since commencement of LNG export. As has been pointed out many times by the ACCC, domestic gas users are also at a significant disadvantage due to a combination of market power and information asymmetry. This impacts their ability to successfully negotiate reasonable prices for gas but also restricts their ability to influence terms and conditions. In a number of cases, member companies have struggled to simple gain any response to a GSA tender. It continues to be a seller's market and in the absence of further, significant improvement in the regulatory and market framework, we expect this to continue.

Chart 1: Unfulfilled offers between 1 January 2017 and 14 July 2017 and all subsequent offers up to 9 November 2017 across the East Coast Gas Market

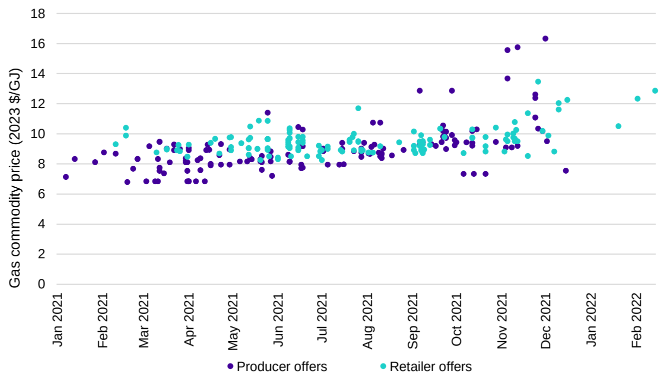


Source: ACCC analysis of offers provided by suppliers

Note: Offers up to 14 July are for annual quantities of at least 1 PJ; offers after this are for annual quantities of at least 0.5 PJ.

ACCC Interim Report December 2017

Chart O.3: Gas commodity prices (2023$/GJ) offered in the east coast gas market for 2023 supply



ACCC Interim Report July 2022

It is very clear to us that significant gas market reforms will be required, however difficult this may be.

We often hear the gas industry talk about the investments they have made in LNG export facilities and that government shouldn't act decisively to moderate domestic gas prices as this would create investor uncertainty and sovereign risk.

Australian manufacturers, food processors and heavy industry such as steel and cement have also invested tens of billions of dollars over the past decades as they built significant productive capacity and underwrote 850,000 jobs. Due to persistently high gas prices, much of this past investment is now at risk of being stranded, not only putting direct jobs at risk but also those jobs along the entire value chain that either support or rely on these industries.

When we speak of solutions to the gas crisis it is often negatively portrayed by the gas industry. To be clear, we do not want the LNG producers to default on their export contracts and we don't expect them to sell gas to domestic customers at a loss. Australia has plenty of gas so it shouldn't be a choice between maximising export revenue or maintaining a vibrant domestic economy. With the domestic market volume making up less than 20% of the total volume of gas extracted annually, we believe it is firmly within our ability as a nation to achieve both objectives.

Improving the ADGSM

The primary concern of the EUAA is achieve the best outcome for consumers measured by:

1. Achieving a long-term sustainable gas price that allows existing business to flourish and for new investments in manufacturing to occur.

2. Ensuring a competitive and highly liquid domestic gas market where market power is minimised or can't be exercised.
3. Achieving fair and reasonable contractual terms and conditions.
4. Improving transparency and decreasing information asymmetry.

There has been some excellent work in recent years by the ACCC to improve transparency and reduce information asymmetry, by the GMRG to establish pipeline capacity trading and implement an arbitration framework to help level the playing field between shippers and pipeline operators and by the Federal Government via the ADGSM/Heads of Agreement that has had some positive impact on domestic supply, although recognising this has not had a material impact on domestic prices. We see this current review of the ADGSM as an opportunity to take a big stride forward in gas market reform.

Regarding the principles set out in the ADGSM review options paper we offer the following:

- Priority 1 ('Ensure sufficient supply…') and Priority 2 ('Put downward pressure on domestic gas prices'): Both priorities talk about increasing investment to expand domestic supply and competition. Over the years a number of attempts have been made to achieve this goal by simply increasing supply and improving information. This is welcome but has proven to be insufficient. Other than those leases covered by the Queensland Governments prospective domestic gas reservation policy, previous attempts to improve price by simply increasing supply have not led to lower gas prices for domestic consumers. In the absence of extending the Queensland policy to more leases and other jurisdictions (including off-shore leases covered by the Commonwealth) we don't think supply alone will lower prices.
- Priority 3 ('Maintain Australia's position…'): We have stated on many occasions that we do not want to see policy or regulation introduced that has a material negative impact on existing LNG export contracts. Australia should continue to be a contributor to global energy security but that should not come at the expense of domestic energy security, as we are clearly observing. A progressive move towards balancing export objectives with domestic priorities (energy security, manufacturing, food processing etc.) must be the framework that the gas industry and governments are working within.
- Priority 4 – ('Respect the trust trading partners have shown in Australia's resources and energy sectors'): This reflects the need to honor Take or Pay (ToP) contracts which we believe is reasonable. However, we need to consider when a ToP contract put in place for the start of LNG operations, finishes. Should LNG producers be free to replace it with another ToP contract that might again limit supply to the domestic market? As we also say elsewhere in this submission, customers and their shareholders have also invested tens of billions of dollars building production capacity that is now threatened by excessively high gas prices (for both heat and feedstock). Do we not respect these investments?
- Priority 5 – ('Supports the energy transition…'): We think gas will play a crucial role in an orderly transition to net zero. The AEMO 2022 ISP identifies that at least 10GW of gas fired generation will be required[2]. We would contend that this will only be the case if these generators get access to sufficient quantities of affordable gas. Absent this, the transition to net zero will be far more expensive than it otherwise would have been while security of supply will again be threatened.
- Priority 6 – ('Enhance transparency…'): Information asymmetry between seller and buyer has long been an issue that gas customers have had to contend with. Regular ACCC reporting and enhanced powers of both the

[2] https://aemo.com.au/-/media/files/major-publications/isp/2022/2022-documents/2022-integrated-system-plan-isp.pdf?la=en

AER and AEMO as outlined by energy ministers will help. Continuing to work on developing more liquid, transparent markets must also be a priority. See also our comments in “Other Measures”.

- Priority 7 – (‘Minimise implementation cost and complexity for government and industry’): This type of priority is often used by those who oppose regulatory reform by simply claiming whatever consumers want is ‘too costly to administer’ without ever having to justify it. We argue that it is not the cost of the reform but the cost benefit for consumers and the economy as a whole that should be the priority.

The most recent ACCC Gas Inquiry Interim Report (July 2022) identifies a number of limitations of the ADGSM[3]

Box O.1: Summary of ADGSM limitations

There are a number of potential shortcomings in the ADGSM which should be considered as part of the Australian Government's announced review.

Flexibility in initiating or applying the ADGSM

Currently, the Minister for Resources can only initiate the ADGSM in the year before a domestic shortfall year.

The Guidelines and DISER indicate the timing of the Minister’s notification will occur ideally by 1 July but no later than 1 October. This means the entire duration of the ADGSM process could take between three and six months before any export controls would take effect.

The Total Market Service Obligation calculation

The Total Market Security Obligation (TMSO) is the proportion of a domestic supply shortfall that the Minister considers should be met by imposing export controls on LNG projects that are in net-deficit.

In its 2020 review of the ADGSM, DISER found that the TMSO may not be able to recover sufficient domestic gas to address a potential market shortfall. This is due to the ‘net-deficit’ component only enabling export restrictions on volumes of gas where exporters are drawing more gas from the domestic market than they are putting in.

Treatment of gas as third party export compatible gas

Prior to determining the TMSO, the Minister determines each LNG Project’s net market position and whether each LNG Project is likely to be in net-deficit or a net-contributor to the domestic market in the forthcoming calendar year.

An LNG Project will be regarded as being in net-deficit in the forthcoming calendar year if its Total gas used is greater than the sum of its Own gas and Third party export compatible gas.

The current application of the ADGSM could see export controls only applying to one LNG Project, and this may be to the LNG project with the least amount of excess gas (requiring them to breach their contractual obligations).

We are pleased to see that at the 12 August Energy Ministers meeting, ministers have recognised the need for a range of gas market reforms, including reform of the ADGSM to address a number of issues, including those identified by the ACCC.[4] Domestic gas users have been calling for similar reforms over the last few years. While more detail is required and unintended consequences need to be examined, we are in general agreement with the range of measures outlined by ministers

Of particular relevance to the ADGSM, we are generally supportive of the following initiatives that will improve transparency and provide the relevant minister with clearer, independent guidance on the state of gas market supply and demand:

> *Providing AEMO and gas market participants with improved visibility of operational metrics and expectations of future supply, demand and system adequacy across the gas system. This information will help AEMO forecast emerging gas supply shortfalls.*

[3] https://www.accc.gov.au/publications/serial-publications/gas-inquiry-2017-2025/gas-inquiry-july-2022-interim-report

[4] https://www.energy.gov.au/sites/default/files/2022-08/EMM%20-%20Summary%20of%20Measures%20-%2012%20August%202022.pdf

Allowing AEMO to signal emerging gas system security concerns to the market. This will include consideration of market response mechanisms:

- *A Projected Assessment of System Adequacy (PASA) process and 'lack of reserve' framework, adapted for gas*
- *A reliability standard for the east coast gas market against which system security concerns and responses can be assessed and calibrated.*

While many of the measures outlined by Ministers and the ACCC will improve transparency, governance, liquidity and ultimately supply, we fear that in the absence of stronger measures to manage price then gas users will continue to be at the mercy of both international volatility and exercise of market power.

A price trigger must be part of a revised ADGSM.

The current structure of the ADGSM provides the relevant minister the power to manage LNG exports during a year when a shortfall has been forecast. In other words, the ADGSM is focussed on supply only and as history and 10 successive ACCC gas reports shows, it has limited if any influence over price. We can assure you that sufficient supply of gas at $15Gj+ is largely irrelevant for a vast majority of domestic C&I gas users.

It is our firm view that stronger measures are required to ensure gas suppliers deliver on both supply and price.

As the ACCC stated in their January 2021 interim Report:

> *Specifically, internal documents suggest some Queensland suppliers view LNG netback prices as a price floor, with the threat of regulatory intervention acting as more of a constraint[5] on suppliers keeping prices below $10 per gigajoule.[6]*

Therefore, it is our recommendation that a price trigger is included in the ADGSM architecture that would sit alongside supply obligations. The setting of an appropriate price trigger (i.e. level, reference point etc) would obviously require further study and consultation.

However, for the purpose of the price trigger, a cost plus methodology based on previous work undertaken by Core Energy for the ACCC in November 2018[7] would be a good place to start. This work showed significant quantities of gas, historically developed for the domestic market, still exists well under $10Gj and in some cases as low as $4Gj. It appears that a vast percentage of this low cost, domestic gas is now bound for LNG cargoes which is a situation that should never have been allowed to happen. Given this is difficult to reverse, moderation of domestic prices is the next best alternative.

Further to this, the following chart, taken from the ACCC December 2018 Interim Report[8], shows that while production costs are rising the original Core Energy work remains highly relevant.

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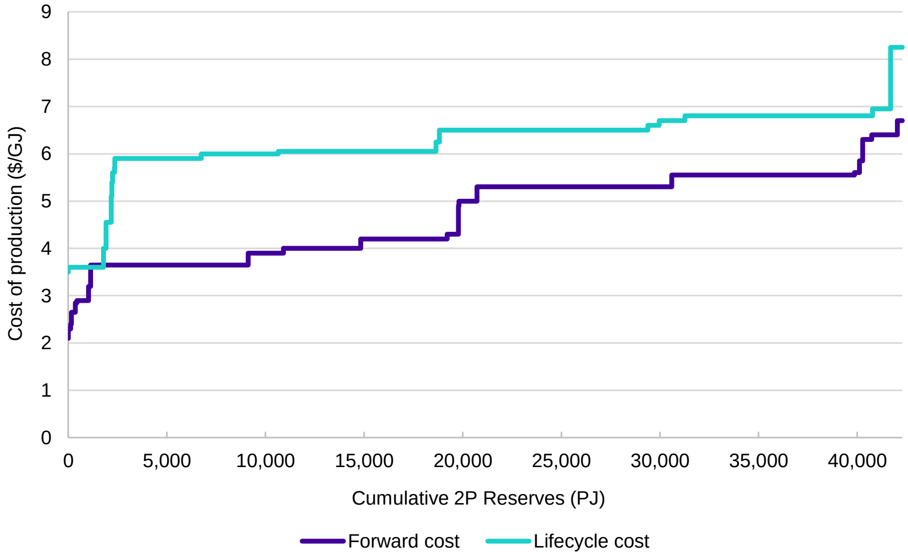
[5] Emphasis added

[6] https://www.accc.gov.au/system/files/Gas%20Inquiry%20-%20January%202021%20interim%20report_3.pdf

[7] https://www.accc.gov.au/system/files/Core%20Energy%20report%20for%20ACCC%20-%20November%202018.pdf

[8] https://www.accc.gov.au/publications/serial-publications/gas-inquiry-2017-2025/gas-inquiry-december-2018-interim-report

Chart 4: Lifecycle and forward cost estimates in the East Coast Gas Market (all 2P reserves)



Source: Core Energy.

Note: Lifecycle cost of production reflects the breakeven gas price for entire cash flows of a project, amortised over lifetime production volumes. Forward cost of production reflects the breakeven gas price for future cash flows of a project, amortised over future production volumes.

Because of the lack of gas market maturity, not all gas sales are obvious. Care needs to be taken that suppliers do not simply move away for existing trading platforms to avoid the price trigger being activated. An enhanced role for AEMO as indicated by minsters should consider these circumstances. Continued ACCC reporting will be important and may also play a role in triggering the ADGSM.

Further to this, there should be an obligation under a form of "market maker" provisions that gas suppliers be compelled to bid into the market in these circumstances. This would not be dissimilar to the existing Market Liquidity Obligations in electricity markets. This would also add considerable strength to objectives of improving general market liquidity that energy ministers have agreed is a priority.

In contemplating a price trigger, we assume there will be calls for the ACCC LNG Netback series to be used as a suitable benchmark. We strongly disagree. The LNG netback represents the "sellers" alternative and in our view, if it were used there would be zero benefit to domestic consumers and would not be in the national interest. Unsing LNG netback would simply further ingrain the current situation where a small number of very large supply side participants control the domestic gas market. This control, and the exercise of market power that goes with it, needs to be moderated if domestic gas users and the national interest are to be protected.

Other Questions

Our response to questions asked is as follows:

<u>Activation at short notice:</u>

The time lag between identification of a potential shortfall and triggering of the ADGSM is far too long, meaning significant damage can occur (i.e. consumers being forced to contract on unfavourable terms) while we wait for the mechanism to take effect. Short term activation power (linked to greater AEMO & AER oversight and reporting) would create a significant incentive for supply side participants to ensure they avoided the ADGSM from being triggered in the first instance and reduce the exposure of gas users to long periods of uncertainty.

We don't have a formal view on the timeframe or limitations on shorter-term activation other than to say the effect should be to encourage continuous compliance by the supply side. It should have the effect of the ADGSM obligation of suppliers to be "always on".

We do not believe that a shorter-term activation will negatively impact LNG export obligations given the number of spot cargoes (LNG cargoes outside of ToP contracts) has been consistent over the years with the most recent (July 2022) ACCC interim report identifying:

> *"Between 12 August 2021 and 16 February 2022 LNG exporters sold 24 additional spot cargoes for a total of 88.8 PJ."* [9]

It seems clear that significant supply headroom exists so as to ensure that even if a shorter-term activation (i.e. 3 months) were in place, that LNG export contracts would remain protected. We suggest this stays in place until such time that it is clear the domestic market will be sufficiently supplied for at least the next 12 months.

Price based activation

We have provided one option to consider earlier in this submission. We consider that even at a price of $15Gj there remains significant incentive for exploration (remembering that domestic use is a fraction of export demand). In most instances, $15Gj would still deliver very healthy margins.

Given the excellent work they have already undertaken, the ACCC supported by AEMO and the AER, would be a logical entity to manage a price based activation. This should be based on both in market (i.e. STTM) and off market (i.e. bilateral contract) data.

We do not see that a price based activation would have a detrimental impact on the operation of the market. An administered price cap already exists (although it is far too high in our view) and provided it is set at a reasonable level, still provides significant incentive. In the end, the domestic gas market is dominated by a few, very large suppliers, has at times shown signs of market power being exercised and with very high barriers to entry is unlikely to change any time soon.

In these circumstances it is not unreasonable for some "guard rails" to be established, as they have in electricity markets where there is far more competition.

Incentivise domestic supply

We have provided a range of policy and regulatory options to consider under the "other Measures" section of this submission.

[9] https://www.accc.gov.au/system/files/ACCC%20Gas%20Inquiry%20-%20July%202022%20interim%20report%20-%20FINAL.pdf

Improve administration of export limits

We see the intent of the TMSO is to ensure all LNG producers make a positive contribution to domestic supply. Each LNG producer has this responsibility. Where an LNG producer is in deficit, and to rectify this deficit they would be in default of the ToP obligations, we agree this would create an unsatisfactory situation. However, the question domestic consumers ask is why should we suffer through lack of supply and higher prices because an LNG shipper has found themselves short? This seems to be a problem for equity to solve, not domestic customers.

The government should require this LNG producer to "make good" with additional gas supply in the years subsequent to being in a net negative position and in making good, they do not make excessive profits, which is why a price trigger is also required. It seems quite outrageous that an LNG producer contributes to a domestic shortfall on one hand, and then makes excessive profits from the tight market conditions it has created at the time or through their own actions to balance their obligation into the future.. This can't be allowed to continue.

State and territory measures to increase supply

We have provided a range of policy and regulatory options to consider under the "other Measures" section of this submission.

Other Measures

The ADGSM and Heads of Agreement between LNG shippers and the Federal Government have been in place for a number of years. It is clear that these measures alone can't do all the gas market reform heavy lifting. Even with reform of the ADGSM, including a price trigger, domestic gas users still face an uphill battle ensuring sufficient supply of affordable gas.

The EUAA have been engaging with members over the past 5 years to develop and refine a number of gas market reforms and government led initiatives that we think would make a meaningful impact. Based on this engagement we offer the following:

Gas Industry Oversight

There is strong support for strengthening the gas industry code of conduct:

Much of our recent advocacy has highlighted the fact that the gas industry itself can and should play a far greater role in ensuring that gas is both available and affordable for domestic customers. As we have said many times, the gas industry won't go broke selling $15Gj gas to their domestic customers, but domestic customers will go out of business if they don't.

The EUAA was one of a number of consumer representatives that participated in the development of the voluntary gas industry code of conduct during the course of 2021.

We, and the then Federal Government, were assured that a voluntary code, with no price commitment (not even a fair and reasonable commitment) and no compulsion for any participant to act would be sufficient. As we are now observing, the voluntary code of conduct has had little if any impact on the behaviour of the gas industry who continue to misuse their market power.

As numerous ACCC interim reports have revealed, the periods of moderate gas prices we have observed over the last 12-18 months has been more a result of the threat of government intervention (i.e. domestic gas reservation, price caps and export controls) than any improvements in the imbalance of market power between suppliers and customers.

If it becomes abundantly clear that the voluntary code of conduct is little more than a paper tiger then we would fully endorse government moving quickly to strengthening it, including making it a mandatory code via regulation. It is through this form of code of conduct that strengthening domestic market protections could be achieved. The gas industry will complain bitterly, but they have been given plenty of chances to do better and have failed on almost every occasion.

<u>There is strong support for the establishment of a multi sector gas task force:</u>

All too often gas users have felt their voices have not been heard. While the EUAA and its members have been engaging at both a departmental and political level for some time it is difficult to understand what impact this is having on policy.

Therefore, we recommend the Federal Government convene a permanent, multi sector gas task force that covers all aspects of the gas supply chain followed through with additional policy and regulation that brings about a mature, transparent and highly liquid domestic gas market capable of delivering economically sustainable outcomes for all stakeholders.

Improving Supply

<u>There is strong support for the establishment of an Australian Gas Hub:</u>

The Henry Gas Hub, located at Erath Louisiana, is the the key pricing point for natural gas futures contracts and OTC swaps in the USA and, due in part to its interconnection with nine interstate and four intrastate pipelines, also makes it one of the most liquid gas trading hubs in the world.

Aiming to replicate this by establishing a central Australian Gas Hub at Wallumbilla is laudable and if achieved would deepen liquidity and improve transparency, particularly for northern gas buyers.

While very supportive of this, southern gas buyers are concerned with both dwindling southern gas supply and worsening north-south pipeline congestion that would restrict access to this proposed hub and the prospect of lower prices (not to mention north-south pipeline charges).

Therefore, for it to have a truly national benefit significant north-south pipeline infrastructure should also be encouraged to increase southern supply and improve pipeline competition. In lieu of this, establishing a more liquid and transparent southern hub (including increasing southern based supply options) would also be supported by EUAA members.

Further to this, the introduction of market maker provisions (discussed below) should be linked to this to help build liquidity in the near term and ensure that actual contract volumes are offered to domestic customers.

There is strong support for removing gas moratoria:

Replacing the blunt instruments of moratoria with transparent technical assessment, robust planning/monitoring and a just compensation framework for landowners should be a priority.

In addition, there is strong support for Queensland approach to prospective gas reservation – but while it produces more gas for domestic consumption the lack of some form of price trigger diminishes its effectiveness when these producers are able to price against their competition that does have an export option.

There is growing support for alternative fuels:

We continue to keep a watching brief of alternative fuels such as renewable gas and hydrogen. Volume and cost competitiveness need to improve, in some cases dramatically, for alternative fuels to be a viable option for energy users. We are supportive of government R&D and early stage deployment support for alternative fuels via agencies such as ARENA and the CFC. We are less supportive of gas user funded subsidy schemes.

There is strong support for prospective gas reservation:

We encourage state governments to continue to identify and release new acreage, with an allocation for the domestic market. Queensland has already set a precedent and it has been well received by market participants.

We would encourage the Commonwealth to apply a similar approach to off-shore gas development t by requiring a small percentage (i.e. 10%) to be reserved for domestic use. We would not be opposed to linking additional state and commonwealth support (i.e. underwriting, book build) to new acreage set aside for domestic gas users.

There is renewed consideration and support for some form of retrospective gas reservation:

Domestic gas reservation is a feature of virtually every jurisdiction that has established an LNG export industry, recognizing that its citizens are the ultimate owners of the resources and therefore should enjoy the full benefits of it. They have also sought to protect their domestic economy from global price fluctuations and in doing so maintain their international competitiveness. It is a source of great frustration that Australia did not adopt a similar approach.

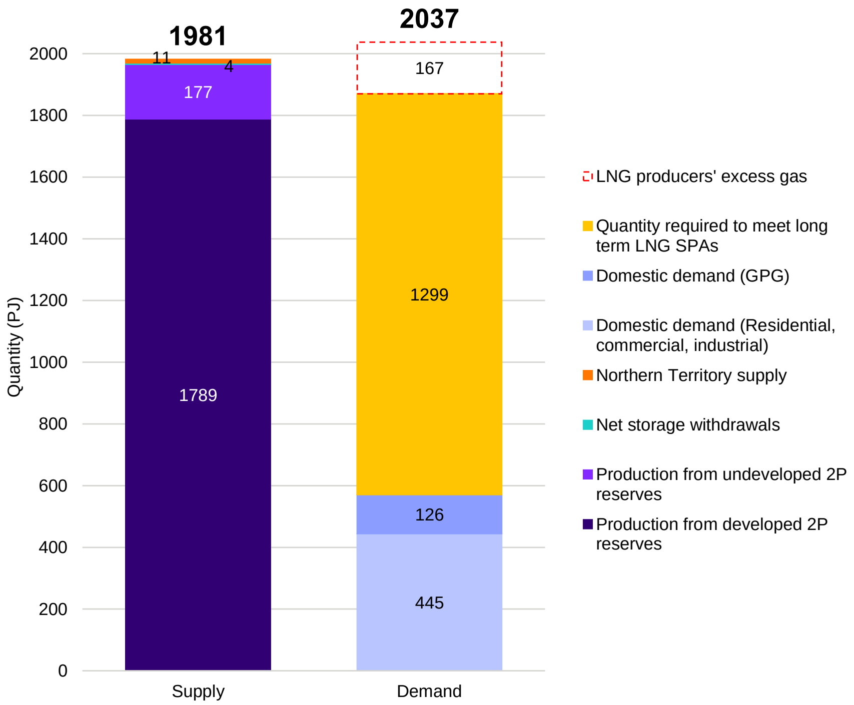
Our members on the East coast look at gas prices in the West that are the result of WA domestic reservation that was opposed at the time by gas producers as stifling investment. We can't see any evidence of reduced investment in WA nor for that matter in Queensland.

According to the latest ACCC Gas Inquiry Interim Report[10] domestic demand (including GPG) represents approximately 25% of the East Coast Gas Market, with the balance going to LNG export facilities. If the total volume of domestic gas associated with a retrospective gas reservation policy was prioritised to "high value" tasks

[10] ACCC Gas Interim Report, July 2022. Page 10.

such as manufacturing and peaking generation the total volume covered by the reservation policy would be relatively small and could be sourced from a combination of existing 2P reserves and excess gas.

Chart O.2: Forecast east coast supply-demand balance in 2023



In the past, the EUAA have not called for retrospective gas reservation due to the negative impacts it could have on existing and future investments. The gas industry is correct to say that this could damage the reputation of Australia as a safe destination for international investors.

However, while we agree with this sentiment it is frustrating that the gas industry does not recognize this is precisely the issue many manufactures are faced with given they warned of gas price shocks would come and suggestions of even a mild national interest test were rejected by the gas industry. Billions invested in good faith in manufacturing capacity is now at risk as a result.

To be clear. In considering if some form of gas reservation policy should be put in place, we do not endorse Australian LNG exporters defaulting on existing contracts. They must be able to honor their existing contract commitments.

However, given the circumstances we now find ourselves in we must reconsider some form of domestic gas reservation or national interest test that has the effect of de-coupling domestic markets from the volatility of the global environment. This could be related to spot gas cargoes, possibly as part of a strengthening of the ADGSM, Heads of Agreement or mandatory code of conduct.

This should also cover the situation where an existing ToP contract finishes – consider gas reservation for the volume of gas that becomes available with the ending of an existing ToP contract. Working with state governments to ensure that future license conditions also include a domestic gas commitment would also be a positive step.

There is strong support for asset underwriting and book build programs:

Working in tandem with prospective domestic gas reservation, establish an asset underwriting program designed to not only bring new forms of supply to the domestic market but to assist in diversity of suppliers. Similar to Recommendation 4 in the July 2018 ACCC Retail Electricity Price Inquiry[11] the Federal Government would act as a commercial safety net to assist proponents secure longer-term GSA's and obtain required funding.

EUAA members are also supportive of developing a book build program that further assists with developing long-term pipeline assets and new acreage development. In both of these examples, the Federal Government is not directly competing with private investment (a criticism of some of its actions in electricity markets) but is acting to reduce risk for market participants by leveraging its strong balance sheet.

There is broad support for the introduction of use it or lose it provisions:

As recommended by the ACCC in their August 2020 Gas Market Update[12], Government should look to "active tenement management" to ensure gas acreage is not being withheld to the detriment of domestic gas users.

There is some support for LNG cargo underwriting (Virtual Pipeline):

Should LNG import terminals be established by non-government participants on the east coast, governments could underwrite LNG cargoes from North West Shelf. This would have an immediate impact on supply, price and competition in both wholesale gas markets and transportation.

LNG import terminals alone will have minimal impact on price, given we expect the import price to be linked to volatile global markets. There is also a growing concern about the availability of LNG transport vessels and FSRU's given the world is scrambling to deal with the impact of the continuing situation in Europe.

Market Development

There is strong support for the introduction of market maker provisions:

Accelerate the maturity of the wholesale domestic gas market with a medium-term goal of achieving similar outcomes to the wholesale domestic electricity market.[13]

Within this context, government should consider the introduction of "market maker" requirements on major wholesale participants in regions where there is low liquidity and little price discovery. Market marker requirements are already being considered for the South Australian wholesale electricity market for these same reasons.

[11] REPI recommendation 4 proposed that the Australian Government should operate a program to encourage new entry, promote competition and enable C&I users to access low-cost new generation. The recommendation was aimed at supporting the development of a competitive market by introducing additional independent firm supply and reducing concentration.

[12] https://www.accc.gov.au/publications/serial-publications/gas-inquiry-2017-2025/gas-inquiry-july-2020-interim-report

[13] Electricity is traded through a "gross pool" market where all energy is traded in an open, transparent fashion that facilitates high levels of liquidity and price discovery

There is strong support for actions to reduce the likelihood of market power:

Working in tandem with incentives to increase both new supply and diversity of suppliers, ensure the ACCC has all that it needs to monitor market structure and market power and to take appropriate action where necessary.

There is strong support for market development initiatives:

Over a period of 18 months, the EUAA had regular discussion with the Commonwealth Department of Energy regarding potential policy and regulatory reforms. We were also been part of consultation with Axiom Economics who have been engaging with gas users on behalf of the Commonwealth.

Appendix A provides an outline of a number of policy and regulatory reforms that would be helpful.

There is some support for the introduction of big stick legislation:

This is a vexed issue. The previous Federal Government enacted it's so called "big stick" legislation to ensure electricity market participants do not exercise market power, despite significant competition already occurring in that market. The EUAA were opposed to the introduction of this measure believing it unnecessary in the circumstances.

However, we note that many aspects of the domestic gas market are far less competitive yet we see little evidence of strong government actions to address what many gas users feel have been instances of an abuse of market power. It would be useful to understand the diversity of approach taken by government to market reform in electricity markets as opposed to the approach in gas markets.

Transportation

There is strong support for asset underwriting:

Working in tandem with prospective domestic gas reservation, establish an asset underwriting program designed to support more gas pipeline development to help bring both new forms of supply to the domestic market assist in supporting a diversity of suppliers (i.e. Expansion in gas transport capacity from Queensland to southern States).

Similar to Recommendation 4 in the July 2018 ACCC Retail Electricity Price Inquiry[14] the Federal Government would act as a commercial safety net to assist proponents secure longer-term GSA's and obtain required funding.

There is strong support for streamlined planning:

Working in tandem with asset underwriting, governments could consider accelerated planning approvals and favorable regulatory treatment in exchange for price guarantees for shippers. A precedent exists with the new

[14] REPI recommendation 4 proposed that the Australian Government should operate a program to encourage new entry, promote competition and enable C&I users to access low-cost new generation. The recommendation was aimed at supporting the development of a competitive market by introducing additional independent firm supply and reducing concentration.

rules to make the AEMO ISP actionable where a streamlined approvals process seeks to balance regulatory oversight, transparency with a quicker regulatory approval.

There is limited support for import terminals:

In recent Gas Market Reports, the ACCC have recommended investment in import terminals as a means of improving market conditions for consumers. The impacts, both positive and negative of LNG import is a point of debate amongst member companies. Some feel it will lock the domestic market into an international price while other feel that could be an important source of new supply and driver of increased competition.

End Use Efficiency

There has been considerable focus on energy efficiency in the context of reducing electricity bills over many decades. Federal and State Government education programs, grants for energy efficiency audits and funding programs for a range of practical improvements including replacing lighting systems, improving efficiency of compressed air systems and upgrading to high efficiency HVAC systems.

We have not seen evidence of a similar effort to improve end use efficiency. While it is suggested that simply "switching fuel" to gas alternatives or electricity is a viable option, this ignores both the significant capital investments already made by energy users, that would need to be written off, and the additional capital investment required to switch fuels. Some energy users may be in a position to fuel switch (i.e. they are about to embark on a capital upgrade program) but for a majority, the short to medium-term opportunities are limited.

Therefore, for a vast majority of industrial gas users lowering the cost of gas and increasing end use efficiency are the primary means of managing near term issues associated with high gas costs.

We would suggest that governments consider replicating energy (electricity) efficiency programs already in place that:

- Educate and raise awareness of gas efficiency opportunities
- Identify clear actions that can be taken while quantifying benefits
- Assist with deployment of technologies to improve gas efficiency

Once again, thank you for this opportunity. Do not hesitate to be in contact should you have any questions.

Kind regards,

Andrew Richards
Chief Executive Officer

Appendix A

Table 5.2: Summary of options

	Measure	Straight forward for Commonwealth Gvt to implement or champion?	Timing of impact once implemented*	C&I user group
Measures to increase domestic supply (treat problem)				
1a	Management and enforcement of producers' compliance with permits	▪ Yes for Cth offshore tenements/grants ▪ No for onshore tenements/grants because requires state/territory gvt action	Medium to longer term	All
1b	Issuance of more tenements and/or grants (see also 2b)		Medium to longer term	All
1c	Gvt co-ordination and potential underwriting of pipeline investment	▪ Yes for funding but planning process requires state/territory gvt action	Medium to longer term	All
Measures to increase producer competition (treat problem)				
2a	ACCC review of joint marketing	▪ No – ACCC investigation required	Short to medium term	All
2b	Award tenements and grants to junior producers, or new entrants to the East Coast market	▪ Yes for Cth offshore tenements/grants ▪ No for onshore tenements/grants because requires state/territory action	Medium to longer term	All
Measures to facilitate more retail competition for C&I users (treat problem)				
3a	Expand scope of the AER's Energy Made Easy website, or develop another website for C&I users	▪ No if implemented through AER site ▪ Yes if implemented through a new site	Short-term	Small – medium
3b	Mandatory market making	▪ No – requires change to legislation/rules	Short to medium-term	All
3c	Gas release programme	▪ No – likely requires ACCC investigation and then change to legislation/rules	Short to medium-term	Small – medium
Measures to improve producer-retailer selling practices and reduce imbalance in bargaining power (treat symptoms)				
4a	Introduce producer and retailer negotiation framework	▪ Yes if industry code developed ▪ No if regulatory option taken	Short-term	All
4b	Require retailers to provide cost breakdown for offers and invoices		Short-term	Small – medium
4c	Require retailers to explain risks if selling facilitated market products		Short-term	Small – medium
4d	Reform EOI processes		Short-term	Medium – large
4e	Develop standardised producer and retail agreements that act as a baseline for negotiations		Short to medium-term	All
4f	Buyers' groups	▪ Yes – already possible under CCA	Short-term	Small
4g	Collective switching	▪ Yes if voluntary switching programme ▪ No if forced switching or imposition of obligations on retail bills	Short to medium term	Small
Measures to improve access to infrastructure (treat the problem and symptoms)				
5a	Pipeline access education programme	▪ Yes – AER is already able to run	Short-term	Medium – large
5b	Improve access to regional pipelines	▪ No – requires change to legislation/rules	Short to medium-term	All
5c	Third party access to storage	▪ No – requires change to legislation/rules	Short to medium-term	Medium – large
Measures to improve the conduct of third party intermediaries (treat problem)				
6a	Introduce mandatory code of conduct or accreditation scheme for third party procurement advisors	▪ Possibly if ACCC directed to develop code or scheme for gas and electricity	Short to medium-term	Small
Measures to reduce complexities, costs and risks of self-contracting and markets (improve other aspects of market)				
7a	Business energy coaching	▪ Yes if funded by Cth	Short-term	All
7b	Improve facilitated market registration process and reduce other barriers to these markets	▪ Yes – AEMO already able to do	Short-term	Medium – large
7c	Review level of market price caps	▪ Yes – Already scheduled to occur	Short-term	Medium – large
7d	Facilitated markets education programme	▪ Yes– AEMO already able to do	Short-term	Medium – large
7e	Market making obligations for financial derivatives	▪ No – relies on action by ASX or legislative/rule changes.	Short to medium-term	Medium – large
7f	Develop more cost-effective risk management products for STTM	▪ No – relies on action by ASX	Short to medium-term	Medium – large
7g	Ring fencing and other arrangements for facilitated mkts	▪ No – requires review by AEMC and legislative/rule changes.	Short to medium-term	Medium – large

Source: NERA and Axiom Analysis.
* Short-term = < 1 year, medium-term = 1-3 years and long-term = >3 years