# SUBMISSION

**PROPOSED ADGSM GUIDELINES**
**23 FEBRUARY 2023**

EUAA
Energy Users Association of Australia

**INTRODUCTION**

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.

In summary we support the proposed ADGSM Guidelines as part of a broader suite of gas market reforms being pursued by government.

The revised ADGSM, the Heads of Agreement between the Commonwealth and LNG Shippers, the proposed Gas Industry Mandatory Code of Conduct with "fair and reasonable" pricing provisions and ongoing market monitoring and reporting by the ACCC and AEMO will go a long way to ensuring a fair and functioning domestic gas market 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.

In the past we had pursued a price trigger as part of the ADGSM. However, given the temporary emergency price measures introduced recently by the commonwealth and with the establishment of a mandatory gas industry code of conduct, this is unlikely to be necessary. Therefore, the ADGSM can retain its focus on ensuring sufficient domestic supply while other elements of the government response can ensure fair and reasonable outcomes for domestic gas users.

One of our other concerns with the ADGSM was the time lag between identification of a potential shortfall and triggering of the ADGSM. This time lag meant that significant damage can occur (i.e. consumers being forced to contract on unfavourable terms) while we wait for the mechanism to take effect. We argued that 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 are pleased that a near term ADGSM trigger is being proposed.

The proposed Guidelines, together with other elements of the government response, strike an appropriate balance to ensure sufficient supply of competitive gas is available to domestic consumers at the same time as meeting our international obligations as a stable and reliable supplier. Importantly, we see these measures as a safety net rather than a harsh, inflexible regulatory straightjacket as the gas industry have claimed. It is very clear, if the gas industry ensures sufficient domestic supply, as they have promised they will and if they deal fairly with domestic customers, as they claim they do, then <u>none</u> of the proposed government measures will need to be engaged and there will be no impact on their business, including exports.

**SPECIFIC RESPONSES**

1. Protection for long term foundational contracts

This is important addition given the other changes in the Guidelines. While LNG producers may be concerned that the exclusion of non-foundational contracts means they may have to buy gas at (higher) spot prices to meet these contractual obligations, they have the ability to mitigate that risk by making enough gas available under the Heads of Agreement and Mandatory Code provisions so the ADGSM trigger is never pulled.

2. Quarterly consideration of gas supply-demand balance

Demand conditions in the domestic market can change quickly. The move from annual to quarterly consideration will mean the ADGSM is much more attuned to domestic current market conditions and able to respond to emergencies. The claim that the move to a quarterly assessment will lead to doubts about Australia's reliability as a supplier to international markets seem to be based a view that LNG producers will willingly not make sufficient gas available to domestic customers as the Mandatory Code's proposed reasonable price. LNG producers have it within their control to do the latter and prevent the former.

This move is consistent with the original intent of the ADGSM to be a 'last resort' mechanism that is there to protect domestic consumer in the event that LNG producers do not fulfil their obligations under the Heads of Agreement and the forthcoming Mandatory Code.

3. Each LNG exporter making an equal volumetric contribution to a domestic gas shortfall

This seems to be a much more equitable approach that the current allocation based on the pre-existing Total Market Security Obligation. We cannot see how allowing the one LNG project that can only produce enough gas to meet its long term contracts can use third party domestic gas to meet its obligations. This is gas that is then not available to domestic consumers. The new Guideline will enable the ADGSM to better ensure sufficient gas supply in the event of a forecast shortfall.

4. LNG export permits to be made tradable

This gives the LNG producers additional flexibility to meet any shortfall obligation. Shortfall gas will come from the most efficient supplier.

Thank you for the opportunity to make this brief submission.

Kind regards,

Andrew Richards
Chief Executive Officer