

REASONABLE PRICES AND SUSTAINABLE VOLUMES CRITICAL TO A WORKABLY COMPETITIVE GAS MARKET

Today the Energy Users' Association of Australia (EUAA) provided the Federal Government with its submission to the latest round of Gas Market Reform consultations with a particular focus on the successful establishment of a domestic gas reservation scheme. The EUAA has long argued that such a scheme should have been in place at the commencement of east coast LNG exports to avoid the destructive impacts of international price volatility.

"The EUAA welcomes the Gas Market Review Final Report recommendations that a domestic gas reservation policy should be pursued along with a broader set of market frameworks that will see the emergence of a workably competitive domestic gas market that delivers sustainable volumes of domestic gas at reasonable prices and on reasonable terms for domestic gas users in a submission to the Gas Market Review," said Chief Executive Officer, Mr Andrew Richards.

"A gas market that cannot deliver sustainable volumes of domestic gas at reasonable prices and on reasonable terms is not a well-functioning market."

The EUAA is recommending a range of issues be considered during the Gas Market Review process currently being undertaken, with the key principals being:

- **Design Simplicity:** Simplicity is important as it assists with clarity of purpose, ease of operation and lowers the opportunity for gaming and/or emergence of compliance loopholes. Therefore, we suggest an export license approach where LNG shippers are the liable entities. Maintenance of an export license will be conditional on meeting annual domestic reservation obligations which must be based on gas supplied to the domestic market (and not only on gas offered).
- **Reservation Percentage:** A percentage-based approach to setting annual domestic reservation targets where all LNG shippers have an equal liability to supply gas, as opposed to simply offering gas, to the domestic market. The actual number should be supported by expert economic modelling at a level which places both downward pressure on prices and does not stymie further investment in developing new natural gas resources for domestic consumption. A percentage that slightly oversupplies the domestic market to put downward pressure on domestic prices is preferred. While we support a percentage-based approach, we believe that care must be taken in what value this is linked with to maximise transparency and minimize the ability for producers to 'game' the target,
- **Governance Framework:** Any domestic reservation needs to have a strong governance framework with appropriate access to real penalties for compliance issues. Therefore, we strongly recommend an annual statement of compliance from liable entities be made to the parliament and that it should specify what new molecules were brought to the market to supply the domestic market, as distinct from molecules re-purchased/recirculated. We suggest that this also be a requirement attached to the export licence – that the percentage of gas required for the domestic market must be met with 'new gas' and must be evidenced

as such. This will go some way to offsetting the impact of too large a target discouraging investment in new gas extraction.

- Existing Contracts: Existing contracts, both supply and buy-side should be honored. Extending existing export contracts or export linked contracts beyond the original contract end date (including unexercised options) should not be permitted.
- Additional Gas Production: Domestic reservation must lead to additional gas being produced. One approach could be a form of baseline and credit scheme that applies to the degree a domestic obligation. These baselines would decline over time to the point where the entire domestic gas reservation obligation must be met via “equity gas”, thereby encouraging the producer to undertake a domestic drilling program. This is similar to the baseline and credit regime of the Safeguard Mechanism^[1].
- Price outcomes: We recommend that the AER develop an industry average long-run marginal cost benchmark to compare to the market prices and allow for adjustments in the domestic gas reservation percentage so that domestic prices become delinked from international LNG pricing and actually represent the cost of supply (with an appropriate margin). In attaining an average long-run marginal cost benchmark, government should be encouraging natural gas producers to sell the “cheapest” long-run marginal cost gas into the domestic market and not the most expensive. Having a transparent process (through an updated GBB) that informs everybody on the temporal alignment of exporters meeting their domestic reservation obligations:

“It is through the detailed design process that will deliver either the outcomes we are seeking or another diluted disappointment that will see us all back here in two years-time seeking additional major reforms,” said Mr Richards.

“Our goal is to get it right this time so it’s the last time we have to do this. We look forward to ongoing engagement with the Review process to assist in delivering the best outcome for our key manufacturing and heavy industries in Australia.”

The Energy Users’ Association of Australia (EUAA) is the peak body representing Australian commercial and industrial energy users. Our members are the engine room of the Australian economy, producing many of the products that households and business use every day including bricks, glass, steel, aluminium, paper, food and beverages. 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.

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