

The Northern Gas Pipeline

Supplementary submission on AEMC's draft rule Determination

National Gas Amendment (Northern Gas Pipeline – Derogation From Part 23) Rule 2019



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Introduction

IEEFA has written or co-written a number of submissions and attended hearings to try to explain to the AEMC how it is failing to carry out its duties.

The AEMC is bound to follow the National Gas Objective in its decision making process. The National Gas Objective is:

“to promote efficient investment in, and efficient operation and use of, natural gas services for the long term interests of consumers of natural gas with respect to price, safety, reliability and security of supply of natural gas “

This supplementary submission will show how the Northern Gas Pipeline is not efficient investment and nor is the derogation, that the AEMC will most surely grant, in the long-term interests of consumers of natural gas. It is in the long-term interests of the owners of the Northern Gas pipeline.

In granting the derogation, the AEMC is doing little more than facilitating the transfer of wealth from the people of Australia to the owners of the Northern Gas Pipeline, the Governments of Singapore and China.

Efficient Investment

In our submissions we have argued that the AEMC is not promoting the efficient investment in the Northern Gas Pipeline in fact it is facilitating the inefficient investment in gas infrastructure in Australia.

The result is the Northern Gas pipeline has obtained prices for its services based on an initial inefficient investment in a 12 inch pipe. The building of a sub economic pipe is a shrewd business decision on behalf of Jemena as it has enabled it to set an extremely high tariff. It will charge a tariff of \$1.40/GJ to transport gas from Tennant Creek to Mt Isa. As previous submissions have shown this has resulted in a tariff that is the highest in Australia by a considerable margin. It is 27% more expensive than the second most expensive pipeline, the Carpentaria Gas pipeline and 575% more expensive than the Moomba to Sydney pipeline.

Jemena is then able to use this inefficient and expensive tariff structures over future expansions of capacity.

The result is any economic gain from developing gas resources in the Northern Territory will not be seen by the Australian gas consumer, the gas resource developers or indeed the LNG export industry. A large proportion of any economic gain will be garnered by Jemena.

The situation is compounded by the fact that Jemena is able to charge a \$0.72c Nitrogen removal charge regardless of whether or not the Nitrogen Removal Services are required.

"In relation to clause 20(a) of these Access Principles, the Access Seeker is required to enter into the Nitrogen Removal Services Agreement irrespective of whether in fact Nitrogen Removal Services are required to be performed with respect to the relevant gas as the assessment will be undertaken based on the overall volume and composition of comingled gas in the Pipeline" ¹

¹ <https://jemena.com.au/getattachment/industry/pipelines/Northern-Gas-Pipeline/Services/NGP-Access-Principles.pdf.aspx> at [20] on p4

We have seen at the Banking Royal commission how the regulators and industry were taken to task for allowing “fees for no service”. It would appear that in the gas pipeline industry this is standard practice.

Charging fees for no service is indefensible. It is not promoting efficient investment nor in the long term interests of natural gas consumers.

The Granting of the Derogation

The effect of granting the Northern Gas Pipeline Derogation is to give unfettered power to an unregulated monopoly pipeline. The derogation will apply to any extensions and expansions to the Northern Gas Pipeline, beyond the scope of the pipeline now under construction.

Our submissions have detailed how removing the derogation would merely place the Northern Gas pipeline on a level playing field with other gas pipelines in Australia.

Removing the derogation would ensure that all future pricing for access to the Northern Gas pipeline, and any expansion or extension, is overseen by the Australian Energy Regulator. The result would be that tariffs under dispute would be set such that pipeline users and gas consumers are not disadvantaged, and the Northern Gas Pipeline is subject to the same rules as other pipelines in Australia.

Conclusion

IEEFA strongly urges the AEMC to do its duty and ensure that the Northern Gas Pipeline adheres to the National Gas Law. It should refuse any derogation to those laws.