



Submission to  
The Australian Energy Market  
Commission  
**East Coast Wholesale Gas Market and Pipeline  
Frameworks Review: Stage 2 Draft Report**

From UnitingCare Australia

February 2016

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## **About UnitingCare Australia**

UnitingCare Australia is the Uniting Church's national body supporting community services and advocacy for children, young people, families, people with disabilities and older people.

The UnitingCare network is one of the largest providers of community services in Australia, providing services and supports to more than 2 million Australians each year in urban, rural and remote communities. The network employs 35,000 staff and 24,000 volunteers.

UnitingCare Australia works with and on behalf of the UnitingCare network to advocate for policies and programs that will improve people's quality of life. UnitingCare Australia is committed to speaking with and on behalf of those who are the most vulnerable and disadvantaged for the common good.

Stewardship of our environment is a fundamental responsibility of societies both in the short-term and for the benefit of future generations. We strongly support the notion of the triple bottom line for government community and business organisations whereby economic stewardship, environmental stewardship and the nurture of citizens (social stewardship) are equally valued and reported on publicly.

UnitingCare Australia's principle interest in energy regulation arises because energy is an essential service with rising costs that are putting inordinate financial pressure on growing numbers of households in Australia.

## **Consumer Context for this review**

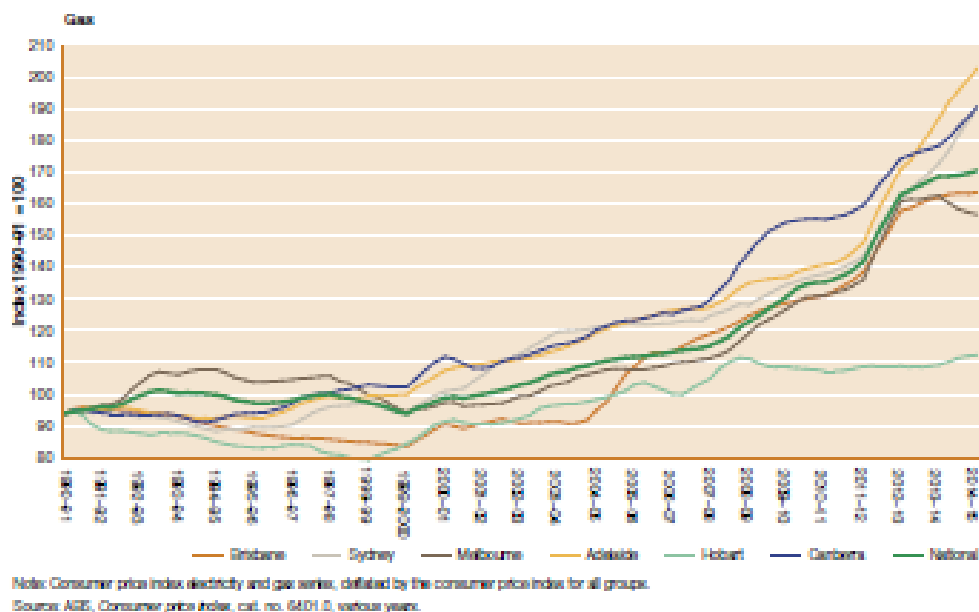
UnitingCare Australia recognises the importance of this review and the substantial uncertainty surrounding gas markets both domestically and internationally over recent months and into the foreseeable future. It is therefore of critical importance that Australia's gas markets are designed and operate in a manner that is genuinely in the best interests of Australian end consumers both household and commercial consumers and that markets are able to be adaptable, agile and always operating in the best interests of consumers, in a volatile international context.

Before considering the key aspects of the stage two draft report, we make a couple of observations about the consumer context in which this draft report has been developed.

### Consumer issues

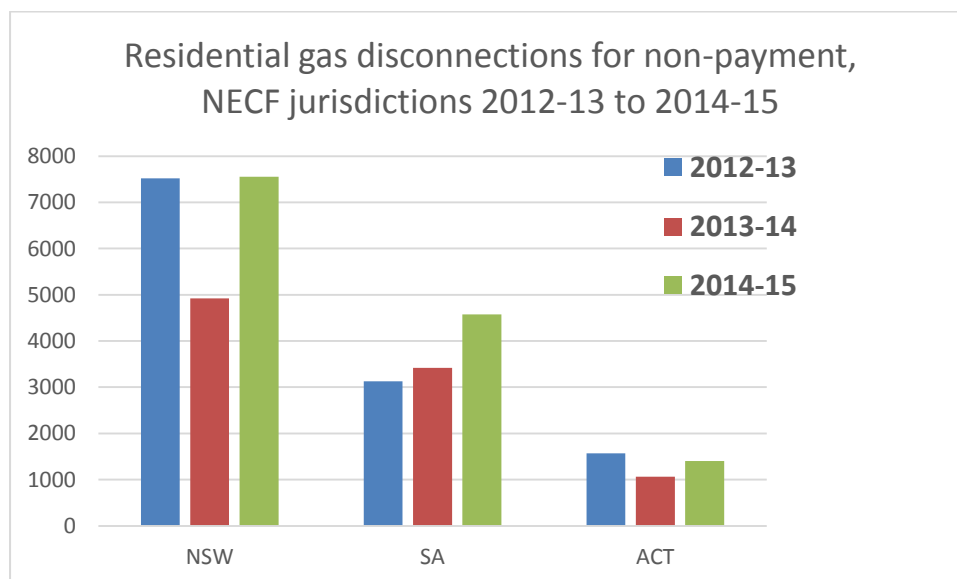
The significant consumer issue for gas supply both for household and small business use is the continuing rising cost of gas in all jurisdictions except Victoria and Tasmania, though for Victoria there has been a decline in gas prices just over the last year. All jurisdictions except Tasmania have experienced gas price rises at a significantly greater rate than CPI for much of the last decade. This data is shown in figure 1 which is taken from the Australian Energy Regulator's state of the energy market report 2015

Figure 1. Gas prices domestic<sup>1</sup>



In line with rising gas prices, over an extended period of time, there are particular issues for lower and modest income households with growing numbers of people being disconnected due to non-payment. Disconnections for non-payment for gas for residential households increased in all three of the NECF jurisdictions for AER reporting, in the year from 2013-14 to 2014-15. This data is shown in figure 2.

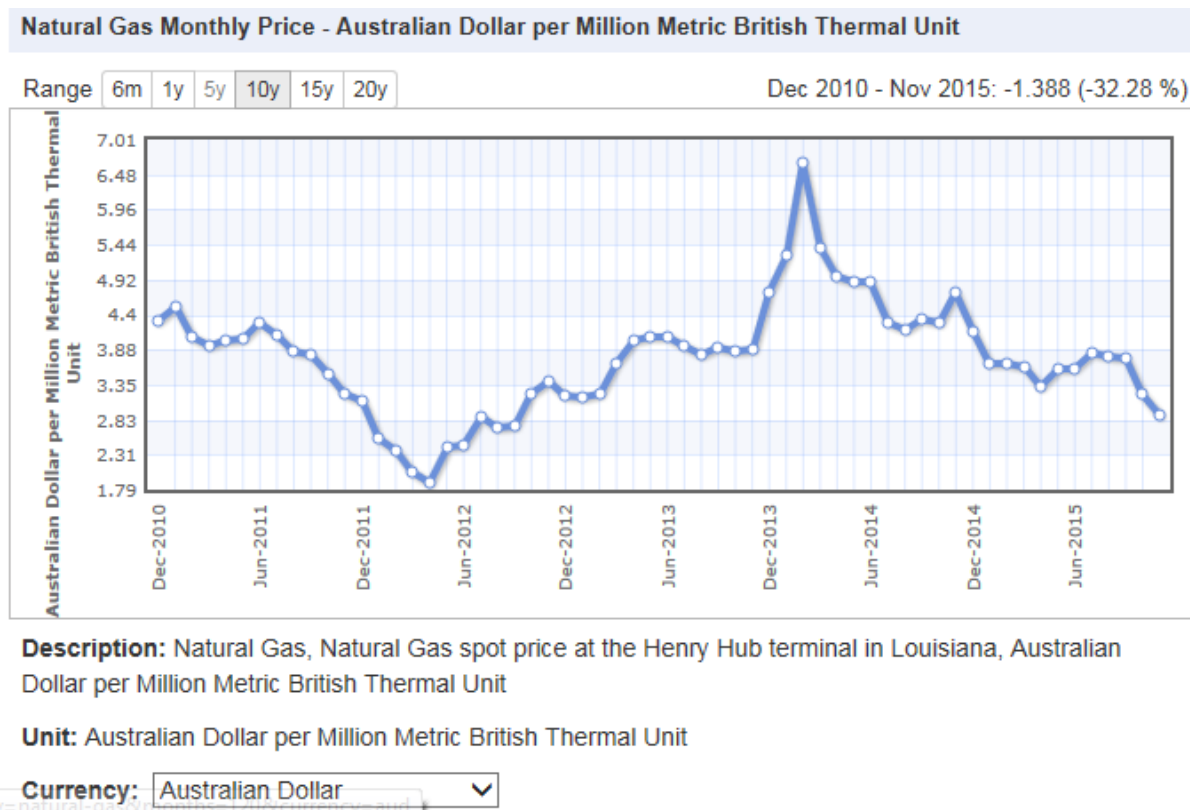
Figure 2



<sup>1</sup> [http://www.aer.gov.au/system/files/State%20of%20the%20energy%20market%202015%20A4\\_0.pdf](http://www.aer.gov.au/system/files/State%20of%20the%20energy%20market%202015%20A4_0.pdf)

The other issue of concern to consumers is uncertainty of pricing with gas markets failing to move in line with expectations over recent years. Of concern is that while gas prices are falling internationally as shown in figure 3, prices for domestic and small business customers continue to rise in Australia.

Figure 3. Gas price international<sup>2</sup>



### Policy issues

1. Rising consumer gas bills, falling gas price

The issues of rising gas prices for small customers in Australia despite falling international prices indicates some broader policy concerns that we recognise are beyond the direct scope of this review but are of significant importance for policy development and debate.

2. Is gas an essential service?

A critical policy question that needs to be considered is the extent to which gas supply is an essential service for households, noting that prices have gone up significantly and that for

<sup>2</sup> <http://www.indexmundi.com/commodities/?commodity=natural-gas&months=60&currency=aud>

many new consumers, gas is uncompetitive with electricity, the dual fuel option, with two sets of network costs, is expensive. So if gas is no longer an essential service (but electricity is) then what compensation / transition strategies need to be put in place for existing gas customers who have purchased gas appliances with the clear understanding that gas supply will continue to be affordable, while gas network will be desperately looking to recoup 'sunk' costs – to the likely detriment of existing customers.

### 3. ACCC gas market review

We recognise that the ACCC is also currently considering the Australian east coast gas market and that their report will further inform the short and medium term policy debates and decisions that are required for Australia.

Recognising this context for the AEMC wholesale gas market and pipeline frameworks review, we considered that the stage 2 report is very helpful with the measures for action proposed almost certainly to be of benefit to consumers, in aggregate.

#### **Specifics of the Stage 2 Report.**

We recognise four key aspects of the stage two draft report:

1. a vision for market reform and associated roadmap
2. development of two wholesale gas trading hubs
3. improving pipeline capacity
4. enhancing information availability for the market.

#### 1. A vision for market reform and associated roadmap

We strongly support the AEMC in the development of a vision for Australia's future gas markets with the focus of this report being on the east coast gas market. We recognise that this is the priority market for consideration and augmentation but also recognise the west coast gas market development as significant for Australian export development and likely future policy considerations.

We note that any roadmap needs to include ongoing consumer engagement, in part to improve the efficiency of markets. We would like to see future reports specifically identifying roles that consumers need to play. There has been considerable focus on consumer engagement for electricity regulation over the last couple of years, and current CSIRO / ENA network reform "Roadmap" processes are very significant. It is also our suggestion that the DNA (deliberate, negotiate, agree) process proposals that we released last year are relevant with gas markets too. We also note our observation that gas focused companies are significantly improving their consumer awareness and engagement.

The development of a this (AEMC) 'roadmap' to enhance the East Coast gas market, recognising the consumer concerns raised above, is highly likely to be of benefit to

Australian consumers: households and small business as well as large gas users which are likely to be companies that can increase employment, a further important social and economic objective.

## 2. Development of two wholesale gas trading hubs

The further consolidation of the northern hub at Wallumbilla, with a focus on gas for the international market; coupled with the development of the southern hub, in Victoria, to primarily support residential gas use makes sense to us as sound gas market improvement.

We are not in a position to comment on the role that a short-term hub at Moomba should play.

## 3. Improving pipeline capacity

UnitingCare Australia said in its submission to the AEMC strategic directions consultation last year that we regard “transactions costs” as a priority issue for Australian energy markets over the next 3-5 years. We therefore are pleased by the focus of this stage 2 draft report on reducing transactions costs associated with of the more efficient use of extensive pipeline network that exists in eastern Australia. We can only see benefit for consumers in the proposals to enhance gas pipeline capacity and efficiency of use.

## 4. Enhancing information availability for the market.

We recognise that inadequate information is a significant factor in higher than necessary transaction costs and hence consumer bills and strongly support all moves to improve the provision of additional information to the market as well as to consumers. We support the additional information measures proposed in the paper.

## Summary

In considering the stage two paper, UnitingCare Australia believes that the direction of the proposals is appropriate, notwithstanding any further detail that forthcoming reports particularly from the ACCC may contribute.

We also recognise that there is quite some way to go to increase the efficiency of Australian gas markets and to consider the role of gas in reducing net energy costs for households and for small businesses. The roadmap and associated elements of that roadmap as discussed in the stage two report have a very high likelihood of generating net benefit for in consumers and we believe a very low likelihood of increasing consumer detriment. We consequently support the initiatives and proposals outlined in this report.