

Friday, 14 June 2013

Mr John Pierce
The Chairman
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

By submission online

Re: Gas market scoping study

Dear Mr Peirce

Energy Action Pty Ltd is one of the leading energy management companies in Australia. We provide client solutions across the broad spectrum of energy management services including energy procurement, business case development for energy investments, project design for on-site generation, energy efficiency and emissions auditing and assistance with grant funding. With offices in Sydney, Melbourne, Perth, Brisbane and Newcastle we employ over eighty people and have a history of ten years experience in working with clients to service their needs within the evolving Australian energy market

As a third party intermediary, Energy Action has a market view formed by our role as customer advocate and our interface with gas retailers. This position affords a unique intelligence that informs our submission to this review.

The concerns that businesses commonly cite with reference to the market for piped gas are outlined below.

- Customer concerns are dominated by increases in the delivered cost of gas. This includes, commodity, transmission, distribution, and carbon costs. More informed customers are also anxious as to the potential for supply issues, particularly in NSW. In recent months there has been extensive press speculation concerning the potential not only for dramatic price increases for delivered gas, but also with the potential for curtailment of supply. This has been exacerbated by the general lack of competition in gas retailing. It is not uncommon for business customers to be able to procure quotes from only two retailers and in more than an insignificant number of instances even only a single retailer. For the downstream market to function effectively we believe that the regulatory framework should encourage new entrants into this space.
- The challenging economic climate for Australian manufacturing is also compounded by inflexible gas contract terms and conditions offered by retailers. With appreciation of the physical nature of the commodity, a market structure that facilitates contract variations, a requirement often brought about by sudden and unforeseen events, is increasingly

important. We urge all market participants to challenge the status quo known to large users, that it is impossible to negotiate flexible contract terms and conditions with gas retailers.

We believe that these concerns are symptomatic of deeper issues bedevilling the gas market. The limited number of retailers, the similar concentration of upstream gas producers and the short term inability to switch production processes away from gas all act to place businesses in a cul-de-sac with respect to future supply. The inevitable outcome appears to be a stark choice of take it or leave it to a much increased price for gas.

Gas market regulation must recognise the need to avoid outcomes such as the one that we are currently experiencing. Without concerted and co-ordinated action on the part of regulators and governments it is difficult to see how the market will return to equilibrium potentially even in the medium to longer term.

Energy Action is not here arguing for any form of price regulation. Customer interests are best met through transparent and well functioning markets. The issue here is that the market has been neither well functioning nor transparent. This has resulted in sudden and unexpected price spikes even though the development of non-conventional gas and Australia's increasing linkage to the international gas market has been acknowledged for some time. An example of this lack of transparency is that even now customers are uncertain as to whether supplies will be available at any cost. This uncertainty is made worse by the lack of disclosure of future supply capability on behalf of the producers.

I hope that this submission is of assistance to the AEMC in its considerations and should you require any further information please contact me.

Kind Regards

A handwritten signature in black ink that reads "Valerie Duncan".

Valerie Duncan
Managing Director
Energy Action Pty Ltd