

29 March 2016

Mr. John Pierce
Chairman
Australian Energy Market Commission
Level 6, 201 Elizabeth Street
Sydney NSW 2000

Dear Mr. Pierce,

GPR0003: East Coast Wholesale Gas Market and Pipelines Frameworks Review - Pipeline Access Discussion Paper

Whilst Central Petroleum Limited (“Central”) is supportive of the recommendations in the Stage 2 Draft Report (“Report”) it does not believe that these changes will adequately address the fact stated in the AEMO’s Gas Statement of Opportunities (“GSOO”) that “Developed reserves begin to decline from 2019, requiring development of further reserves and resources to meet gas demand.” This will, as stated in the GSOO, impact the adequacy of the eastern and south-eastern Australian gas markets to supply gas demand over a 20-year outlook period. Given the critical gas shortage that will occur in NSW and South Australia, it is imperative that action is taken.

Rod Sims, Chairman of the ACCC, has recently stated that new gas supplies and new gas suppliers are of “critical importance” to the market. It is with this view that any new suppliers from the Northern Territory could supply Sydney through to Adelaide utilising backhaul arrangements, thereby lowering the costs of gas transmission pipelines. These backhaul arrangements, whilst they remain backhaul, should be available for term (i.e. greater than day ahead) for so long as it remains backhaul (e.g. terms of 2 – 5 years). It is for this reason that Central recommends that backhaul arrangements for term also be included in the auction scheme. By allowing backhaul to be auctioned would discriminate in favour of, and give a pricing advantage to, the industrial customers in NSW and South Australia who are the most impacted by constrained gas supplies.

Over the past 3 years, Central has echoed the warning of major domestic gas users in the East Coast that the domestic gas market will become critically short of gas from around 2018. Whilst gas shortages have to date been masked by LNG ramp-gas production, LNG production in Gladstone will reach full capacity next year and it is now widely recognized that gas supplies are a major challenge facing industry and governments alike. In his address at the recent Domestic Gas Outlook Conference on the 9th of March, Mr. Rod Sims the Chairman of the ACCC said “there is an urgent need for both new and importantly more diverse sources of gas supply into the domestic market”. According to Sims, the pricing signals for gas markets in eastern Australia are not creating new supplies or new suppliers for various reasons, but including, and not limited to, the inability of the capital markets to respond to the rising gas price.

We are now witnessing the change in the East Coast domestic gas market supply and demand forces brought about by the emerging LNG export market. Gas which has historically flowed south from Queensland will be reversed once all LNG trains are operational. It is anticipated that 2/3 of available East Coast gas supply will be delivered to a new demand centre at Gladstone. As recently quoted by APA Group’s Managing Director, Mr. Mick McCormack, these projects will require over 4,200TJ per day of additional gas. This, combined with recent gas interconnects like the Northern Gas Pipeline (“NGP”) and the Ballera to Moomba pipeline, is creating major changes in the directional flow and the volume

of gas physically moving through various pipelines, e.g. reverse flows in the Moomba to Sydney Pipeline and Moomba to Adelaide Pipeline. These changes mean that pipelines are no longer dominated by bi-lateral shipping relationships but have now become a much more dynamic East Coast market connecting multiple gas suppliers with multiple gas customers located at various points along an interconnected pipeline network. It is imperative that the regulatory framework for gas transmission pipelines that are in essence natural monopolies, evolves to ensure an efficiently functioning gas market in the future.

It is within this context that Central is supportive of the recommendations in the Report outlining the Commission's proposed roadmap for market development, particularly the proposed reform of the contract carriage model and the associated initiatives discussed in the Pipeline Access Discussion paper. Fundamental to Central as an emerging gas supplier into the East Coast market is the urgent need to ensure suppliers that gas transportation tariffs do not "soak up" pricing signals from the market and that pricing from the market is appropriately communicated to new gas developments to facilitate risk capital and investment in new gas supply when needed. The initiatives proposed by the Commission will assist with breaking down this major barrier to entry for new producers in the gas market and thereby facilitate new gas supplies capable of meeting market demand. As also stated by Mr. Rod Sims at the recent Domestic Gas Outlook Conference "While gas supply is crucial for the market, an efficient gas market also depends on an efficient transportation sector with competitive prices."

It is now more than ever in the national interest to ensure that domestic gas producers are encouraged to devote necessary resources and significant capital on exploration and development activities to either source new or prove up existing gas reserves. Ensuring that pipeline transport costs reflect the appropriate costs actually incurred for the provision of those services (including a reasonable rate of return) will make it possible for new gas supplies that efficiently utilize existing gas transmission network to be developed and meet the needs of the market. This view is consistent with the concerns of the ACCC where "monopoly pricing on gas transmission pipelines can lead to inefficient downstream investment decisions and can limit investment in upstream exploration."

It is Central's belief that a comprehensive regulatory framework is needed to ensure the costs of gas transmission pipelines are not creating market inefficiencies. As a first step, Central supports the day-ahead auction arrangement, but it is necessary that this ultimately includes term arrangements (i.e. greater than day ahead). The move to term access can come on the back of the short-term day ahead auction framework.

Central look forward to the final recommendations of the East Coast Wholesale Gas Market and Pipelines Frameworks Review and remains optimistic that an efficient gas transportation framework will enable gas explorers and producers to meet the needs of gas users along the east coast.

Yours Sincerely,



Richard Cottee
Managing Director and Chief Executive Officer