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4 June 2015

Mr John Pierce
Chair
Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

Dear Mr Pierce

RE: *EAST COAST WHOLESALE GAS MARKET AND PIPELINES FRAMEWORKS REVIEW: DRAFT REPORT*: COMMENTS FROM THE AUSTRALIAN PETROLEUM PRODUCTION & EXPLORATION ASSOCIATION

The Australian Petroleum Production & Exploration Association (APPEA) welcomes the opportunity to provide comments on relevant areas of the Australian Energy Market Commission's (AEMC) *East Coast Wholesale Gas Market and Pipelines Frameworks Review: Draft Report* (the Draft Report). This follows on from APPEA's 2 April 2015 submission on the AEMC's Public Forum Paper.

Since 1959, APPEA has been the peak national body representing the upstream oil and gas exploration and production industry. APPEA has more than 80 member companies that explore for and produce Australia's oil and gas. In addition, APPEA's more than 250 associate member companies provide a wide range of goods and services to industry. Further information about APPEA can be found on our website, at www.appea.com.au. A number of APPEA members are also represented on the Review's Advisory Group.

In addition to the APPEA submission, a number of APPEA members have made individual submissions to the AEMC on the Draft Report. This response should be read in conjunction with those submissions from individual APPEA members.

APPEA's submission addresses specific aspects of the Draft Report, focussing on those areas that are particularly important for the upstream oil and gas industry.

General comments

APPEA again notes the Terms of Reference for the Review requires the AEMC to consider three of the four work streams agreed at the December 2014 Energy Council meeting, namely enhancing transparency and price discovery, improving risk management and removing unnecessary regulatory barriers. This means the first work stream, encouraging competitive supply, is not covered by this review (including issues relating to the investment environment for gas supply). This is a disappointing omission.

While each form important parts of the east coast gas market development process, the issues considered by this Review are not independent of the broader investment environment for gas supply.

In particular, and as APPEA noted in its 2 April 2015 submission, it is not a lack of natural gas but onerous regulatory restrictions in some jurisdictions (notably New South Wales and Victoria) that is impeding gas supply. Any outcomes from this Review must support and reinforce the removal of regulatory restrictions impeding the efficient functioning of the east coast gas market. This issue is considered further below.

In addition, both directly and through its membership of the (former) Gas Market Leader Group (GMLG), the industry-led body that drove the development of the Gas Bulletin Board (GBB), Gas Statement of the Opportunities (GSOO) and the gas Short-Term Trading Markets (STTMs), APPEA has been a long and active supporter of the development of arrangements to support Australia's east coast gas market.

The industry has demonstrated its willingness to participate actively in gas market development processes in the past and expects this to continue into the future. These developments have arisen through both the evolution of the gas market, industry-led initiatives and government actions. The range and pace of these developments is, in many cases, not readily apparent to those that have not been directly involved in them and are often underappreciated by those not actively involved in the gas market development program on an ongoing basis.

The relatively small size of the east coast gas market, by international standards, has historically placed limitations on the liquidity and complexity of gas markets across Australia, including on the east coast. It is also the case, as the Draft Report notes in various places, that the market has been traditionally based (driven by the preferences of <u>buyers</u> as much as by sellers) around bilateral contracts. However, the market has experienced growth in diversity and complexity in recent years.

APPEA also recognises the significant gas market development that has been pursued over the last decade, in which the upstream industry has, as noted above, been an active participant. As such, APPEA does not support reform options being pursued just for the sake of reform, but rather to ensure gas is developed and allowed to flow to its highest value use, thus providing the greatest return to the ultimate owner of the resource, the Australian community.

Specific comments on the Draft Report

With that in mind, APPEA offers the following comments on some of the specific issues raised in the Draft Report. APPEA supports further development of the east coast gas market where that would enhance overall productivity and economic efficiency. Any reforms should be market-based, support efficient market outcomes and be based on robust cost-benefit analysis.

The development of an east coast LNG industry is driving unprecedented and positive economic growth and development in eastern Australia, particularly in Queensland

The Draft Report notes on page i that

> *The establishment of a liquefied natural gas (LNG) export industry based in Queensland is triggering unprecedented shifts in supply and demand and, consequently, changes in patterns of gas flows.*

The Final Report should acknowledge that the development of an east coast LNG industry is also driving unprecedented economic growth and development in eastern Australia, particularly in Queensland. The three LNG projects under development in Queensland represents nearly $63 billion worth of investment in the Australian economy, driving employment growth, regional development and delivering tax and royalty payments to governments. While it is appropriate for the Draft Report to focus on the further development of facilitated gas markets and pipeline frameworks in light of these changes, the review must recognise that these changes have proven to be an overwhelmingly positive development for the Australian economy[1].

Terms of Reference for the Review

As noted above, the Terms of Reference for the Review requires AEMC to consider three of the four work streams agreed at the December 2014 Energy Council meeting, namely enhancing transparency and price discovery, improving risk management and removing unnecessary regulatory barriers. This means the first work stream, encouraging competitive supply, is not covered by this review (including issues relating to the investment environment for gas supply). This is a disappointing omission.

While each form important parts of the east coast gas market development process, the issues considered by this Review are not independent of the broader investment environment for gas supply.

In particular, it is not a lack of natural gas but onerous regulatory restrictions in some jurisdictions (notably New South Wales and Victoria) that is impeding gas supply. Any outcomes from this review must support and reinforce the removal of regulatory restrictions impeding the efficient functioning of the east coast gas market.

The Draft Report recognises this on page 27, where it notes

> *There are concerns that rising prices are signalling the need for further supply and that this may not be occurring due to regulatory barriers.*

[1] An overview of the economic benefits that have and will flow to Australia from the development of the oil and gas industry can be found in PwC (2014), *Value Adding: Australian Oil and Gas Industry*, 13 September (available at www.appea.com.au/wp-content/uploads/2014/11/PwC-Report-Oil-and-Gas-Industry-Sept-2014-FINAL.pdf) and in Accenture (2015), *Ready or Not? Creating a World-Leading Oil and Gas Industry in Australia*, 20 May (available at www.accenture.com/us-en/Pages/insight-creating-world-leading-oil-gas-industry-australia.aspx?src=m).

However, the AEMC could more directly acknowledge the key role such restrictions have played in recent market developments (and disruptions) and should support moves to remove such regulatory restrictions.

Summary findings and recommendations

Gas prices are increasing for a number of reasons, many of them not directly related to the transition of the eastern Australian market to include gas exports.

For example, the Draft Report, in considering on pages 20-21 the drivers of movements in prices in recent years, does not consider in any detail the key role cost increases have played.

To examine the key role rising costs have played in recent price movements, APPEA commissioned EnergyQuest to undertake an assessment of how much oil and gas exploration and development costs have increased in recent years and what have been the main drivers. EnergyQuest's report, *Oil and Gas Industry Cost Trends*[2], finds:

- Petroleum industry costs have been increasing globally since 2000. Finding and development costs (F&DC) for new reserves increased six-fold between 2000 and 2013, from less than US$5/barrel of oil equivalent (boe) to over US$25/boe.
- According to IHS CERA, global upstream capital costs have more than doubled since 2000 and operating costs have nearly doubled.
    - The even greater increase in F&DC implies that reserve additions per dollar spent on development have also fallen.
- There have also been significant cost increases in Australia. In the three years to 2013 total Australian F&DC averaged $4.16/GJ, 2.7-times the average for the three years to 2007.

Third party access

The Draft Report in page 27 raises, briefly, the idea of extending regulated third party access regimes to, amongst other things, gas processing facilities. APPEA rejects the need for a regulatory regime of this kind to apply to such facilities.

Upstream facilities are designed for specific purposes, which may differ markedly from facility to facility, particularly with respect to the processing of liquids and the removal of contaminants. Considerable redundancy can be built into these facilities to provide for continuity of supply of gas while some processing units are shut-in for maintenance. APPEA notes that spare capacity as a concept is not directly translatable from pipeline transportation systems.

Commercial negotiation provides the least cost and most effective method for achieving third party access to upstream facilities and has led already to a number of access arrangements being successfully negotiated. Examination of competition pressures and outcomes in the upstream industry has not revealed evidence of a failure of market forces to operate efficiently with respect to processing of third party gas streams. The upstream industry therefore has a

[2] A copy of the report is available at www.appea.com.au/wp-content/uploads/2014/11/APPEA-Cost-Report_Final.pdf.

very clear preference for commercial negotiation to arrive at mutually agreed arrangements for such third party access.

In addition, as the Productivity Commission[3] noted on page 24 of its recent research report, *Examining the Barriers to More Efficient Gas Markets*

> *... denial of access to a gas processing facility is not necessarily evidence of the exercise of market power — there can be valid commercial reasons for the owners of gas processing facilities to deny third party access. There are coordination issues and costs from sharing a gas processing facility with other parties. These can include the need for plant modifications to ensure that the facility is compatible with the particular chemical composition of a third party's gas, and loss of flexibility in operations and investments.*
>
> *Beyond this, there are a number of other issues with the proposal. Part IIIA of the Competition and Consumer Act 2010 (Cwlth), which sets out the National Access Regime, contains a number of threshold requirements for its application. These include (among others): a requirement that the declared service is of national significance; a requirement that it is uneconomical to develop another facility; and an exemption for production processes. Regulating access to gas processing services could set a precedent that results in the expanded application of third party access regulation. In its 2013 review of the National Access Regime, the Commission was particularly concerned about proposals to increase the scope of the Regime, including broadening the types of infrastructure services that could be subject to third party access.*
>
> *There are also more general costs from this type of regulation, including:*
>
> - *reduced incentives for new investment by gas processing facility owners — third party access regulation can distort investment incentives if it asymmetrically expropriates above normal returns without compensating the owner for the downside risk*
> - *reduced incentives for investment by third parties — third party access tends to lock in the infrastructure technology used by the incumbent regulatory error*
> - *administrative and compliance costs.*

APPEA recommends the Review not consider any further calls for a third party access regime for gas processing facilities.

Assessment framework

APPEA endorses the AEMC's focus, outlined in Chapter 2 of the Draft Report, on the economic efficiency of gas market arrangements and any proposed developments or enhancements, including those that would best allow gas to flow to where it is most highly valued and for the market to most readily adapt to changing supply and demand conditions over the longer-term.

[3] Available at www.pc.gov.au/research/completed/gas-markets.

Facilitated markets

APPEA notes the east coast gas market currently has three forms of facilitated markets in operation (the STTMs, the Wallumbilla GSH and the Declared Wholesale Gas Market (DWGM)). As the Draft Reports notes in discussing stakeholder submissions on papers 85-87, each of these markets is different and these differences require participants who operate in each of these markets to have different information technology, administrative and compliance systems in place to participate in each of these markets. These differences add to costs for participants and can be a barrier to entry, particularly for smaller companies, into these markets.

APPEA reiterates its April 2015 recommendation that the AEMC investigate ways to more closely align these markets. Such alignment could improve the efficiency and effectiveness of the east coast gas market and produce market arrangements that are more closely aligned with the AEMC's objective of ensuring natural gas flows to its highest value use.

This includes moves to harmonise the gas day start times, as highlighted by the Draft Report on page 38.

Information provision

The Draft Report on page 21 notes:

> *In recent times there have been concerns amongst some retailers and large industrial stakeholders that access to GSAs is becoming more difficult and more expensive as a result of this linkage.*

and on page 142 reports assertions made by the Australian Industry Group, based on a selective survey of their own members, that:

> *Some large users have reportedly found it difficult to find producers that are willing to enter into new long-term contracts, or contracts of sufficient length to meet their commercial needs and support investment.*

Such concerns are not supported by the amount of objective information on the range of GSAs and other commercial transactions that have been entered into in eastern Australia since December 2012 that is available. Some are highlighted in Box 1.

BOX 1. GAS SUPPLY AGREEMENTS (GSAs) AND OTHER COMMERCIAL ARRANGEMENTS ANNOUNCED IN EASTERN AUSTRALIA SINCE DECEMBER 2012

1. Origin Energy Limited (Origin) on 20 December 2012 announced[4] the signing of a long-term gas sales agreement with the MMG Group (MMG). Under the terms of the agreement, Origin will supply MMG with a total volume of up to 22PJ of gas over a seven-year period, commencing in 2013.

[4] See www.asx.com.au/asxpdf/20121220/pdf/42c25dkccc38by.pdf for further information.

2. Beach Energy Limited, through its wholly owned subsidiary Delhi Petroleum Pty Ltd, announced[5] on 10 April 2013 it had signed a gas sales agreement with Origin Energy Retail Limited for the sale of up to about 139PJ of sales gas for a term of eight years. Origin has an option to extend the term of the agreement by two years, which would result in the sale of up to approximately 173PJ of sales gas.
3. Lumo Energy on 14 May 2013 announced[6] an agreement with BHP Billiton Ltd and ExxonMobil Australia for the supply of 22PJ of gas over three years starting in 2015.
4. Strike Energy Limited on 16 July 2013 announced[7] it had entered into a binding term sheet with Orica Australia Pty Ltd, a subsidiary of Orica Limited, for the supply of up to 150PJ of gas over a 20-year period.
5. Origin on 19 September 2013 announced[8] it had signed a binding gas supply agreement with Esso Australia Resources Pty Ltd and BHP Billiton Petroleum (Bass Strait) Pty Ltd to purchase up to 432PJ of natural gas. Under the terms of the agreement, gas supply to Origin will start in 2014. Annual contract volumes will increase over a nine-year period.
6. ExxonMobil Australia on 11 November 2013 announced[9] that its subsidiary, Esso Australia Resources Pty Ltd, along with BHP Billiton Petroleum (Bass Strait) Pty Ltd, has executed a long-term agreement for the sale of gas to Orica Limited. The agreement will supply up to 42PJ of gas over a three-year period starting in 2017.
7. Origin on 28 November 2013 announced[10] the signing of a gas sales agreement with QGC Pty Limited (QGC). Under the terms of the agreement, Origin will supply QGC with up to a total of 30PJ of gas in calendar year 2014 and 2015.
8. Santos Ltd on 4 December 2013 announced[11] that it had recently signed five domestic gas contracts for a total of 30PJ of gas over generally five-year periods.
9. Santos on 19 December 2013 announced[12] that the GLNG project participants have executed an agreement with Origin Energy for the purchase of 100PJ of gas for supply to the GLNG project. The gas will be supplied over a period of five years starting from January 2016. Under the terms of the agreement, Origin can supply additional volumes of up to 94PJ of gas during the same five-year period.
10. Incitec Pivot Limited on 19 December 2013 announced[13] the execution of a 23-month gas supply agreement for the Phosphate Hill manufacturing plant in north-west Queensland, effective from 1 February 2015.

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[5] See www.beachenergy.com.au/IRM/Company/ShowPage.aspx/PDFs/2934-16785602/BeachsignsmajorgassalesagreementwithOriginEnergy and www.originenergy.com.au/about/investors-media/media-centre/agreement-to-purchase-gas-from-beach-energy-20130410.html for further information.

[6] See www.afr.com/p/markets/market_wrap/lumo_strikes_gas_deal_with_esso_FD8v5OF1saveqPKo7T599O for further information.

[7] See strikeenergy.com.au/images/stories/pdf/20130716_1%20Strike%20%20Orica%20Joint%20Statement.pdf and www.orica.com/News---Media/Orica-and-Strike-Energy-sign-binding-term-sheet for further information.

[8] See www.originenergy.com.au/about/investors-media/media-centre/origin-secures-432-pj-natural-gas-from-esso-bhpb-20130919.html and www.exxonmobil.com.au/Australia-English/PA/news_releases_20130919.aspx for further information.

[9] See www.exxonmobil.com.au/Australia-English/PA/news_releases_20131111.aspx and www.orica.com/News---Media/-BHP-Billiton for further information.

[10] See www.originenergy.com.au/about/investors-media/media-centre/gas-supply-agreement-with-qgc-20131128.html for further information.

[11] See www.santos.com/Archive/NewsDetail.aspx?p=121&id=1407 for further information.

[12] See www.santos.com/Archive/NewsDetail.aspx?p=121&id=1409 and www.originenergy.com.au/about/investors-media/media-centre/agreement-to-sell-gas-to-glngy-20131219.html for further information.

[13] See investors.incitecpivot.com.au/phoenix.zhtml?c=170340&p=irol-news&nyo=1 and phx.corporate-ir.net/External.File?item=UGFyZW50SUQ9MjE1NjY3fENoaWxkSUQ9LTF8VHlwZT0z&t=1 for further information.

11. Strike on 15 January 2014 announced[14] that the company has entered into a Gas Supply Option Agreement for 30PJ of gas with Orora Limited. Strike has granted an option to Orora for the supply of 30PJ of gas, to be delivered at 3PJ per annum, at a fixed price over a ten-year term from 2017, the expected commencement of production from the Project.
12. Strike on 27 February 2014 announced[15] that the company has entered into a Gas Supply Option Agreement for 12.5PJ of gas with Austral Bricks, a subsidiary of Brickworks Limited. Strike has granted an option to Austral Bricks for the supply of 12.5PJ of gas, to be delivered at 1.25PJ per annum, at a fixed price over a ten-year term from 2017, the expected commencement date of production from the Project.
13. Comet Ridge Ltd announced[16] on 19 March 2014, it had executed a revised agreement with Stanwell which replaces original Sale and Purchase Option Agreement signed in September 2011. The revised agreement provides for the transfer by Stanwell to Comet Ridge of its current 5% interest in the Mahalo Gas Project (MGP) and the relinquishment of its option to acquire up to a further 35% interest in the MGP in exchange for (at Stanwell's election exercisable at Final Investment Decision (FID) of the MGP) either Stanwell and Comet Ridge entering into a 20PJ to 40PJ gas supply agreement (GSA) over a 10-year period or Stanwell receiving a cash payment of $20 million (escalated at CPI).
14. Strike on 24 March 2014 announced[17] it had executed with Orica a full GSA which adds a further 100PJ to the 150PJ agreed in July 2013 for a total prospective gas supply of 250PJ over a 20-year period, with initial gas supply anticipated to commence in 2017.
15. WestSide Corporation Limited announced[18] on 27 March 2014 that the Meridian joint venture has signed a binding 20-year agreement to sell gas to the GLNG project. The agreement provides for future sales volumes up to 65TJ/d.
16. Strike on 23 June 2014 announced[19] that the company has entered into a GSA for 45PJ of gas with Orora. The GSA adds a further 15PJ of gas to the 30PJ agreed with Orora earlier this year in the Gas Supply Option Agreement (Option Agreement) announced by Strike on 15 January 2014 and supersedes and replaces that Option Agreement. The additional gas has been contracted on the same terms as the Option Agreement at a fixed rate of supply over a 10-year term from 2017.

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[14] See strikeenergy.com.au/images/stories/pdf/20140115_Strike%20Signs%20New%20Gas%20Supply%20Option%20Agreement.pdf and www.ororagroup.com/about_us/media_centre/news/Media-Release_Gas-Supply-Option-Agreement_150113.html for further information.

[15] See www.strikeenergy.com.au/images/stories/pdf/20140227_Strike%20Signs%20New%20Gas%20Supply%20Option%20Agreement.pdf and www.brickworks.com.au/IRM/Company/ShowPage.aspx/PDFs/1399-10000000/STXStrikeSignsNewGasSupplyOptionAgreement for further information.

[16] See www.cometridge.com.au/PDF/ASX19Mar14_Comet%20Ridge%20buys%20back%20Mahalo%20Interests%20from%20Stanwell.pdf for further information.

[17] See strikeenergy.com.au/images/stories/pdf/20140325_Orica%20Gas%20Sales%20Agreement.pdf and www.orica.com/news---media/orica-signs-agreement-to-secure-an-additional-100-pj-of-prospective-gas-supply-from-strike-energy#.UzD-s7mKC70 for further information.

[18] See newwebchart.weblink.com.au/clients/pfl/article.asp?asx=WCL&view=2790171 for further information.

[19] See strikeenergy.com.au/images/stories/pdf/20140623_Strike%20Signs%20Orora%20Gas%20Sales%20Agreement.pdf for further information.

17. Lakes Oil NL on 4 July 2014 announced[20] it had signed a letter of intent to supply gas (over a 10-year term) to Simplot Australia. The supply is subject to the execution of a formal supply agreement, final commercialisation of the Wombat field together with the lifting of the State's moratorium on drilling for gas onshore Victoria.
18. Armour Energy Ltd on 17 July 2014 advised[21] that it had entered a non-binding Memorandum of Understanding with MMG Century Pty Ltd to work together towards gas supply arrangements from Armour's exploration tenements in North West Queensland to MMG's Queensland operations. The study will evaluate gas supply volumes of up to 7-9PJ per annum plus an overlay for potential third party requirements.
19. Lakes Oil NL on 24 July 2014 announced[22] it had signed a letter of intent to supply gas (over a 10-year term) to Dow Chemical (Australia) Limited. The supply is subject to the execution of a formal supply agreement, final commercialisation of the Wombat field together with the lifting of the State's moratorium on drilling for gas onshore Victoria.
20. Central Petroleum Ltd on 11 November 2014 announced[23] it had entered into a non-binding heads of agreement (HOA) to supply up to 15PJ pa of gas from its conventional reservoirs in the Northern Territory to Incitec Pivot Limited. Central and IPL agreed a starting field price for gas which provides a commercial underpinning for the development of the natural gas project. The HOA contemplates Incitec Pivot providing assistance in sourcing capital for drilling and reserve certification. The agreement sets out the key milestones that will need to be met before a binding GSA is executed.
21. Santos and its joint venture partner Origin Energy on 13 November 2014 announced[24] the 5-year extension of ethane gas supply to Qenos. The extended sales contract will enable Qenos to maintain its operations at Botany Bay in Sydney.
22. Armour Energy Ltd on 26 November 2014 announced[25] it had entered a Memorandum of Understanding (MOU) with Aeon Metals Limited relating to gas supply from Armour's exploration tenements in North West Queensland to Aeon Metals' Walford Creek Project. The MOU relates to gas supply volumes of 1-2PJ a year.
23. AGL Energy Limited (AGL) on 9 April 2015 announced[26] that it had entered into a GSA with Esso Australia Resources Pty Ltd and BHP Billiton Petroleum (Bass Strait) Pty Ltd to purchase up to 198PJ of natural gas from Bass Strait over a 3-year period. The Esso Australia-BHP Billiton contract commences in January 2018 providing a continuation of gas supply from Bass Strait.

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[20] See www.lakesoil.com.au/index.php/reports-and-announcements/item/lko-signs-loi-to-supply-gas-to-simplot?category_id=10 for further information.

[21] See armourenergy.com.au/assets/2014/1345009.pdf for further information.

[22] See www.lakesoil.com.au/index.php/reports-and-announcements/item/lko-signs-loi-to-supply-gas-to-dow-chemical?category_id=10 for further information.

[23] See www.centralpetroleum.com.au/IRM/Company/ShowPage.aspx/PDFs/1944-65967956/IncitecPivotandCentralPetroleumEnterFrameworkAgreement and

[24] See www.santos.com/Archive/NewsDetail.aspx?p=121&id=1472 and www.qenos.com.au/internet/home.nsf/0/9607BE621A02EB70CA257D8F003B1F66/$file/Qenos%20media%20release%20141113.pdf for further information.

[25] See armourenergy.com.au/assets/2014/1389426.pdf for further information.

[26] See www.agl.com.au/about-agl/media-centre/article-list/2015/april/agl-secures-gas-supply-until-2020-with-bass-strait-agreement and www.exxonmobil.com.au/Australia-English/PA/news_releases_20150409.aspx for further information.

24. Real Energy announced[27] on 18 May 2015 that it had signed a non-binding Letter of Intent (LOI) with Incitec Pivot to progress negotiations with respect to finalising a GSA for the sale of gas from Real Energy's Cooper Basin gas project. The announcement pointed towards an indicative GSA of approximately 110PJ over a 10-year period.

The range of GSAs and other commercial arrangements (more of which are likely to be announced in coming months) suggest that there is enough information available to allow supply contracts to be concluded between willing buyers and sellers. It is also a more useful and objective information base for policy development than self-serving member surveys of the type reported on page 142 of the Draft Report.

As the Draft Report notes on pages 145-46, a number of steps have been taken by policy makers and market participants over the last ten years to increase the level of transparency in the east coast gas market and enable more informed decisions to be made about the consumption, production and transportation of gas and longer-term investments. For example, most of information sources listed on page 146 were not available ten years ago.

With this in mind, APPEA supports the AEMC's rejection, on page 158, of entirely inappropriate calls to require contracting parties to reveal the prices they are required to pay under their GSAs. As is noted in the Draft Report such action would provide little information of value to the market and would undermine confidence in the operation of the market and have adverse consequences for competition in some downstream markets. The AEMC should continue to reject any such calls.

In relation to the more relevant options raised on page 158, APPEA notes:

- Developing a survey-based gas price index that would reflect market participants' price expectations for short, medium and longer-term contracts with basic terms and conditions and supply from the major delivery points: private sector suppliers are already developing and publishing price indexes of this nature[28]. Such indexes could be further developed to meet the requirements canvassed in the Draft Report.
- A number of energy market analysts, for example, EnergyQuest in its *EnergyQuarterly*[29], already produce reports that aggregate existing publicly available information and anecdotal reports on gas prices.

As part of this APPEA welcomes AEMC's confirmation, on page 35 of the Draft Report, that it is

> *... not proposing an approach which involves mandating the disclosure of confidential information.*

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[27] See www.asx.com.au/asxpdf/20150518/pdf/42ymkgbpyvdlq9.pdf for further information.
[28] For example, Argus Media publishes a range of eastern Australian gas price indexes. Argus launched the first month-ahead index for the Wallumbilla natural gas market in September 2014. The month-ahead Wallumbilla price, known as the AWX index, is designed to offer a weekly price reference for natural gas traded at Wallumbilla for delivery on a month-ahead basis. See www.argusmedia.com/About-Argus/Press-Releases/2014/Australia-Wallumbilla-Gas-Index for further information. A more general overview is also available in the Argus submission to the Public Forum Paper (www.aemc.gov.au/getattachment/d0b973c8-f175-464c-ae53-17420f6151d7/Argus-Media.aspx).
[29] See www.energyquest.com.au/reports.php?id=1 for more information.

In relation to the Stage 2 opportunities outlined on page 162, APPEA supports, as it did in the development of the Western Australian Gas Bulletin Board, that coverage of the GBB, and its associated information requirements, be extended to large gas users. APPEA does not support any moves to include exploration and reserves information on the GBB where additional reporting is required. The GBB could, however, refer to existing information already published by the Australian Bureau of Statistics[30] (in the case of exploration) and Geoscience Australia[31] or the Core Energy Group, for AEMO[32] (in the case of reserves).

Pipeline capacity trading

APPEA also supports the introduction of a pipeline capacity trading initiative and understands from page 34 of the Draft Report this will be a major element of the AEMC Stage 2 work program.

Such an initiative should aim to improve the efficiency of pipeline transportation services and provide greater transparency in relation to existing capacity trade, while ensuring existing property rights are preserved and that there are no adverse impacts on future pipeline investment.

It should also address the lack of a transparent market mechanism to allocate unused pipeline capacity, which would allow companies that own pipeline capacity to sell any available capacity in a traded market place.

Allowing gas to flow efficiently through the transportation system will improve the operation of the east coast gas market. APPEA considers that efficient access to pipeline capacity is fundamental to market development and must be a key a feature of any reforms. Aligned with this, APPEA supports moves to improve transparency in pipeline markets that interface with the facilitated markets, so capacity can be traded more actively.

Conclusion

Ongoing gas market reforms, based on the competitive market principles and only results in intervention in the presence of clearly identified market failures (that can be improved through intervention), should remain an important feature of government policy responses and a key feature of the Review's Stage 2 work.

The upstream industry has been a key focus of and participant in reform over the past decade and stands ready to participate constructively in future gas market reform processes.

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[30] Australian Bureau of Statistics (2015), *8412.0 – Mineral and Petroleum Exploration, Australia* (available at www.abs.gov.au/ausstats/abs@.nsf/mf/8412.0).
[31] Geoscience Australia (2014), *Australian Energy Resource Assessment: Second Edition* (available at www.ga.gov.au/scientific-topics/energy/resources/australian-energy-resource-assessment).
[32] Core Energy Group (2015), *Gas Reserves and Resources, Eastern and South Eastern Australia, February 2015* (available at www.aemo.com.au/Gas/Planning/Gas-Statement-of-Opportunities/2015-GSOO-Supporting-Information).

If you or your project team require additional information about our submission, please do not hesitate to contact me on 6267 0902 or at ddwyer@appea.com.au.

Yours sincerely

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