



EnergyAustralia

LIGHT THE WAY

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COAG Energy Council – Measures to Improve Transparency in the Gas Market – Consultation – August 2019

EnergyAustralia is one of Australia's largest energy companies with around 2.6 million electricity and gas accounts in NSW, Victoria, Queensland, South Australia, and the Australian Capital Territory. We also own, operate and contract an energy generation portfolio across Australia, including coal, gas, battery storage, demand response, wind and solar assets, with control of over 4,500MW of generation in the National Electricity Market.

We are generally supportive of improved market transparency and many of the measures proposed in the consultation Regulation Impact Statement (RIS). However, we have several observations that temper our support and should otherwise guide the COAG Energy Council in its considerations, particularly in deciding the degree of transparency i.e. between options 3 and 4 throughout the RIS document.

The RIS process and calculation of expected benefits needs to be based on realistic expectations of how market participants will use new information, particularly in contractual negotiations. For example:

- parties already form expectations on production costs and other unknown or uncertain parameters from a variety of information sources. Publishing credible information on 'actual' production costs may not materially affect market outcomes nor shift bargaining power, especially where sellers become aware of the buyer's next best alternative prices and costs
- historic price and cost information may not be immediately useful or sufficient in determining forward expectations
- there are many complexities and uncertainties involved in generating price and volume forecasts
- even with new information aimed at removing deadweight losses, rigidities and imperfections will still be present in the market because of contracted positions that reflect prudent risk management.

A robust and clear calculation of expected net benefits of new measures will also be important in guiding the expectations of policy-makers and the general public about how a package of 'transparency reforms', some of which are a continuation of data already

published, will lead to cost savings for customers at a time where gas prices are under intense scrutiny and subject to various policy commitments.¹

One outcome of the proposed measures would be to expose considerable differences in production costs and prices. Some of these will reflect the volatility in production volumes and profitability (i.e. risk) that is typical of individual upstream oil and gas production facilities. Given our own experience in reporting data to agencies like the ACCC, and how this can be reflected in public discussion, there is a risk of these measures being viewed without proper context, inviting inappropriate criticism and sparking suboptimal interventions in the market.

Expected benefits will only be delivered to end-use customers if each element of the supply chain is subjected to the same degree of transparency. Specifically, understanding costs for production will only be useful for customers when combined with the various parameters around transportation and delivery, including capacity and shaping costs, that can differ between customers. Retailers and other parties along the supply chain will also act on the same information in different ways according to their own risk appetites and customer needs, which may be difficult to identify in published data. Exposing any one element of the supply chain to “extra” transparency could disadvantage parties commercially and may produce worse market outcomes than currently exist.

In considering the gathering of data and publication of new measures we support the Energy Council considering the roles of bodies like the ACCC and AEMO. We recommend that the introduction new measures or continuation of existing measures be accompanied by removing others that are found to provide no benefit to the market. For those that do provide benefit, it should be recognised that participants like ourselves have invested significant effort in producing certain data for the ACCC, and these should be carried forward without changes to definitions etc. As explored in the RIS, reporting could be transferred from the ACCC into the Bulletin Board or into publications by AER or AEMO. The Australian Government’s recent announcement to extend the ACCC’s Gas Inquiry to the end of 2025, including the scope and timing of its reports, should be reconsidered.

Further responses to some of the questions in the RIS consultation template are attached. If you would like to discuss this submission, please contact Lawrence Irlam on 03 8628 1655 or Lawrence.irlam@energyaustralia.com.au.

Regards

Sarah Ogilvie

Industry Regulation Leader

¹ <https://minister.environment.gov.au/taylor/news/2019/government-acts-deliver-affordable-reliable-gas>

Attachment Stakeholder feedback template

2. ACCC recommendations on reserves and resources reporting framework

Number	Questions	Feedback
2	<p>As noted in Table 3.3, the ACCC has recommended that annual movements in 2P reserves be reported. Do you think:</p> <ul style="list-style-type: none"> (a) an additional category of 'pricing' should be included to capture reserve adjustments due to changes in gas price assumptions? (b) reserves upgrades and downgrades should be combined into a single category? 	<p>Agree that pricing should be included, e.g. to allow participants to test the sensitivity of reserves to price assumptions used by the producer and potentially to undertake further scrutiny using different price assumptions.</p>

3. Gas, LNG and infrastructure prices

Number	Questions	Feedback
4	<p>Do you agree with the information deficiencies that have been identified in Table 4.1? If you don't agree please explain why. Are there other pricing related information deficiencies that you think are adversely affecting the gas markets in eastern and northern Australia?</p>	<p>As per general comments</p>
5	<p>How significant an effect, do you think the information deficiencies identified in Table 4.1, are having on the gas markets in eastern and northern Australia and the broader economy?</p>	<p>As per general comments</p>
6	<p>Do you agree that the information deficiencies for gas, LNG export and infrastructure prices could be viewed as a market</p>	<p>As per general comments</p>

	failure that will warrant government intervention? If not, please explain why.	
7	To what extent have you been using the existing information on the Bulletin Board and information published in the ACCC Gas Inquiry?	<p>We have used Bulletin Board data for our analysis, particularly gas flows and production capacity. We have had some issues with these data, and have notified AEMO which has resolved some of the issues and is looking to rectify others that are outstanding.</p> <p>We have looked at some pipeline cost reporting in the Gas inquiry, but to a certain extent, they are not particularly useful because some of the prices reflect a long-term foundation shipper cost, and is not available to the rest of the market.</p>
8	<p>Do you agree with the ACCC-GMRG's recommendations on how to address these information deficiencies, which would require the publication of the following (see section 3.3 for more detail)?</p> <ul style="list-style-type: none"> ○ production cost estimates; ○ short-term GSA prices; ○ long-term GSA prices; ○ LNG netback prices; ○ LNG export prices; and ○ the standing prices and actual prices paid for compression and storage facilities. <p>(a) If so, please explain how you would use this information and the net benefit it would provide.</p> <p>(b) If not, please explain why.</p>	<p><u>Production cost estimates</u> - we would support publishing this information.</p> <p><u>LNG netback price</u> – we consider this information, as it is currently calculated by the ACCC, provides little value to the market:</p> <ul style="list-style-type: none"> ▪ The published netback series is for 1 year only, this is not particularly useful as customers and retailers usually contract gas for a period more than a year-ahead. ▪ The ACCC's relies on JKM forward pricing and because there is little JKM liquidity past a year it does not provide longer term price indicators. ▪ QLD producers selling into the LNG market for a termed contract (3-5 years ahead) will likely strike contracts that are Brent linked. EA understands that existing Qld LNG producers have historically struck contracts with slopes of 13-14%, while newer contracts of recent years is understood to be 10-11%. ▪ A more useful netback would be publishing prices more than a year-ahead, and this would have to take into account both the JKM forward market and termed LNG contracts in the market. <p><u>Short-term and long-term GSAs</u> – we consider this information to be of value to market participants and already report data to the ACCC. There is a potential detriment to the market if continued reporting of this information</p>

		<p>by the AER does not accurately accommodate contract terms and other factors affecting price. The RIS should explore uncertainties around calculation methods when determining the net benefits of this measure.</p> <p><u>LNG export prices</u> – we would support publishing this information.</p> <p><u>Producers' actual production costs and LNG import prices</u> - we would support publishing this information.</p> <p><u>Information on gas swaps</u> – we consider this information would be of little value, particularly as swaps are typically bespoke. For example, while time or location swaps information can be useful, some are only in place to resolve a near term inefficiency. Swaps cannot be considered a long-term solution.</p> <p><u>Historic producer and retailer price series, and prices offered</u> – we already report retailer prices to ACCC (with associated compliance costs) and support examination of whether this information is of any value. The RIS consultation document states that "[t]he utility of this information was considered somewhat marginal by gas users consulted by the ACCC when developing its advice on measures to improve price transparency."</p> <p><u>Listing supply requests and offers to BB or GSH</u> – we would support publishing this information.</p>
10	<p>In relation to the options set out in section 4.3:</p> <ul style="list-style-type: none"> (a) What do you think the advantages, disadvantages, costs, benefits and risks are with each option? (b) What incremental benefits do you think are associated with options 2-4? (c) What incremental costs do market participants expect to incur under options 2-4? (d) Are there any refinements that could be made to these options to reduce compliance and reporting costs, whilst 	<p>See comments above on likely costs, benefits and uncertainties.</p>

	<p>also ensuring any obligations are fit for purpose and achieve the NGO and the Energy Council's Vision as set out in Box 1.1?</p> <p>(e) Do you agree with the proposed reporting frameworks for short-term GSAs, swaps and/or secondary trades of storage capacity? If not, please explain what you think should change and why.</p>	
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4. Supply and availability of gas

Number	Questions	Feedback
12	Do you agree with the information deficiencies that have been identified in Table 5.1? If you don't agree with the information deficiencies that have been identified, please explain why. Are there other gas supply and availability related information deficiencies that you think are adversely affecting the gas markets in eastern and northern Australia?	As per general comments
13	How significant an effect do you think the information deficiencies identified in Table 5.1 are having on the gas markets in eastern and northern Australia and the broader economy?	As per general comments
14	Do you agree that the information deficiencies regarding the supply and availability of gas could be viewed as a market failure that will warrant government intervention? If not, please explain why.	As per general comments
15	To what extent have you been using the existing information on the Bulletin Board and information published in the ACCC Gas Inquiry?	Overall we consider it would be useful to determine the total volume contracted at an aggregate level, and on an annual basis, for LNG export compared with total production in Queensland to determine the volume of gas available to service the east coast domestic market. This would

Number	Questions	Feedback
		<p>include volumes of gas that LNG producers can replace with LNG spot cargoes, or exports intended for the LNG spot market (not long-term commitments). The ACCC's interim gas reports show this volume on a year-ahead basis, but the ability to plan beyond this (e.g. 3 to 5 years) would be useful.</p> <p>We typically rely on other parties (e.g. EnergyQuest, AEMO) to use available data to produce an accurate overall market supply and demand outlook. This includes determining southern production (e.g. from Gippsland, Moomba, Otway), annual demand by customer type (mass market, industrial and generation) and therefore supply shortfalls.</p>
16	<p>Do you agree with the AEMC's and ACCC-GMRG's recommendations on how to address these information deficiencies, which would require the publication of the following (see sections 3.1 and 3.3 for more detail)?</p> <ul style="list-style-type: none"> ○ 1P, 2P, 3P reserves, 1C and 2C contingent resources; ○ Links to public information on exploration activities; ○ Drilling activities; ○ Volume of gas contracted under existing GSAs; and ○ LNG import volume and operational information. <p>(a) If so, please explain how you would use this information and the net benefit it would provide.</p> <p>(b) If not, please explain why.</p>	<p><u>Reserves reporting</u> – as per our prior submission to the ACCC we generally support publishing this information.</p> <p><u>Drilling activities</u> – we consider this information would be useful for participants, for example, if producers are reducing drilling activity to affect supply.</p> <p><u>Volumes of contracted gas</u> – we consider this information would be useful, particularly in enabling participants to understand amounts of uncontracted volumes.</p> <p><u>LNG shipments, import facility information, exporter supply/ demand balances</u> – we would support publishing this information.</p>

5. Demand for gas

Number	Questions	Feedback
23	To what extent have you been using the existing information regarding LNG exporters' demand-supply balance as published in the ACCC Gas Inquiry?	Because the ACCC gas inquiry usually reports only one year ahead, this information is only somewhat useful. It would be better if a longer term demand supply balance can be provided.
24	<p>Do you agree with the AEMC's and ACCC-GMRG's recommendations on how to address these information deficiencies, which would require the publication of the following (see sections 3.1 and 3.3 for more detail)?</p> <ul style="list-style-type: none"> ○ Large users' information on nameplate capacity and daily actual gas consumption; ○ LNG export facility operational information; and ○ LNG export facility shipment information. <p>(a) If so, please explain how you would use this information and the net benefit it would provide.</p> <p>(b) If not, please explain why.</p>	<p><u>Large user nameplate capacity and prior consumption</u> – we consider this information would provide little benefit to the market. Forecast consumption is more important.</p> <p><u>LNG exporters' capacity outlooks (incl. intraday changes), and daily supply</u> – we support the publication of this information.</p> <p><u>LNG export shipments</u> – we support the publication of this information.</p>

6. Infrastructure used to supply gas to end-markets

Number	Questions	Feedback
33	Do you agree with the information deficiencies that have been identified in section 7.1? If you don't agree with the information deficiencies that have been identified, please explain why? Are there other infrastructure related information deficiencies that you think are adversely affecting the gas markets in eastern and northern Australia?	As per general comments

Number	Questions	Feedback
34	How significant an effect do you think the infrastructure related information deficiencies are having on the gas markets in eastern and northern Australia and the broader economy?	As per general comments
35	Do you agree that the information deficiencies regarding infrastructure used to supply gas to end-markets could be viewed as a market failure that will warrant government intervention? If not, please explain why.	As per general comments
36	<p>Do you agree with the AEMC's and ACCC-GMRG's recommendations on how to address these information deficiencies, which would require the publication of the following (see sections 3.1 and 3.3 for more detail)?</p> <ul style="list-style-type: none"> ○ Proposed and committed infrastructure developments; ○ 36-month uncontracted capacity outlook for storage and stand-alone compression facilities, and production facilities providing third party access; ○ Stand-alone compression facilities to report operational information; and ○ A list of users with contracted capacity under storage and stand-alone compression facilities. <p>(a) If so, please explain how you would use this information and the net benefit it would provide.</p> <p>(b) If not, please explain why.</p>	<p><u>Proposed and committed infrastructure developments</u> - we support the publication of this information, including use of existing AEMO definitions.</p> <p><u>36-month uncontracted capacity outlooks</u> – we support the publication of this information.</p>

7. Gas Statement of Opportunities (GSOO)

Number	Questions	Feedback
49	Do you agree that the GSOO should be expanded to include the Northern Territory now it is connected to the eastern and northern Australian gas markets? If not, please explain why.	Arguably the NT is only partially connected to the southern market and it is uncertain what the Long Run Marginal Cost is to build a pipeline connection. Until the connection is more robust, the information is probably useful but not of high value.
50	Do you agree that the current voluntary requirement for market participants to provide information to AEMO results in a poor quality of information in the GSOO? If not, please explain why.	<p>While it is important for AEMO to contemplate obtaining or verifying information provided to them from participants, compelling them to provide such information may not necessarily improve the quality.</p> <p>For example, retailers may be required to provide customer load forecasts, however it may be better to have this information prepared by the market operator as retailers may have prepared information specific to their own market that are irrelevant to the GSOO. Other information such as gas generation forecasts are subject to considerable uncertainty making it difficult for both participants and the market operator to provide a “quality” base case forecast without huge variances for a high and low cases.</p>
51	Do you agree that compelling market participants to provide information required for GSOO preparation will benefit the quality of information in the GSOO? If not, please explain why.	As per response to question 50.

9. Cost Benefit Analysis

Number	Questions	Feedback
57	Are you aware of any upcoming changes at a government level or private sector level that the CBA should take into account under the status quo scenario? If so, please explain what the changes are and how best to account for those changes in the CBA.	The RIS was published prior to the announcement that the ACCC gas inquiry would continue. However as per our general comments we would support revisiting the scope or timing of inquiry reports in light of new or continues measures being published by other agencies.
59	Do you have any information on the costs and benefits outlined in Table 9.2? If so, please elaborate on the components and quantum of the costs and benefits.	No specific response/ see response to 62
61	Do you think there are other input variables which should be sensitivity tested in the CBA? If so, please explain what other input variables should be tested.	As per general comments, the “programme logic chain” in linking measures to market outcomes should explore likely participant behaviour, particularly in the negotiation of contracts which currently occur with estimates or other information relating to the proposed measures.

10. Commonwealth Regulatory Burden Measure Analysis

Number	Questions	Feedback
62	Do you have any information on the regulatory burden costs related to existing reporting requirements? If so, please elaborate on the components and quantum of the costs.	We will provide this information separately.