



Submission to the

**Council of Australian Governments
Energy Council**

**Examination of the current test for
the regulation of gas pipelines**

October 17, 2016

Executive summary

PACIA, the voice of the Australian chemistry industry, is pleased to provide this submission into the Examination of the current test for the regulation of gas pipelines.

In summary, PACIA supports the investigation, analysis and findings of the thorough, independent and rigorous inquiries held by both the Australian Competition and Consumer Commission (ACCC) and the Australian Energy Market Commission (AEMC). The recommendations that both of these inquiries made formed the basis of the COAG Energy Council's comprehensive Gas Market Reform Package. PACIA is also supportive of this package and the areas identified for reform to bring about the Council's Gas Market Vision.

It is crucial to ensure that Australia's domestic gas market is globally competitive and investment ready. It will be important, therefore, to implement the Gas Market Reform Package in a timely manner to resolve the ongoing gas supply crisis.

Key points and recommendations

The domestic demand for gas is both as a non-substitutable feedstock and clean energy source for the chemicals, plastics and other advanced manufacturing sectors of the nation's economy. Both of these demand categories are key factors to help deliver the jobs and investment growth expectations envisioned by Commonwealth and State growth initiatives.

In order to focus and facilitate this required growth the Commonwealth Government, for example, has outlined its vision for a diverse and competitive economy with five Industry Growth Centres as part of its Industry Innovation and Competitiveness Agenda:

- Advanced Manufacturing;
- Food and Agribusiness;
- Medical Technologies and Pharmaceuticals;
- Mining Equipment, Technology and Services; and
- Oil, Gas and Energy Resources

The stark contrast between forecast loss of economic output, capability and skilled employment from key sectors of the economy set against the clearly identified need for strategic and focused growth highlights the urgency of the gas crisis in Australian manufacturing, and the need for urgent reforms.

The ability for these advanced manufacturing sectors to continue to add significant value to raw gas requires the policy focus and certainty set out in the COAG Energy Council's Gas Market Development Plan. Consistent with the COAG Energy Council Vision, PACIA's desired outcome is defined as:

“A domestic gas market that is deep in capacity, liquid in supply, competitive, transparent, informed and with good price discovery”.

If the Australian gas market were competitive and efficient, it would display the following features: large number of buyers and sellers; buyers and sellers having knowledge about the market including supply, demand and price; there would be no barriers to entry or exit; and no buyers or sellers would be able to distort price and supply through the use of market power.

This is far from the case. PACIA and its members provided a range of inputs and evidence to the ACCC and AEMC reports regarding their experiences in the marketplace. These included challenges in the supply and

price of gas and its carriage. Both the ACCC and AEMC investigations and analysis identified and highlighted a range of issues as a result of the evidence provided to them, with recommendations for needed market reform.

In terms of this new investigation into pipeline regulation and the test for its application and implementation, PACIA and its members support a more transparent and competitive market for the costs, and required information, associated with the transport of gas.

In addition to the information and evidence provided to date, members note that they have high gas volume plants using gas for its chemistry feedstock and process energy values where there can be sole or multiple operators providing pipeline carriage services. The use of asset value to determine a regulated price can cause issues such as those seen in other regulated markets (eg electricity transmission) where the assumed capital costs distorts the actual, true value of the service.

Therefore, PACIA endorses the findings and recommendations of the COAG Energy Council and its Gas Market Reform Package:

“A comprehensive domestic market reform package to lift competition, based on the ACCC and AEMC reports, meaning more gas at lower prices, including:

- better information for trading in the market
- creation of trading hubs in the North and South
- easier access to transport infrastructure
- better pricing information
- encouraging more gas supply and more gas suppliers, taking account of each jurisdiction's circumstances”

PACIA looks forward to continuing to support the objectives and work program of the COAG Energy Council in implementing these reforms in a timely manner to help resolve the current gas supply crisis.