

13 April 2017

Gas Market Reform Group
c/o Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Via email: gas@environment.gov.au

Re: "Gas Pipeline Information Disclosure and Arbitration Framework – Implementation Options Paper" for Non-Scheme Gas Pipelines

Dear Dr Vertigan,

Australian Gas Networks Limited (AGN) is Australia's leading natural gas distribution business. AGN owns approximately 23,000 kilometres of natural gas distribution pipelines (or networks) and 1,100 kilometres of transmission pipelines, serving 1.25 million customers in Victoria, South Australia, Queensland, New South Wales and the Northern Territory.

AGN welcomes the opportunity to make a submission to the Gas Market Reform Group (the GMRG) regarding the release of "*Gas Pipeline Information Disclosure and Arbitration Framework – Implementation Options Paper*" (the Options Paper).

We support the introduction of a standardised arbitration process for non-scheme pipelines in relation to access disputes, provided the costs of establishing an arbitration process provide greater benefits to customers. This reflects feedback received from our business customers that one of their key concerns is to ensure access to a competitive supply of natural gas over a contract period.

We own a small number of non-scheme gas pipelines that may be affected by the changes proposed by the GMRG¹. These comprise five small regional distribution networks and four small transmission pipelines, which tend to supply our small distribution networks. Attachment 1 to this response provides details of those distribution networks and transmission pipelines.

¹ The majority of AGN's gas networks and pipelines are covered (scheme) pipelines as defined by the Chapter 1, Part 1, Section 15 of the National Gas Law (NGL), and are therefore already subject to a legislated arbitration process (Chapter 6 of the NGL) .

Need for Exemptions

We support the Options Paper consideration of the need for exemptions from the proposed information disclosure and arbitration framework for small non-scheme distribution and transmission pipelines.

In respect of our non-scheme distribution networks, revocation of coverage was granted as it was recognized these networks are subject to significant countervailing market power by the virtue of the fact there is only one significant shipper (i.e. retailer) on each network. Further, these networks also face strong inter-fuel competition.

The granting of revocation of coverage also recognises the associated regulatory costs can be significant for a small network, these costs would therefore outweigh any countervailing benefit associated with coverage. The costs associated with the proposed information disclosure and arbitration framework can be viewed in a similar light to the regulatory costs when assessing their applicability to small non-scheme pipelines.

Our key concern is that some of the arbitration principles presented in the Options Paper will lead to more arbitration, less effective negotiations and therefore increased costs. We consider reforms should focus on providing more information to support effective negotiation, rather than establishing arbitration principles which in operation could mimic full economic regulation, which runs counter to the fact these pipelines have already had coverage revoked.

The arbitration process as proposed is likely to therefore result in process and cost outcomes that are more consistent with full regulation, where decisions have already been made that this is not warranted, including because the cost of that regulation is expected to exceed the likely benefits.

The Options Paper states that smaller regional distribution pipelines are:

1. likely to have significant market power; and
2. also have significantly fewer shippers or prospective shippers seeking access and less prospect of competition given limited gas consumption.

We do not agree with the first point. It is generally accepted that natural gas distribution networks are not in a position to exercise market power that they otherwise might have for the following reasons:

- natural gas is a fuel of choice;
- there are readily available substitutes for all natural gas applications, particularly from electricity and to a lesser extent liquefied petroleum gas (LPG);
- the cost of switching away from natural gas to either electricity or LPG are low;
- natural gas has no clear competitive advantage over electricity, such that gas businesses are required to compete to retain and attract new customer connections.

With regard to the second point, and as the paper notes, regional areas serviced by small distribution pipelines commonly have limited demand and are often not in a position to use their market power because they may only be negotiating with one shipper. In this scenario, both the distribution pipeline and the shipper have market power and the commercial negotiation should reflect this.

To this end, the AEMC noted in its Retail Competition Review that:

“Rivalry appears lower in the retail gas market [in South East Queensland] than the electricity market, with just two gas retailers competing. Switching rates are lower than for electricity, with fewer gas options to choose from. Additional retailers have not entered the gas market primarily due to the small size of the market, with low penetration of gas pipelines to households and small businesses and a low level of average gas demand. Competition is not expected to increase over the next few years for this reason, coupled with issues securing competitively priced gas in the wholesale market. (AEMC 2014, page v)”

This is common across our smaller gas distribution networks, where the small size of the market and difficulty in contracting required volumes of natural gas has limited retailer entry into these markets.

In respect of potential exemption thresholds, we consider that all non-scheme distribution pipelines should be exempt from the arbitration process. We also consider it appropriate that the small non-scheme transmission pipelines, which either have one shipper or are of a capacity of less than 30 TJ/day should also be exempt.

Information Disclosure Requirements

AGN supports disclosure of information to enable shippers to seek access to pipelines and consider the disclosure obligation described as Option 1 would be appropriate for small distribution networks and related transmission pipelines.

Option 1 provides key information required by the shipper when considering whether to seek access to a pipeline, but does not include information to assess the reasonableness of price. The parties involved in these negotiations are generally large energy retailers with wide experience on the reasonableness of prices for access to distribution networks.

It is noted that the GMRG preferred option, Option 2, which is Option 1 plus detailed financial reporting. We do not consider the additional information disclosure requirement of Option 2 is appropriate in respect of small non-scheme pipelines as we do not consider it would enhance the effectiveness of any negotiation between AGN and an access seeker.

Arbitration Framework

As described above, we support the GMRG's view that an exemption framework should be applied to small non-scheme distribution networks and believe it should also include small non-scheme transmission pipelines (which are more consistent with large supply mains than transmission pipelines).

As shown in Attachment 1, AGN owns several transmission pipelines which are small, have few shippers (generally only one shipper), with low volumes transported. They are also unable to supply the pipeline services that larger transmission pipelines, such as the Moomba to Sydney Pipeline, the Moomba to Adelaide Pipeline and the Eastern Gas Pipeline, are able to offer.

As noted, our small non-scheme transmission pipelines are akin to extensions and/or connections to our distribution networks (i.e. large distribution trunk mains), rather than large transmission pipelines which carry multiple shippers and provide multiple services. As described above, we consider the additional cost associated with the proposed arbitration process would not be outweighed by the benefits.

Further AGN considers that a proven track record for commercial negotiations is also important. We negotiate in good faith, and as a result, have never had a commercial negotiation referred for arbitration (under existing contract terms), referred to formal dispute resolution, or entered into legal proceedings.

In summary, AGN welcomes the introduction of standardised information and arbitration framework for non-scheme pipelines, but believes the GMRG needs to exempt small distribution networks and transmission pipelines as:

- they have an inability to exercise market power;
- they have a small number of shippers;
- the costs associated with application is likely to exceed the benefit for customers; and
- they are not seen as the intent of the current gas market reform.

Please contact either Dominic Eaton (08 8418 1121) or myself (08 8418 1129) if you would like to discuss the matters raised in this submission further.

Yours sincerely,



Craig de Laine

General Manager – Strategy and Regulation

Attachment 1 – Information on AGN non-scheme pipelines

Non-Scheme Distribution Networks

The majority of AGN's business relates to covered (scheme) distribution networks, with non-scheme distribution networks being those small schemes primarily in regional Australia. Table 1 below shows these networks, including the number of customers.

Table 1 – Non-Scheme Distribution Pipelines

Network	Location	Customers (approx.)
Wagga Wagga and surrounding towns	NSW	23,600
Murray Valley	NSW	5,300
Mildura	VIC	8,350
Wide Bay	QLD	1,200
Alice Springs	NT	1,100

Non-Scheme Transmission Pipelines

Our business also includes several small transmission pipelines, which are generally very small and are connected to our distribution networks. Table 2 provides further information on these transmission pipelines.

Table 2 – Non-Scheme Transmission Pipelines

Pipeline	Location	Shippers	Size mm	Capacity TJ/Day
Palm Valley to Alice Springs	NT	1	200	30
Riverland	SA	2	114	5.6
Wide Bay	QLD	1	114	3.0
Illabo to Tumut	NSW	3	219	17.6