

13 April 2017

Dr. Michael Vertigan AC
Chair
Gas Market Reform Group
c/o Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

[via email: gas@environment.gov.au]

Dear Dr Vertigan

**RE: INFORMATION DISCLOSURE AND ARBITRATION FRAMEWORK IMPLEMENTATION
OPTIONS PAPER**

The Australian Petroleum Production & Exploration Association (APPEA) is the peak national body representing the oil and gas exploration, development and production industry in Australia. The Association's 60 full members account for more than 95 per cent of Australia's petroleum production and most exploration. APPEA's members also include many companies providing services to the industry.

APPEA welcomes the opportunity to comment on the *Information Disclosure and Arbitration Framework Implementation* options paper (the options paper). APPEA's submission supplements feedback provided by members at the roundtable in Brisbane on Monday 3 April 2017 and should be read in conjunction with submissions provided by individual members.

APPEA welcomes the Council of Australian Governments Energy Council's support for removing barriers to developing onshore gas resources through such measures as reforms to pipeline regulation and information transparency in gas transportation. New gas supplies are essential for improving security of supply and putting downward pressure on gas prices.

Options Paper Comments

Information Disclosure

Q1: APPEA considers that Option 3 with budget and forecast data is the most appropriate level of disclosure.

Information disclosed should be based on forward financial projections, rather than actuals. The object is to determine a proxy forward pipeline tariff over the relevant contract period, which requires forward estimates.

Producers consider that information disclosed needs to be sufficient to calculate an asset base on which to undertake an appropriate calculation of revenue. APPEA does not believe that the information disclosed under Option 2 is sufficient for this purpose.

It is likely that pipeline operators would already have available information relating to Option 3 for use in forecast pricing analysis and decisions. With that in mind, APPEA does not consider the administrative costs of data collection and reporting to be burdensome.

There is some risk that changes to accounting standards may result in the relevant information no longer being reported. To mitigate this, the information disclosure option needs to specify the data requirements rather than the source, and should be supplemented by Guidelines that are clear and lead to a consistent set of information being disclosed.

Q2: While the base level of information proposed to be disclosed under Option 1 is required to understand the technical and commercial framework underpinning pipeline services, additional information is required to be disclosed to enable shippers to make an informed decision about whether to seek access. As indicated above, APPEA considers that Option 3 is can meet this requirement.

Further, APPEA considers that it would also be beneficial to understand re-nomination arrangements applying to existing and new shippers.

Q3: Requiring pipeline operators to provide shippers with information that could assist with their assessment of the reasonableness of the prices offered is essential for price discovery and determination of efficient pricing. Without this information it is not possible to calculate a cost reflective tariff and determine if price offers are competitively based.

Q4: As pipelines are monopoly service providers, it is imperative that sufficient information is made available to enable shippers to make an informed decision about whether to seek access. As per APPEA's response to Question 1, Option 3 should provide sufficient detail.

Q5: APPEA believes that while cost information is more relevant data in calculating an efficient pipeline tariff, price information would be helpful to enable sufficient benchmarking of offers.

Some of this information will be published as part of future reforms of pipeline capacity trading. It will also improve transparency and inform regulators and policy makers.

If this information is not published, transportation prices should be reported to an independent body (such as AEMO, AER or ACCC) to monitor pricing outcomes.

Q6: APPEA considers that shippers should be able to request anonymity if prices are published. Aggregated data is unlikely to provide meaningful information.

Pricing Principles

APPEA supports the pricing principles being based on the cost of service and a commercial return, with Option 3b being the preferred model. Basing the arbitration on comparable prices is problematic due to limited competition and common ownership of many pipelines in the east coast market.

The arbitration principles must facilitate fast and low cost arbitration. With that in mind, the principles need to be fairly prescription, narrowing down the range of issues the parties can argument around.

APPEA does not believe that Options 1 and 2 meet these objectives. Options 1 and 2 leave too many issues at the discretion of the Arbitrator to determine. These options have the potential to create very long and costly arbitrations, which will not incentivise small, low volume transportation negotiations. With the cost of arbitration potentially outweighing the benefits, such a framework will not provide the credible threat to pipelines as intended.

The pricing principles should also be sufficient to cover other services such as backhaul.

Arbitration Mechanism

APPEA supports the GMRG's suggestion to use Option 3 Conventional arbitration with additional procedural protections and partial transparency.

One area not mentioned in the Options Paper that is worth consideration by the GMRG is joint arbitration. For example, parties seeking to ship gas through multiple jurisdictions are likely to have to enter into transportation agreements with at least two transporters. If there are matters that need to go to arbitration on both pipelines it would be too lengthy (and costly) a process to consider these consecutively.

APPEA appreciates the opportunity to contribute to this aspect of the gas market reform process. Please contact Mr Adam Welch, Senior Policy Adviser, on 08 9426 7205 or awelch@appea.com.au should you or your staff wish to discuss any aspect of APPEA's comments.

Yours sincerely



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