

12 April 2017

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

To whom it may concern,

Submission to the Gas Pipeline Information Disclosure and Arbitration Framework Implementation Options Paper.

Preface

Chemistry Australia is pleased to provide this submission into the Gas Pipeline Information Disclosure and Arbitration Framework Implementation Options Paper.

Chemistry Australia (formerly the Plastics and Chemicals Industries Association) is the peak national body representing the business of chemistry in Australia. Chemistry Australia members include chemicals manufacturers, importers and distributors, logistics and supply chain partners, raw material suppliers, plastics fabricators and compounders, recyclers, research organisations and a number of leading Australian universities.

Our members and their broad customer base are major industrial, base load gas consumers for chemical feedstock and process energy use. Nationally chemistry feedstock alone accounts for 10% of domestic demand.

The Australian economy needs to be globally competitive and an attractive place to invest. The characteristics of the Australian gas transmission infrastructure, including its pipeline network, and the regulations that help manage its operation, need to stand up to global scrutiny in order to attract investment from companies seeking to add value to Australia's gas resources. The Australian domestic gas market must be globally competitive.

Proposals to improve the competitiveness of Australia's gas transmission infrastructure are welcome. It will be beneficial for changes to the Act, and their underpinning principles to be meaningfully focused on supporting these objectives.

Reforms must focus on the New Horizon

It will be important that reforms to the domestic gas market focus on what is the New Horizon for gas market participants. Reforms must be effective enough to assist gas users address the unprecedented supply and price pressure on their existing operations to remain viable, incentivise new capital investment, as well as reinvestment. This includes Australia being able to attract global investment funds for facilities that use gas for its chemical feedstock value as well as its heat, steam, power generation and other industrial process needs.

The \$118BN of damage forecast by Deloitte Access Economics¹ to the Australian manufacturing sector, and the loss of 15,000 jobs, as a result of the domestic market's transition to global export markets is happening here and now. The Australian domestic gas market needs urgent action to ensure that more gas from more gas suppliers flows into a more competitive and transparent market. This includes the broad range of gas transmission infrastructure elements, including its pipeline network.

Chemistry Australia'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".

Chemistry Australia welcomes the work by the Gas Market Reform Group in engaging with users to understand the type and extent of problems in relation to gas pipelines and the recommendations posed to deal with them.

In summary, Chemistry Australia supports the intent of the recommendations to enhance information disclosure and to implement a system of binding arbitration, should this be required.

It will, however, be critical that the recommendations materially improve the ability for gas consumers / shippers to operate in what is universally agreed to be a more dynamic and complex market place.

This includes providing a suitable framework for a wide variety of organisation types and sizes, many of whom may engage in the market differently in the future than in the past, and for which the current market was not designed to facilitate and support. The New Horizon being faced may see gas users broadening their roles and places in the market, using different access models and arrangements to deal with the complexities of access and security, price discovery and risk management.

It is also important the inquiry and its recommendations deal with market competition issues in all aspects of the gas supply infrastructure, distribution and processing networks. Whilst pipelines are part of this, they connect to hubs, compression and processing stations with similar levels of limited ownership able to exert market forces on buyers. Improving information asymmetry and arbitration is just as important for these infrastructure elements as for the pipe carriage elements.

Recommendations

- 1. The investigation into gas pipelines and its recommendations must include the new horizon needs of gas users. This should cover the whole range of gas transmission infrastructure and services, including its pipelines, that they need to deal with.**

The COAG Gas Market Development Plan recognises the new domestic market dynamics that are now in place and that all participants will need to deal with going forward. This includes a greater requirement to understand and have confidence in price discovery and risk management. These new horizon needs will be critical to participants being able to play an informed and competitive role in future gas markets.

¹ *Gas market transformations – economic consequences for the manufacturing sector* – Deloitte Access Economics, July, 2014.

Issues for inclusion in the range of transmission related services include:

- The full network for which a shipper requires access to
- Midstream infrastructure services such as compression station and hubs
- Processing at network nodes and processing plants
- Multiple pipelines, jurisdictions, and transfer points. This is a significant shift from previous, simple bi-lateral contracts

Financial reports alone will be inadequate to evaluate the most efficient application of the gas network. Load, service type, seasonality, maintenance and benchmark data is all equally important when evaluating new options.

2. Information disclosure arrangements

Chemistry Australia agrees that the type and extent of information disclosure should prevent outright, or if not then minimise, the need for an arbitrated outcome.

The information provided needs to meet the new horizon needs of all participants, with the potential to engage in the market in new ways. The new data needs, therefore, will need to exhibit a number of key characteristics to overcome the well documented asymmetry issues in the marketplace, including:

1. Dealing with asymmetries inherent where non-scheme pipelines operate as effective monopolies
2. Providing a basis for meaningful contracts between parties and not be a foil to run down the current-term contract clock that might result in shippers being wedged into unfavourable prices and / or terms. Selective, irrelevant or limited information may have the potential to game the market and wait out buyers by shifting unresolved contracts into expensive arbitration arrangements. Paradoxically, shippers may never know the cost / benefit break-even point of arbitration vs the cost of contract increases given they don't have access to adequate pricing information in the first place.
3. Assist companies continuing to use traditional bi-lateral contract methods where they choose with increased clarity regarding pricing and costs.
4. Assist companies needing to deal with new market dynamics impacting contract prices and terms including:
 - a. Single direction and multi-directional flows
 - b. Changes to seasonality considerations
 - c. Park and swap
 - d. Minimal swaps vs higher levels of swapping
 - e. The full network for which a shipper requires access to
 - f. Midstream infrastructure services such as compression station and hubs
 - g. Processing at network nodes and processing plants
 - h. Requirement for multiple pipelines, jurisdictions, and transfer points. This is a significant shift from previous, simple bi-lateral contracts

5. Assist companies or group of companies engaging in the market in new ways to deal with the increased complexities of access and security, price discovery and risk management. This may include:
 - a. companies or groups of companies taking on new roles or functions within the supply chain such as working with upstream explorers on new supplies and needing pipeline access to get this to market.
 - b. New types of aggregation models and options
6. Assist the needs of small, medium and larger buyers with varying degrees of market knowledge and experience.
7. Fairly and transparently deal with the complexities of pipeline asset pricing, particularly given the monopoly dynamic.
8. Deal with concerns about charging fees for phantom services, which may not be delivered

Chemistry Australia recommends that more information, properly provided, is needed to meet the needs of these users and the characteristics described.

To meet the needs of these characteristics, Option 5 involving base level, plus cost information, plus pricing information seems the best suited.

However, Chemistry Australia places heavy qualification on the new horizon needs of shippers operating in the real world being the driver for changes to the Act, pricing principles, mechanisms and other means of effect for the changes.

3. Arbitration mechanism

The arbitration mechanism should be the last resort for contract resolution, rather than an expected part of the contract process.

Option 3 of conventional arbitration with additional procedural protections and partial transparency seems the most likely model to deliver a balanced outcome.

Option 2b of the arbitration principles seems best fitted to the new needs of shippers.

Factors for consideration in the design and delivery of arbitration services:

- Arbiters will need access to a suitable level of market operational knowledge to consistently effect a trusted, binding outcome
- Parties should not be able to sell capacity or services under arbitration to third parties

4. Implementation and timing

The implementation and timing of the changes needs to take into consideration:

- The commencement date of the changes

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- A suitable transition period for the changes to come into effect, without creating room for anti-competitive behaviour for contracts in progress during the transition period itself

Chemistry Australia hopes these insights and recommendations on behalf of its members and their customers provide useful feedback on the proposed strengthening of Australia's gas transmission infrastructure access and use.

We would be pleased to provide or discuss any additional information you may require. Please feel free to contact me at: pbury@chemistryaustralia.org.au, or on 03 9611 5410.

Kind regards,



Peter Bury

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