

CSR Limited

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13 April 2017

Gas Market Reform Group
c/o Australian Energy Market Commission

Email:

Dear Sir/Madam,

CSR Limited Submission: Gas Pipeline Information Disclosure and Arbitration Framework

CSR Limited welcomes the opportunity to make a submission in response to the Implementation Options Paper.

In our view, Option 5 outlined in the paper is preferred for the following reasons:

1. As a manufacturer with a need for gas to reach the plant or facility, in most cases “whether” is to seek access to a pipeline service is in the context that if gas does not reach the plant or feasibility, the alternative is to close down the facility. Given the critical shortage of gas faced by users, if gas from a given source is available, the pipeline is a “must use” not a whether to use.
2. We consider Option 5 should be combined with forecasts of usage, and actual prices paid by date/time period for injection to withdrawal, should be freely available information published in a public forum.
3. With regards to the arbitration principles, we consider a modified Option 3b should apply. Arbitrators and pipelines should be required to consider both comparable pipeline services and actual costs as well as industry best practice with regard to costs, rate of return, and the pipeline’s excess return if any above WACC both forward looking and over time. Considering only the actual costs increases the risk of the pipeline operator inflating their operating costs (for example, by shifting costs from one period to another, arbitrarily allocating some types of capital spending to operating spending) to drive a higher return. The arbitrator should be obliged to seek, consider and take account of guidance on reasonable cost to operate a pipeline of that nature would be based on 'best practise', as well as principles in relation to returns excess to WACC.



4. Our preference is for maximum transparency in information available to the market. This should be a clear step in the plan to move towards a more liquid market for shipping / transport services.

Yours sincerely,



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1. Note on CSR Limited & Energy Use

CSR Limited is an ASX Listed Top 200 company with operations in Australia and New Zealand. The company has over 70 manufacturing and distribution facilities throughout Australia producing high quality innovative building products for use in the construction industry. The company employs over 4,000 people in Australia and made a significant contribution to the Australian economy totalling over \$2450m in 2016 in the form of taxes and royalties, wages, contractors, suppliers, capital investment and corporate social investment programs.

CSR is both a major consumer of energy and also a contributor to innovative energy efficiency solutions within Australia. The evolution of free and open energy markets and legislation and regulation supporting a competitive energy market will have a direct impact on our business and confidence to continue to invest in Australia.

The supply and pricing of gas is the major energy challenge facing CSR's businesses, and a significant challenge to remaining competitive in Australian end product markets. To this end, CSR has commissioned external research and conducted internal research and analysis to understand and quantify the potential impact on its future business should the business as usual situation in the current gas market place be allowed to continue.

CSR has seen gas prices for Australian businesses more than triple, and our market experience, as well as external analysis and AEMO outlook, shows there is currently insufficient gas to supply the Australian market reliably.

In CSR's view, the Australian gas market is in urgent need of reform to address:

- the development of open, transparent, and competitive markets in all areas of the the gas value chain, from resource supply through to the end market distribution network, with particular arrangements for pipelines:
 - Pricing published as outlined above reviewed at regular intervals by regulators for comparison against cost of capital returns to pipelines with submissions required by pipeline owners to demonstrate comparisons
 - Open trading market promoted and available – market liquidity improved by facilitating wide access to the pipeline, in standardised marketable parcels
 - No capacity “sitting” – ie no ‘buy & hold’ capacity purchasing by non-shippers, although broking or short term warehousing may be acceptable if it promotes liquidity
 - End-users / Customers who wish to arrange own access to pipelines should be freely and readily able to do so – pipeline owners should provide open & non-discriminatory access