12 April 2017

Zoe van der Lee
Assistant Director
Gas Policy Energy Division
Dept. of the Environment and Energy
Australian Government

Dear Ms. Lee

RE: Qenos submission to the Gas Market Reform Group's review of the Gas Pipeline Information Disclosure and Arbitration Framework – Implementations Options Paper

Qenos is Australia's sole producer and leading supplier of polyethylene. Qenos spends tens of millions of dollars on gas each year, which is an important fuel source used in its manufacturing facilities. Qenos also uses ethane, a co-product of natural gas, as a feedstock in the manufacture of polyethylene. Qenos as a member of the Chemistry Australia, Energy Users Association of Australia (EUAA) and Australian Industry Group (AIG) supports the key points and recommendations made in their separate submission to the GMRG

Qenos welcomes the GMRG's review into the Gas Pipeline Information Disclosure and Arbitration Framework in the Eastern Australian gas market, which, with the exception of competitive supply, covers all areas of the gas market vision.

Background – What Qenos is currently doing to meet our minimum gas supply requirements?

In 2014 Qenos realised that it would no longer be able to secure gas supply contracts that were cost effective in the traditional manner and sought innovative ways to meet our gas requirements.

Reasonably priced gas with contract terms of 2-5 years, offering volume flexibility were no longer available.

To improve our position against the outlook Qenos made the decision to become a gas market participant. In doing so Qenos decided to access the gas delivery network in ways that were unlikely to have been contemplated at the time of its design and construction. Qenos began to develop a portfolio gas supply strategy involving various Gas Sales Agreements (GSA) and Gas Transportation Agreements (GTA). With supply variability ceasing to become a feature of supply contracts, Qenos sought to develop alternate methods to manage usage/demand variation, which is unavoidable when operating a manufacturing facility.

As an example, to meet some of our 2017 gas supply requirements for our in Sydney operation, Qenos committed to wholesale GSAs ex- Longford, and GTAs through Victoria and NSW over multiple pipelines and hubs. In addition to these agreements Qenos became a participant in the Victorian DWGM and a range of additional services to park, store, swap and balance gas supply with usage.

While the structure outlined above is a significant departure from the traditional 3 year retail fixed priced contracts, we expect managing our future gas requirements will require a further step change. It is through this lens that Qenos believes any review of information disclosure requirements must be considered.

Qenos and other major industrial users who form a significant part of the gas usage base load in markets like NSW need support from all stakeholders (government, regulators, producers, pipeline operators and industry peak bodies) as we develop new solutions to address the shortfall in gas supply and availability and resultant escalation in prices. It is through such collaboration that the whole market will be able to develop liquidity and be deep in capacity.

New Horizon – Future requirements for transportation, load balancing and negotiations

Previously the market was balanced by aggregation services delivered by energy retailers such as AGL, TXU/EA, Origin etc. However, many of these have abandoned (or priced themselves at unworkable levels) the Commercial and Industrial sector thus reducing options available to large gas buyers.

To meet the gas needs for both fuel and feedstock gas industrial users have partnered with junior producers and developers to access gas **at** affordable prices. Qenos's experience has identified considerable challenges in delivery of these innovative supply solutions. In seeking to secure gas, users are required to take risks in exploration, development, shipping and storage that require the development of new governance considerations. Industrial users such as Qenos have less expertise and experience in operating in the gas market, geology or oil and gas reservoir development than the traditional participants.

Qenos' recommendations to improve negotiation efficiency and avoid information asymmetry and power imbalance in transportation negotiations

Qenos supports the GMRG review and implementation of improved information disclosure and an arbitration process. Measures which support industry's ability to navigate gas transportation arrangements are welcomed. Outlined below are several features that need consideration.

1. GMRG to consider application of improved information disclosure and arbitration framework beyond bilateral gas transport from one node to another on a single pipeline
2. Full price, costs and financial information disclosure provided – Option 5 of the options paper.
3. Broaden pipeline transmission to include transfer costs, processing at network nodes, processing plants, compression stations and hubs
4. Include greater disclosure into physical mechanisms required to transfer gas from one pipeline into another to enable full transfer from source to use (eg. Longford to customer's plant in say NSW or Queensland).
5. Include disclosure of *NET costs incurred in delivery of a service,* specifically whether a physical service will actually be delivered and performed.
6. Inclusion of expansion costs and options where pipeline at full capacity.

We set out more detail of these points below.

Qenos

Item 1

The Scope of the review must include the consideration of the whole network for which a shipper is seeking access too. This will often require multiple pipelines and transfer points.

Item 2

Price, costs and financial information is essential to remove the information asymmetry for new industrial participants when seeking to implement innovative gas supply and deliver solutions. Financial reports alone are inadequate to evaluate the most efficient application of the gas network. Load, service type, seasonality and benchmark data is all equally important when evaluating new options.

Item 3

A key element in understanding the total cost of ownership for a GTA is the cost incurred at nodes between discrete pipelines. These nodes include transfer points, gas processing and trading hubs. Some examples are outlined below;

- APA Wallumbilla hub
- GLNG Hubs
- SACB JV in Moomba
- Transfers through DWGM
- Storage facilities, eg. Iona

Information disclosure must apply to providers of these services.

Item 4

In seeking to develop new gas transportation arrangements, Qenos' experience is that there is a vacuum of information covering the services available and the physical barriers to move gas across a network that comprises multiple pipeline owners, hubs and interconnections. A greater level of technical information, including details on system configuration, ie. specifications, pipeline pressures, flow directions and connectivity, is essential to allow the establishment of new sources of gas being delivered to customers unable to achieve supply through conventional means.

Item 5

Similar to point 3, Qenos is concerned about pipeline operators charging fees for services that physically do not occur, "phantom services".

It is widely understood that some services being sought by shippers like Qenos (eg. swaps) will actually reduce operating costs or demand on the transport network. Alternatively some services may displace an existing requirement by the gas operator resulting in no net action taking place. Nevertheless with the current lack of real information the operator still charges full prices for these services. Charges for such services appear disproportionate to the marginal cost, even if the service is actually performed. One recent example saw quotes offered for a virtual movement across a processing plant at a cost equivalent to transportation of gas 600km along a pipeline.

In some cases the marginal cost can be negative whereas the tariff is still charged at full rates providing the pipeline owner with a windfall gain.

Item 6

Where new supply considerations are being evaluated costs of pipeline expansion to add additional capacity or to remove a physical pipeline constraint will contribute to growth in the infrastructure network. A pipeline owner can claim a pipeline is fully contracted and seek a significant increase in tariff to fund pipeline expansion or to remove physical constraints. The pipeline operators should be required to publish information on their costings in these circumstances in order to enable customers to make a decision as to the reasonableness of those charges and those costing should then be made public.

Arbitration process

Qenos broadly supports the recommendations outlined for both arbitration mechanisms (option 3) and arbitration principles (option 2b).

Qenos welcomes the introduction of greater transparency of this crucial element of the energy supply chain. Implementation of recommendations which consider the broad and evolving requirements of industrial users will be one of the various measures required to improve international competitiveness and maintain relevance in the future.

Yours Sincerely

Robert D'Alessandro

Head of Procurement and Supply

Qenos Pty Ltd
ABN 62 054 196 771
Phone +61 3 9258 7333
qenos.com

VICTORIA
471 Kororoit Creek Rd
Altona Victoria 3018
Australia

POSTAL
Private Mail Bag 3
Altona Victoria 3018
Australia

NSW
Gate 3 Denison St
Botany NSW 2019
Australia