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Dear Dr Vertigan

RE: Gas Pipeline Information Disclosure & Arbitration Framework Implementation Options Paper

There is a current shortage of affordable gas on Australia's east coast that if not addressed urgently will adversely impact industry, jobs and householders. All industry participants have an important role to play in understanding and responding to this shortage to ensure there is enough gas at an appropriate price point to meet Australia's needs into the future.

With this obligation in mind, Senex congratulates the COAG Energy Council (**Council**) on commissioning the Gas Market Reform Group (**GMRG**) to undertake subsequent work in response to your recommendations arising from the *Examination of the current test for the regulation of gas pipelines*.

Senex is a mid-cap oil and gas exploration company that is working hard to find and develop more gas volumes for supply into the east coast market. Our strategy is built on developing a cost leadership position that will allow us to supply marginal gas molecules to customers at a price the market can bear. In developing and executing this strategy, Senex continues to believe strongly that providing mechanisms to safeguard an appropriate sharing of risk and reward across the integrated energy supply chain will ultimately help the market to deliver the right outcome to gas consumers across Australia.

We welcome the opportunity to make a submission in response to the *Gas Pipeline Information Disclosure and Arbitration Framework Implementation Options Paper* you have released for public consultation.

Our comments in response to the framework options paper are outlined below.

Information Disclosure

Senex supports GMRG's recommended Option 2.

This option would require pipeline operators to disclose a base level of information that shippers require when considering whether to seek access to a pipeline. It would also require operators to disclose verified financial reports and demand information that shippers can use to assess the reasonableness of the price operators offer.

Subject to the form and content of the financial reporting guidelines to give effect to this option, Senex considers this initiative should result in sufficient information being disclosed to allow a potential shipper to estimate a reasonable cost-based tariff for the use of a particular pipeline. Given the nature of information being presented as historically based, we also believe this should not represent a significant cost or time impost on pipeline operators. Potential shippers should be able to evaluate whether a proposed tariff has a basis in historic cost, and allows negotiations and discussions to focus constructively on the validity of any incremental or forecast costs and capacity issues that may generate the necessity for a higher tariff into the future.

Senex believes, however, the successful implementation of Option 2 is dependent on the GMRG's final recommendations with regard to the content of the financial reporting guideline. In particular, Senex believes this guideline will need to:

- provide clear guidance on the appropriate asset valuation methodologies that pipeline operators must use, and sufficient information to understand the method employed on a particular pipeline. Being able to effectively understand and interpret the asset valuation methodology adopted by a pipeline operator will be fundamental to achieving the Council's objective of correcting the bargaining power imbalance currently favouring operators.

At a minimum, the disclosures regarding asset valuation must be clear on methodology and key assumptions, including:

- methodology of valuation (historic cost versus depreciated replacement cost versus 'fair' value)
 - fixed and variable annual operating costs, including by direct and corporate spend for the past five years
 - normal levels of sustaining capital spend
 - historic and forecast gas throughput and capacities – firm and non-firm
 - original construction costs and depreciation
 - other basic design parameters that may impact on valuation, and
 - cost of capital.
- allow for periodic review of and update to the guidelines themselves, particularly in the early phase of implementation to ensure the disclosure requirements are achieving the Council's objective of correcting the imbalance of bargaining power and are fit for purpose.
 - consider an appropriate mechanism for capturing pipelines in the future as the industry evolves. Senex considers it likely that as the industry matures an increasing emphasis will be placed on sharing the growing network of existing infrastructure to allow higher cost gas molecules to be brought economically to market.

Arbitration Mechanism

Senex supports GMRG's recommended Option 3.

This option would provide for conventional arbitration with additional procedural protections and partial transparency, and a credible threat of intervention and 'arbitrated' outcomes in the event commercial negotiations fail.

Where a shipper believes the arbitration outcome would make the project uneconomic, it is important shippers retain an option to not progress the project while acknowledging they are bound by the arbitrator's decision should the project proceed.

Senex also:

- endorses a panel of pre-approved and appropriately qualified and impartial arbitrators being established from which shippers and pipeline operators can agree an arbitrator;
- considers it important that the fact of arbitration between a shipper and pipeline operator be made public to ensure it can function as an appropriate incentive towards successful bilateral negotiations;
- agrees that it will be important in discouraging potential misuse of the arbitration process for the arbitrator to have the powers suggested by the GMRG to define the timelines and information to be provided as part of the arbitration process; and

- believes it appropriate for the arbitrator to work with the Australian Energy Regulator for technical support.

Arbitration (Pricing) Principles

Senex supports GMRG's recommended Option 2b.

This option would provide for pricing principles based on the actual cost of service provision supplemented by other principles.

Senex agrees that pricing principles should be clear and unambiguous to avoid costly and time consuming arbitration hearings. Such clarity would also increase the likelihood of parties reaching a commercial agreement without recourse to arbitration by ensuring both parties clearly understand the framework under which any arbitration would ultimately be assessed.

Senex agrees that pricing principles based on actual cost of service provisions are the most appropriate for the arbitration process. This basis ensures that pipeline operators preserve their right to an adequate return of and on capital without endorsing the recovery of 'super-profits' by virtue of the monopolistic nature of pipeline infrastructure in many parts of Australia.

Additional General Points

In addition to the specific points on each of the options outlined above, Senex encourages the GMRG to incorporate in its final framework recommendations directed with regard to:

- the appropriate trigger points that may exist for including any pipelines that are presently excluded from the scope of these reforms if market pressures begin to suggest a broader access regime is warranted; and
- adequately distinguishing between the responsibilities and accountabilities of pipeline owners and operators under the new reporting regime.

Should you have any questions in relation to this submission, in the first instance please contact Trevor Robertson, Government and Stakeholder Relations Manager (P: 0409 519 639).

Senex appreciates the opportunity to make this submission and looks forward to learning the GMRG's final recommendations.

Yours sincerely,



Ian Davies

Managing Director and
Chief Executive Officer