



**NSW Government Response
Legislative Assembly
State and Regional Development
Committee Report
Downstream Gas Supply and
Availability in NSW**

May 2015



The new state of business

In April 2013 the Government referred to the Legislative Assembly State and Regional Development Committee (the Committee) a request to undertake an Inquiry to examine downstream supply and availability of gas to NSW customers.

Recognising the importance of action as the eastern Australian gas market faces a period of significant change, the NSW Government released the NSW Gas Plan in November 2014. The Plan sets out a strategic framework to deliver best practice regulation of the gas industry while securing vital gas supplies for the State.

The *NSW Gas Plan* focusses on five key areas:

- Ensuring better science and information is available to deliver world's best practice regulation (adopting all of the Chief Scientist and Engineer's recommendations).
- Resetting gas exploration licences and adopting a Strategic Release Framework for the release of future coal seam gas exploration licences.
- Reforming the regulatory framework and building evidence based best practice standards (as recommended by the Chief Scientist and Engineer).
- Sharing the financial benefits of gas developments with local communities.
- Securing gas supplies for the households and businesses of NSW.

Further clarity about future gas supplies to NSW customers will be crucial for gas networks to make efficient investments to meet the future needs of domestic gas consumers.

The NSW downstream gas sector operates under a policy and regulatory framework that operates at both the State and national level. NSW regulation sets the technical and safety aspects required of the distributors it licences while national frameworks establish the pricing framework and rules for accessing/connecting to the network.

In the southern and eastern states, which include NSW, the national regime is set out in the National Gas Law. The objective of this regulatory framework is, as stated in the National Gas Objective, to "promote efficient investment in, and efficient operation and use of natural gas services for the long term interest of consumers of natural gas with respect to price, quality, safety, reliability and security of supply of natural gas".

The Council of Australian Governments (COAG) Energy Council is responsible for pursuing priority issues of national significance and key reforms in the energy and resources sectors. The COAG Energy Council provides a forum for collaboration on developing an integrated and coherent national energy policy. Ministers' statutory obligations under national energy laws are also core to the Council's work.

The NSW Government is taking an active role as part of the COAG Energy Council to improve outcomes for NSW gas consumers. A particular focus of the Government is to improve the information available to downstream consumers about the price and supply of gas. The Government is also working with the private sector, along with other jurisdictions, to explore options for investment in gas pipelines.

The Government's Response to this Report is written in the context of the current implementation of the *NSW Gas Plan* and ongoing work being progressed by the COAG Energy Council to secure reliable and affordable energy supplies for NSW households and businesses.

Recommendation 1

Gas for the Bush. The Committee recommends that the NSW Government considers establishing a funding scheme to support the expansion of gas networks to identified areas in regional NSW. The funding scheme should consider the feasibility of cost effective gas distribution alternatives, such as the CNG delivery solution, when developing projects.

Noted

This Government sees the safe and sustainable development of an onshore gas industry in this State as the priority to making supplies available to be delivered to NSW customers through the privately owned networks. The NSW Government is focussing on removing any unnecessary regulatory barriers to the expansion of the gas network while the private sector owners of the infrastructure assess investment decisions on the basis of market conditions.

The supply of gas in NSW is an issue the Government is addressing both through the national reforms of the COAG Energy Council's *Australian Gas Market Development Plan*¹ and the *NSW Gas Plan*. These plans will address the economic opportunities occurring in the rapidly transforming Australian gas market while addressing unnecessary regulatory barriers, improving the availability of factual information and community engagement.

The NSW Government has also been a driving force on examining options to improve the design of the national gas markets. The Australian Energy Market Commission (AEMC), at the request of the COAG Energy Council, commenced a review on gas market structures and pipeline transportation arrangements in February 2015. The Terms of Reference for the review require the AEMC to consider:

- The appropriate structure, type and number of facilitated markets on the east coast, including options to enhance transparency and price discovery, and reduce barriers to entry.
- Opportunities to improve effective risk management, including through liquid and competitive wholesale spot and forward markets which provide tools to price and hedge risk.
- Changes to strengthen signals and incentives for efficient access to, use of and investment in pipeline capacity.

Concurrently, the NSW Government is working to deliver more coordinated and efficient assessment and determination of proposed gas projects in NSW with the potential to make a strategic contribution to gas supply. Successful delivery of these projects will contribute to the development of a safe and sustainable onshore gas industry in this State.

The achievements of the Natural Gas Extension and the Energy for the Regions programs in Victoria is noted, and the Government will consider further the potential for any similar schemes in NSW that may deliver economic growth and create employment opportunities in regional areas.

¹ COAG's *Australian Gas Market Development Plan* sets the forward agenda for the next phase of gas market reform and development. The Plan was last reviewed in December 2014 and will be regularly updated. The Plan and further detail on COAG's vision, policy work streams and detailed actions can be viewed at <http://www.scer.gov.au/workstreams/energy-market-reform/gas-market-development/>.

Recommendation 2

The Committee recommends that the Minister for Resources and Energy undertakes a detailed analysis of the adequacy of existing transmission and distribution infrastructure to accommodate anticipated changes in the supply of, and demand for gas.

Support in Principle

The national laws governing gas and electricity markets, which the NSW Government collaborated on with other states and the Commonwealth to establish and oversee, requires that AEMO undertakes an annual review of the adequacy of gas supply and demand.

AEMO is also required to look at the ability of the gas transmission system infrastructure to accommodate anticipated changes in gas supply and demand. These studies are updated annually and used to inform the market of future infrastructure requirements to support private sector consideration of future investments.

At the same time the economic regulatory framework for the distribution businesses requires prudent use of, and return on, the assets of these businesses.

The Government supports AEMO continuing to undertake this detailed analysis for the national market, including NSW, and tracks these developments closely to ensure adequate infrastructure into the future for NSW customers.

Recommendation 3

The Committee recommends that the Minister for Resources and Energy and the Minister for Trade and Investment conduct a review of the regulatory and policy framework for the gas network industry, with the objective of removing unnecessary barriers to expanding networks and ensuring customer connection to gas.

Support in Principle

The NSW Government has been working with other Governments through the COAG Energy Council on a suite of reforms to accelerate the transformation of the gas market and to review the design, function and roles of facilitated market and transportation arrangements. Any regulatory or policy barriers identified during the course of these reforms and reviews as hindering the expansion of the gas network and customer connections will be raised through the COAG Energy Council policy process.

The NSW Government continues to support these reform objectives to ensure a supportive and nationally consistent investment and regulatory environment that responds to market signals.

The NSW Government is also committed to the COAG Energy Council's *Australian Gas Market Development Plan*, which sets the agenda for gas market development and reform. Concurrently the NSW Government is delivering a One-Stop Shop for environmental approvals that will simplify the process for businesses, lead to swifter decisions and improve Australia's investment climate while maintaining high environmental standards. NSW is also working to implement the harmonised Regulatory Framework for Natural Gas from Coal Seams to ensure robust, consistent and transparent regimes across Australia.

NSW is also committed to the *NSW Gas Plan* which sets a clear, strategic framework to deliver world's best practice regulation of the gas industry while securing vital gas supplies for the State.

A number of initiatives have been announced under the *NSW Gas Plan* that will assist in removing unnecessary barriers to expanding networks and ensuring customer connection to gas. These include:

- Entered into a Memorandum of Understanding with the Northern Territory Government to explore opportunities and options to develop a gas pipeline to link Alice Springs with the Eastern Australian gas market at Moomba
- Commitment to investigate opportunities to increase pipeline capacity from Victoria and South Australia.
- Designation of Strategic Energy Project status to the Narrabri and Gloucester projects.

Under the national regulatory framework, the Australian Energy Regulator (AER) applies the regulatory settings for non-speculative gas network expansions, while the commercial viability of any expansion is a decision for the proponent/customer. The AER is currently undertaking a review of the access arrangements for the Jemena Gas Networks (JGN) in NSW for the period 2015-2020 which will set the amount JGN can recover from its customers over that period. The proposals currently under consideration continue to

ensure customer connections to the gas network will require customer contributions reflective of the cost of the service.

Recommendation 4

The Committee recommends that NSW Trade & Investment develops a marketing strategy, in partnership with network operators and gas retailers, to promote the benefits of natural gas and to encourage consumer uptake of gas.

Noted

Communication strategies implemented by the Government are generally intended to inform the community of policy settings. Through the *NSW Gas Plan* the Government is committed to invest in better and more accessible data and information as the foundation for a respectful and open dialogue with the community.

The Government supports energy customers through the provision of independent information to enable customers to select the energy products, such as electricity of gas, that best suit their individual requirements. This will particularly occur in circumstances where there may be information gaps for consumers or in the community more broadly.

While the Government ensures the appropriate frameworks are in place to allow industry to develop the resources, these businesses are then best placed to promote their products. The Government believes the private sector owners and operators of the gas networks and retail businesses are appropriately incentivised to conduct their own marketing programs.

The Government notes the gas industry is working to promote a wider understanding of the source and potential development of gas resources in NSW through a media campaign.

Market reforms introduced through the National Energy Customer Framework (NECF) improve the customer experience by requiring energy distributors to provide greater information directly to customers including contact, contract, connection and customer rights information. This allows easier direct contact for customers and introduces obligations for expeditious responses to inquiries or complaints.

The major gas network owner in NSW has taken the further initiative of establishing a customer consultative group . Harmonisation of certain requirements, such as single retailer authorisations, have been introduced across participating jurisdictions to remove barriers to greater competition between retailers.

The NSW Government supports the sustainable development of the State's gas resources so that they may be available to be used in homes and businesses. Through the *NSW Gas Plan*, the Government is seeking to support consumers and industry by improving the information available about the potential impacts of coal seam gas activities.

Recommendation 5

The Committee recommends that the Minister for Trade and Investment considers developing an incentive scheme to promote identified regional areas as locations for large scale gas consumers, such as industrial gas users and gas fired power stations.

Noted

The Government believes that private investors need to locate their businesses in the most appropriate location to ensure the long-term commercial viability of their operations. The priority of the Government is to ensure that NSW remains an attractive local business environment for all businesses. As such, the Government will not be establishing a new incentive scheme. An important aspect of this is minimising unnecessary regulatory barriers and ensuring businesses are able to make their investment decisions on the basis of market conditions.

The Government will continue to ensure customers (both large scale and residential) have access to sufficient information to make the most appropriate and cost effective decisions. Individual customers need to pursue the best options available to them and Government will not presume to make decisions on behalf of gas consumers and network businesses by intervening to artificially alter incentives in the gas market.

NSW Trade & Investment will also continue to provide development support to businesses seeking to locate in regional areas. In facilitating the establishment of these businesses, NSW Trade & Investment will seek to maximise the broader regional benefits from proposals which can provide initial industrial gas base loads to support new gas network infrastructure in regional areas. NSW Trade & Investment provides assistance in navigating Government approval processes and network connections.

Through the Regional Industries Investment Fund (RIIF) the Government also provides facilitation services through its regional office network to help secure new projects with strong economic development outcomes in regional NSW. In some instances financial support may be provided for projects under the RIIF that meet the eligibility criteria.