

**Submission
No 42**

DOWNSTREAM GAS SUPPLY AND AVAILABILITY IN NSW

Organisation: Energy Retailers Association of Australia
Name: Mr Dave Lee
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21 June 2013

The Committee Manager
State and Regional Development Committee
Parliament House
Macquarie St
Sydney NSW 2000

Dear Sir/Madam,

RE: Downstream gas supply and availability in NSW Inquiry

The Energy Retailers Association of Australia (ERAA) welcomes the opportunity to provide comments on the *Downstream gas supply and availability in NSW Inquiry* (the Inquiry).

The ERAA represents the organisations providing electricity and gas to almost 10 million Australian households and businesses. Our member organisations are mostly privately owned, vary in size and operate in all areas within the national electricity market (NEM) and are the first point of contact for end use customers of both electricity and gas.

The gas market is an increasingly important sector in the Australian and NSW economy. Efficient gas markets are integral to ensuring gas supply continues to meet the needs of end use customers throughout the upcoming new era of gas use. The gas market is going through a period of major development and change, which is recognised by the range of Government reviews and industry projects currently underway in relation to this market. The ERAA does not believe the NSW gas market requires significant structural reforms.

Market developments

There has been a significant change in the economic environment in which gas is supplied on the east coast of Australia over recent times. Whereas movements in wholesale gas costs have been somewhat predictable in the past, this is set to change dramatically in the near future given the development of the Liquefied Natural Gas (LNG) export industry in Queensland. Wholesale gas costs are expected to increase as existing, lower cost conventional supply sources are depleted to meet increased demand and producers bring on additional higher cost, non-conventional supply sources. The increased production costs are expected to be reflected in future supply contracts. As the LNG market develops it is expected to become the price setting mechanism, with producers moving to 'netback pricing'.

There is significant uncertainty associated with impact of the LNG projects on the domestic wholesale gas market price including - but not limited to - the timing of projects and the likelihood of delays; gas reserves development; and global LNG market developments. As such there is no consensus as to the likely price outcomes with a wide range of prices being suggested by industry experts. Further, there is uncertainty about the future sources of gas supply. This uncertainty is particularly relevant for NSW given it imports around 95 per cent of its gas consumption and that the long term contracts that underpin the state's gas supply are rolling off through the second half of this decade. It is critical that retailers are able to adjust prices in a timely manner to reflect changes in underlying costs. To provide a stable investment environment during this period, it is essential that retail gas prices are deregulated.



Removing price regulation

Open, competitive energy markets free from distortions such as retail price regulation naturally encourage prices to be efficient through the development of market offers. Competition in retail energy markets, as in other sectors of the Australian economy, incentivises businesses to improve service, develop products that meet consumer needs and find ways to lower their costs and to pass these savings onto consumers. Price regulation is an oddity in the Australian economy as it doesn't apply to almost all other contestable goods and services such as food, fuel, telecommunications, insurance and housing. As such, removal of price regulation in NSW should be pursued as a priority.

Consumer protections are effective

The ERAA believes that the NSW downstream gas market is competitive enough to provide protection to customers. Our view has been recently confirmed by the Australian Energy Market Commission (AEMC). In their *Review of Competition in the Retail Electricity and Natural Gas Markets in New South Wales Draft Report*, the AEMC concluded that competition is effective in the NSW retail market, with the market providing efficient outcomes for consumers.¹ This view is also consistent with Independent Pricing and Regulatory Tribunal of NSW's (IPART) assessment that competition in the NSW retail gas market is now effective enough to provide sufficient protection to customers.² Instead of repeating the contents of these reports in this submission, the ERAA recommends they are utilised as key inputs to the Inquiry.

As noted by IPART, retail price regulation cannot protect customers from general financial stress.³ Much of the increase in energy prices over recent years has been due to higher cost factors outside retailers' control, and again IPART notes that price regulation does not protect customers from the price shocks associated with changes in regulatory and policy settings.⁴ Using retail price regulation to artificially suppress retail prices only delays an inevitable price increase in the future and can make increases worse than they otherwise might have been.

The NSW Government has announced that it will introduce the National Energy Customer Framework (NECF) in NSW on 1 July 2013. Whilst the introduction of NECF is not a precondition for price deregulation in NSW, it is important to note that the NECF was designed as a customer protection framework in a market with deregulated retail prices and provides additional protections to NSW customers that they do not currently have. Under the NECF retailers must publish notice of their standing offer prices one month in advance and provide customers with detailed information on prices, terms and conditions at the point of sale.

Regulation of transmission pipeline systems and distribution networks

The current regulatory arrangements aim to ensure increases to network tariffs paid by retailers and large customers relate to the revenues needed to cover efficient costs and provide a commercial return on capital, as determined by the Australian Energy Regulator (AER). In addition to costs, the regulation of conditions of access by the AER is equally important. Retailers and customers are able to participate in regulatory determination processes, ensuring that regulated monopolies and the AER are informed of consumer preferences. The AER's Better Regulation program is currently seeking to strengthen these arrangements so that customers' interests are better incorporated into regulatory pricing decisions. Similarly, the formation of a Consumer Challenge Panel will provide customers with the opportunity to advise the AER on issues that are important to them. The ERAA supports the Better Regulation program, and does not see the need for further intervention.

¹ AEMC 2013, *Review of Competition in the Retail Electricity and Natural Gas Markets in New South Wales Draft Report*, p.85

² IPART 2013, *Review of regulated retail prices and charges for gas final report June 2013*, p.1

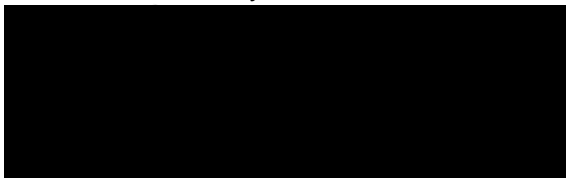
³ IPART (2012), *Review of regulated retail prices and charges for electricity 2013 to 2016 Electricity - Issues Paper*.

⁴ IPART (2012), *Review of regulated retail prices and charges for electricity 2013 to 2016 Electricity - Issues Paper*.

Gas network operators are bound by the National Gas Rules to only extend their network where it is economically feasible to do so. This requirement prevents network operators from extending the network and rolling its incremental costs into the asset base, via subsidies from existing customers. Should they wish, governments are able to provide grants to help contribute to the costs of extension to more remote and less densely populated areas. For example, the Victorian government funded regional network expansion in 2005/06 and is currently considering further grants to contribute to extensions in remote areas.

Should you wish to discuss the details of this submission, please contact me on [REDACTED] and I will be happy to facilitate such discussions with my member companies.

Yours sincerely,



Cameron O'Reilly
CEO
Energy Retailers Association of Australia