Submission
No 48

DOWNSTREAM GAS SUPPLY AND AVAILABILITY IN NSW

Organisation: Origin Energy Limited

Name: Mr Phil Moody

Position: Group Manager-Energy Markets Regulatory Development
Energy Risk Management

Date Received: 21/06/2013

21 June 2013

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

Dear Sir/Madam

INQUIRY INTO DOWNSTREAM GAS SUPPLY AND AVAILABILITY IN NEW SOUTH WALES (NSW)

Origin Energy Limited (Origin) welcomes the opportunity to comment on the State and Regional Development Committee's inquiry into downstream gas supply and availability in NSW.

Origin considers downstream gas arrangements are generally working effectively in NSW. The existing legal, regulatory and market frameworks are robust and aligned in promoting the National Gas Objective to "promote efficient investment in, and efficient operation and use of, natural gas services for the long term interests of consumers of natural gas with respect to price, quality, safety, reliability and security of supply of natural gas". There is, however, some scope for incremental improvements to the existing downstream gas arrangements.

Supply and demand outlook for NSW during the period of transition

Australia's east coast gas market is undergoing an important transitional period with exports of liquefied natural gas scheduled to commence in 2014. With annual demand expected to more than triple by 2017,[1] the changing landscape has precipitated an increased level of scrutiny of existing market arrangements. There are also those in the market expressing concern of possible impacts on the overall domestic supply and demand balance on the east coast. These concerns seem more heightened in NSW given it is reliant on gas imports from other states to meet the state's needs.

Through the period of change, Origin has confidence in the competitive gas market. While the supply and demand balance is likely to be tight, we believe there is sufficient flexibility and opportunity in the demand, supply and gas transport markets to allow the market to clear - nationally, and more specifically, in NSW.

The east coast energy market is a strongly interconnected system underpinned by robust market mechanisms. For example, NSW can import gas from the northern and southern states through three different interconnections - Moomba to Sydney Pipeline, NSW to Victoria Interconnect and Eastern Gas Pipeline. As the supply and demand balance tightens, this provides a signal to the market of the value of gas. In response to that signal, economics could precipitate a shift in demand whereby previous large gas users could become gas suppliers. We therefore consider there is sufficient opportunity and flexibility for the gas market to clear at a price that reflects the value of gas during this transitional period. We expect markets to work, with gas flowing to those who value it most.

[1] AEMC 2013, *Gas Market Scoping Study Terms of Reference*, May, p.1.

[redacted]

Full Retail Price Deregulation

Origin strongly supports the view that the NSW retail gas market ought to transition to full deregulation in order to further promote retail competition. With Victoria and South Australia fully deregulating energy prices, and NSW and Queensland deregulating prices for large customers using more than 100MWh of energy per annum, there is clear momentum for all state governments to move to full price deregulation. Competitive deregulated markets are more efficient and function to provide appropriate price signals to ensure security of supply while using competitive market forces to set prices at efficient levels. This is the best outcome for consumers.

Commencement of the National Energy Customer Framework

The National Energy Customer Framework (NECF) is a national customer protection framework for the retail sale of electricity and gas to residential and small business energy customers. A key benefit of the NECF is that it is expected to facilitate an increase in retail competition by reducing regulatory complexity and lowering barriers for energy retailers to enter into the market across participating states and territories. The NECF is scheduled to commence in NSW on 1 July 2013. Origin supports the commencement of the NECF in NSW, as well as in other states and territories.

A natural next step following the commencement of the NECF is to further standardise distribution networks' terms and conditions for access and streamline their business process. While some standardisation was achieved through the NECF processes to date, much was left up to networks to determine individually. Improvements in this area could further reduce complexity for retailers and promote competition, which are in the long term interest of consumers. For example, streamlining terms and conditions and business processes may assist retailers to complete new gas connections for customers in a more timely manner.

Regulation of Pipelines

The National Gas Law and National Gas Rules outline the regulatory framework for both transmission and distribution pipelines, particularly with regard to access. While the regulatory framework is essentially the same for both types of pipeline, there are a number of differences between these pipelines. This raises the question as to whether it is appropriate to use the same regulatory arrangements for both distribution and transmission networks.

In markets where two or more infrastructure providers are able to provide the same service or effectively act as substitutes, allowing competition between service providers is generally preferable to access regulation. This is more clearly the case for transmission pipelines. Distribution pipelines, however, are natural monopoly assets where there is limited to no alternative for distribution services in a network.

It is clear there is a continued need for access regulation for certain pipelines to ensure continued competition in downstream retail markets. Given the monopoly characteristics of distribution pipelines, coverage is important in ensuring fair access for retailers and end users.

For example, full coverage requires that the distribution service provider publish an Access Arrangement that has been approved by the Australian Energy Regulator (AER). The Access Arrangement outlines the base tariff and other non-price terms and conditions for access to a pipeline. As such, it ensures equality for those seeking access both in terms of their negotiations with the service provider and ability to compete with other access seekers. Removing coverage, and hence any Access Arrangement and regulatory oversight by the AER, has the potential to reduce transparency and certainty around the price and non-price terms and conditions for access. This puts those seeking access in a weaker position to negotiate with the service provider. As a result, competition is likely to be diminished as it would be more difficult to negotiate for terms and conditions for access that are in the best interest of consumers.

It may, therefore, be appropriate that the regulatory framework reflect a presumption in favour of coverage for distribution pipelines and that there would be a reasonably high threshold if there is any deviation from this.

Further information

Should you have any questions or would like to discuss this submission further, please contact Hannah Heath (Manager, Wholesale Regulatory Policy) on [redacted]

Yours sincerely,

[redacted]

Phil Moody
Group Manager - Energy Markets Regulatory Development
Energy Risk Management