Submission No 29

INQUIRY INTO THE SUPPLY AND COST OF GAS AND LIQUID FUELS IN NEW SOUTH WALES

Organisation: Australian Pipeline Industry Association

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The Director
Select Committee on the supply and cost of gas and liquid fuels in New South Wales
Parliament House
Macquarie St
Sydney NSW 2000

INQUIRY INTO THE SUPPLY AND COST OF GAS AND LIQUID FUELS IN NEW SOUTH WALES

Dear Committee Members

The Australian Pipeline Industry Association (APIA) welcomes the opportunity to provide information to the Select Committee on the supply and cost of gas and liquid fuels in New South Wales.

APIA is the peak body for Australia's gas transmission industry, representing the builders, owners and operators of Australia's gas transmission infrastructure. The two major gas transmission pipelines in NSW are the Moomba to Sydney Pipeline, owned by APA Group, and the Eastern Gas Pipeline, owned by Jemena. These two pipelines transport the majority of NSW's gas supply into NSW, from SA and VIC respectively, with the remainder either entering into NSW through the Victorian Interconnect or being produced in NSW.

In this submission APIA will seek address the matters raised in the Terms of Reference as they relate to the gas transmission industry and the gas market. APIA will not seek to repeat or summarise the existing gas market environment and issues, these have been well documented in the Federal Government's Eastern Australian Domestic Gas Market Study and Energy Green Paper.

RESPONSE TO THE TERMS OF REFERENCE

(a) the factors affecting the supply, demand and cost of natural gas and liquid fuels in New South Wales;

There are a number of points APIA would like to make regarding the factors affecting the supply, demand and cost of natural gas in NSW.

1. ***Transmission pipeline capacity is not a substitute for gas supply.***

As noted above, gas transmission pipelines transport the majority of gas into NSW. It can be tempting to consider these pipelines as the source of gas supply. This is not the case. The gas basins of SA and VIC are the sources of gas transported into NSW. A gas pipeline expansion will not increase the amount of gas that is supplied unless there are corresponding gas supply agreements that will bring additional gas into the pipeline.

2. ***Existing capacity is sufficient to meet current demand.***

APIA would like to bring to the Committee's attention the existing capacity of gas transmission infrastructure supplying NSW and highlight its adequacy for current gas demand.

The current capacity level of transmission pipeline systems is more than adequate to meet the current and future needs of NSW gas demand. The current combined capacity of the three pipelines 'importing' gas into NSW is approximately 800TJ/day. This compares favourably to the current winter peak day demand of around 600TJ/day.

3. ***The gas transmission industry is and will continue to respond to the changing needs of its customers***

It is acknowledged that gas flows and usage will change over time. This is particularly true in the current environment in the Eastern Australian Gas Market, where the development of the LNG export industry in Queensland is driving structural change and creating a new source of gas demand that is more than tripling East Coast gas demand.

The gas transmission industry is responding to change. The Victorian Interconnect is expanding to increase capacity to transport gas into NSW from Victoria. The Eastern Gas Pipeline is actively exploring expansion opportunities. APIA would like to draw to the Committee's attention the realities of investment practice of the gas transmission industry.

Pipeline infrastructure is built and expanded to meet the requirements of customers, it is rarely built speculatively. By building to meet the current requirements of customers, pipeline investors can efficiently allocate capital, attract low-cost debt, which is reflected in the tariffs that negotiated with customers.

An appropriate phrase to describe pipeline investment is 'just-in-time', pipelines are built to meet demand as it grows, not in anticipation of growth. The primary reasons for the 'just-in-time' investment model is the nature of gas demand in Australia. Firstly, the vast majority of gas demand on major pipelines in Australia is driven by large industrial facilities and gas power stations. The loads of these facilities are fairly static and do not increase with time unless the facility expands or a new facility is built. If such facility expansions occur, the pipeline will be expanded to meet the new demand.

Secondly, the quantum of gas demand in Australia is relative low. Any particular pipeline serves a small number of major customers. Almost all pipelines in Australia have fewer than 10 customers. An expansion of a single facility or building of a new facility can significantly increase demand on a single pipeline. In the absence of such a development, there is little growth that needs to be accounted for.

The needs of residential customers, which account for only 17% of gas demand in Eastern Australia, are generally accepted to grow in line with population growth, currently around 2% in Australia. For gas transmission pipelines, this is almost negligible. A 2% annual growth on 17% of pipeline throughput is 0.34% annual increase in throughput due to population growth. This is easily managed.

The changes underway in Eastern Australian gas markets are seeing an increasing amount of gas flowing from the Cooper Basin in South Australia into Queensland and the LNG facilities in Gladstone. It is reasonable to anticipate that gas users in NSW will respond by increasing the amount of gas sourced from Victoria (and within NSW). As the supply contracts are executed to achieve this, the gas transmission industry will work with its customers to transport this gas to its destination.

Most recently, the gas transmission industry has responded to the concerns around capacity utilisation and trading by:

- working with Government and other stakeholders to develop viable, low-cost proposals for enhanced capacity trading, such as the publishing of forward spare capacity; and
- implementing industry-led solutions to facilitate increased trading and reduce the transaction costs of trading. The operational capacity transfer service was developed in co-operation across pipeline companies to ensure consistency. It has been available on pipelines around Wallumbilla since commencement of the Gas Supply

Hub and is being implemented on the majority of other transmission pipelines by the first half of 2015.

These initiatives will assist pipeline customers and large gas users in managing gas supply portfolios in the increasing challenging wholesale gas market.

4. Gas transmission costs are not contributing to price increases

The base tariffs charged by the major pipelines into NSW are publically known and published by their respective owners on their websites. These tariffs comprise around 20% of the (historical) cost of gas to large users and less than 5% of the cost of gas to residential and commercial users. The difference is accounted for through the costs of the distribution network, large users typically bypass distribution networks and connect directly to transmission pipelines.

Importantly, these tariffs have remained relatively constant in relation to CPI and inflation and are not contributing to the reported doubling (or tripling) of wholesale gas prices ion Eastern Australia.

(b) the impact of tight supply and increasing cost of natural gas and liquid fuels on New South Wales consumers, including manufacturing, agriculture, energy production, small business, public services and household consumers;

The impacts on NSW consumers are best presented by NSW consumers and organisations representing them.

It should be noted that the NSW gas transmission industry derives the entirity of its revenue by providing transportation and associated services to NSW gas consumers. The industry's investments in NSW transmission pipelines cannot be redirected elsewhere, a pipeline cannot be relocated. The health and viability of the NSW gas market and its consumers are directly relevant to the NSW gas transmission industry and APIA advocates for a strong and growing gas market across Australia.

(c) the commercial conduct of gas producers and the operation of the international and domestic gas markets;

APIA cannot comment on the commercial conduct of gas producers.

(d) the adequacy of Commonwealth and State cooperation in gas market regulation;

APIA considers the existing regulatory framework set out under the National Gas Law and Rules is reasonably effective and superior to the previous state based arrangements. In particular, the Australian Energy Market Commission has established a solid track record of effective rule making and APIA would like to see the AEMC take a larger role in gas policy advice and market reform scoping. APIA also supports the CoAG Energy Council flagged 2015 review of gas market governance arrangements.

With regard to Commonwealth and State cooperation in gas market regulation, there are three comments APIA offers the Committee:

1. The process to achieve agreement between the Commonwealth and States on policy reform priorities and initiatives tends to move slowly. This appears to be due the entrenched views of some players and the difficulties inherent in making decisions via committee.
2. The regulation and oversight of gas exploration and production is completely the domain of each state and interests of the state seem to take priority over the interests of the interconnected Eastern Australian gas market.
3. The differing market frameworks between Victoria and other Eastern States create a further tension.

(e) the possible regulatory responses to protect New South Wales gas consumers from adverse market fluctuations and failures;

APIA does not support regulatory intervention in gas markets unless there is a clear market failure that needs addressing. APIA supports a national policy reform process that focusses on increasing gas supply. In particular, a focus on improving competition in upstream gas markets should encourage an increase in gas supply responding to high price signals and will provide gas consumers across Australia with greater flexibility and transparency when managing gas supply arrangements.

There are three long-standing issues potentially affecting competition in the upstream gas sector:

- Access to upstream gas infrastructure;
- The continuing practice of joint marketing in the wholesale gas market; and
- Barriers to competition arising from petroleum tenement management.

APIA's view on this matter is well documented, most recently in our submission to the Federal Government's Energy Green Paper in November 2015.

Action to address the current regulatory restraints on gas exploration and production in NSW and VIC will also help increase gas supply.

(f) the impact of closures of liquid fuel refineries and storages in New South Wales;
APIA has not comment to make on this matter.

(g) any other related matter.
APIA has no other matters to add.

If you would any further information on the above topics, please contact me at

Yours sincerely

STEVE DAVIES
National Policy Manager