

Senate Standing Committee on Economics
Inquiry into Australia's Oil and Gas Reserves
ANSWERS TO QUESTIONS ON NOTICE

Public hearing held on 28 February 2020

Department/Agency: Australian Competition and Consumer Commission

Topic: Pricing metrics for the Australian east coast gas market

Date: 28 February 2020

Question:

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Senator WHISH-WILSON: Could the ACCC provide to the committee, on notice, a breakdown of the different pricing arrangements in terms of the markets. To be honest, I haven't looked at forward markets for many years myself. But what kind of pricing metrics do they use and how can they get the data from the companies directly in terms of their contractual arrangements? I know they're probably not going to be able to share that with us, but what would be useful pricing benchmarks for us to look at? I'd be interested to look at how domestic prices correlate with, for example, spot or forward markets where we are selling gas and LNG. But perhaps we could get that on notice. That would be quite useful to look at.

Answer:

The ACCC has reported on a range of pricing metrics over the course of the Gas Inquiry 2017-25, outlined below. With the exception of reporting on LNG netback prices and short term trading markets, all metrics are based on information obtained from gas producers and retailers using the ACCC's compulsory information gathering powers under Part VIIA of the *Competition and Consumer Act 2010*.

The majority of gas demand in the East Coast Gas Market is met through long-term bilateral Gas Supply Agreements (GSAs). The AER in its 'Wholesale Markets Quarterly — Q3 2019' report noted that trading activity through gas spot markets for the period accounted for 13.6 per cent of total demand across the east coast.

Offers and bids price reporting

The ACCC reports on offers made and bids received by gas suppliers in the east coast. This includes offers made to and received from gas retailers, gas producers, commercial and industrial (G&I) gas users and Gas Powered Generators (GPG).

LNG netback price comparison

The ACCC compares monthly quantity-weighted averages of offers made by suppliers to LNG netback prices at Wallumbilla (export parity prices), which reflect the opportunity cost to gas suppliers of supplying the domestic market rather than export markets.

LNG netback price series

In October 2018, the ACCC commenced publication of the LNG netback price series on the ACCC website. The LNG netback price is calculated by subtracting ('netting back') incremental costs from LNG spot prices and, as noted above, represents the opportunity cost to gas suppliers of supplying domestic gas users at the expense of exporting LNG.

This series is published on the ACCC's website twice per month, and reports on historical and forward LNG netback prices (which are based on prices observed in LNG spot futures markets).

Prices agreed under Gas Supply Agreements

The ACCC reports on prices agreed to under recently-executed GSAs.

Prices in short-term trading markets

In addition to reporting on longer-term offers/bids and GSAs, the ACCC also reports on prices in short-term trading markets (STTMs) — information on STTMs is also published on AEMO's Bulletin Board and in regular reporting by the Australian Energy Regulator.

Department/Agency: Australian Competition and Consumer Commission
Topic: Accuracy of gas price forecasts by commercial and industrial users
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Question:

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Senator PATRICK: Switching to some comments that have been made by Mr Sims in relation to companies that have shut down—Claypave have gone into liquidation, there was the closure of Kimberly-Clark in Western Sydney and Norske Skog is intending to dispose of its mill in Albury—have you looked at those particular cases and looked at, for example, the forecasts in feed costs for gas from those companies versus the actual in feed costs?

Answer:

The ACCC, in its Gas Inquiry 2017-2025 January 2020 interim report to the Treasurer, reported the closures of RemaPak and Claypave. The basis for this reporting and the role gas prices played in the viability of these two businesses was based on publically available information. Both businesses publicly reported that gas costs were one of a number of factors leading to their closures.

Some commercial and industrial gas users have voluntarily shared commercially sensitive information with the ACCC over the course of the ACCC's Gas Inquiry. This has at times included some details of the profitability of a business, costs, market sensitive pricing information, future financial and commercial plans and business strategies. This has been high level information and has not included the accuracy of a business's input cost forecasts.

Department/Agency: Australian Competition and Consumer Commission
Topic: ACCC recommendations for East Coast Gas Market
Date: 28 February 2020

Question:

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Senator PATRICK: That would be appreciated. I've only got one more question, but it's an important one. I ask this noting that you haven't made a submission, and you might want to take this on notice. You are clearly looking at the gas market, and the terms of reference of this committee say that our purpose is to look at the 'arrangements used by other countries to maximise the benefit to the public of national oil and gas reserves'. Has the ACCC looked at other jurisdictions that perhaps are working well or working poorly? Could it provide this committee with some advice or point us to some research or give us some understanding as to how other countries are doing well or poorly in their gas markets?

Answer:

The ACCC's Gas Inquiry 2017-25 has had regard to information from a variety of sources including the regulatory setting in other jurisdictions. In April 2016, the ACCC made thirteen recommendations at the conclusion of its East Coast Gas Inquiry 2015 (see <https://www.accc.gov.au/regulated-infrastructure/energy/east-coast-gas-inquiry-2015/report>). The recommendations were in relation to gas supply, gas transportation and market operation and transparency.

A key recommendation from the ACCC's 2015 East Coast Gas Inquiry, which the ACCC has repeated over the course of its current 2017-2025 Gas Inquiry, is that Governments should consider

adopting regulatory regimes to manage the risks of individual gas supply projects on a case by case basis rather than using blanket moratoria.

The ACCC has also made the following recommendations in its current Gas Inquiry 2017-2025:

1. ACCC-GMRG joint recommendations: Measures to improve the transparency of the gas market, December 2018

These recommendations were developed jointly with the Gas Market Reform Group (GMRG) and relate to the quality and availability of information on:

- reserves and resources, contracted reserves and other indicators of upstream activities
- infrastructure availability and developments
- wholesale gas prices, retail gas prices and the prices payable for infrastructure services (i.e. pipeline, compression and storage services)
- LNG shipments and prices.

See <https://www.accc.gov.au/regulated-infrastructure/energy/gas-inquiry-2017-2025/transparency-recommendations>

2. ACCC, Further transparency measures, June 2019

These recommendations were made prior to the Government's decision to extend the ACCC's Gas Inquiry to the end of 2025 and provide further detail in respect of the ACCC-GMRG December 2018 recommendations. These include:

- measures to improve gas price transparency
- a framework for the consistent reporting of gas reserves and resources
- recommendations on the adequacy of the weighted average prices published by non-scheme pipeline operators under Part 23 of the National Gas Rules, and whether this metric should be retained and/or refined.

See <https://www.accc.gov.au/regulated-infrastructure/energy/gas-inquiry-2017-2025/further-transparency-recommendations>

3. ACCC, Gas Inquiry 2017-2020, Interim Report, July 2020

This report includes a detailed review of reforms to gas pipelines, introduced in Part 23 of the National Gas Rules. These reforms were introduced in 2017 to address issues identified in the ACCC's 2015 East Coast Gas Inquiry.

The report identified significant concerns with some information published by pipeline operators, including instances where errors had been made and others which had the effect of overstating a pipeline operator's costs and asset values.

The report made 14 recommendations to improve the Part 23 information disclosure and arbitration framework through changes to the National Gas Rules and the AER's reporting guidelines.

See <https://www.accc.gov.au/regulated-infrastructure/energy/gas-inquiry-2017-2025/july-2019-interim-report>

4. ACCC, Gas Inquiry 2017-2025, Interim Report, January 2020

This report includes a review of the operation of the capacity trading platform (CTP) and day-ahead auction of contracted but unused capacity (DAA) implemented on 1 March 2019.

The report recommended that the cost recovery provisions be examined, either as part of the Australian Energy Market Commission's upcoming liquidity review, or the COAG Energy Council's 2021 post implementation review of the reforms.

See <https://www.accc.gov.au/regulated-infrastructure/energy/gas-inquiry-2017-2025/january-2020-interim-report>