

Coalition Senators' Minority Report

The Coalition members of the committee, while philosophically subscribing to the concept of the desirability of competition in markets producing the best outcome for consumers, are of the opinion that the special features of the WA gas market at this stage of its development mean that requiring the members of the North West Shelf Joint Venture separately market gas would not necessarily result in the desired outcome of competition driven price reduction.

In evidence given to the committee the WA domestic gas market was described as being small and immature. The committee was informed that there were about 30 purchasers in WA for domestic gas largely supplied by two producers namely the North West Shelf Joint Venture and Apache for a single gas pipeline – Dampier to Bunbury.

In their submission to the economics committee the North West Shelf Joint Venture explained that:

The Western Australian domestic gas market currently operates primarily as a 'contract' or 'project' market, where gas project investment, development and production is undertaken to meet specific, and often large and long-term, contractual obligations with customers (most of whom themselves require supply security to underpin their downstream investments).¹

The submission goes on to say that:

In the Incremental Pipeline Gas Joint Venture (IPGJV) 1998 determination, the ACCC stated 'while it is impossible to be prescriptive about exactly what market features need to develop before separate marketing will become viable in Western Australia, the greater the number of the following list of market developments that are introduced, the greater the likelihood that separate marketing will be viable:

- a significant increase in the number of customers,
- entry of new competitive suppliers,
- additional transportation options,
- storage,
- the entry of brokers and aggregators,
- the creation of a gas-related financial market, and
- development of significant, short-term and spot markets.'

Comprehensive industry and market analysis undertaken by the DGJV and the IPGJV in 2005 and 2007 (provided to the ACCC on a confidential basis) together with other major government and expert studies confirm that

1 North West Shelf Venture, *Submission 3*, p. 3.

the relevant features of the Western Australian gas market remain essentially unchanged since 1998. The current Western Australian market fundamentals can be summarised as:

- a small number of market participants,
- concentration of supply and demand,
- prominence of long term supply and transportation contracts,
- lack of transportation and storage flexibility / capability,
- lack of market intermediaries and financial instruments, and
- no substantial structure or mechanism in the market through which short term sales occur.²

The Committee was informed that separate marketing has produced competitive pricing in large markets such as the US and European market where there are a large number of suppliers, a choice of modes of transport and a well established gas market. It was noted that the Eastern Australian gas system has more of the features considered to be desirable precursors to separate marketing operations than WA.

There was discussion regarding the implications of the ACCC having withdrawn the existing authorisation for a joint selling arrangement for the North West Shelf Joint Venture. The Coalition Senators noted that Freehills, which represented the NWSJV at the ACCC inquiry leading to the withdrawal of the authorisation (as is said in Chapter 1 of the Chair's report) had drawn attention to the fact that in 2007 the Federal Government acted to enhance protection for joint ventures under the *Trade Practices Act* and added that joint venture activity, particularly when it is related to development and operation of large scale infrastructure is pro-competitive.

Given the high dependence of WA industry on stability of the overall gas supply system the Coalition Senators are of the opinion that any change to the WA domestic gas marketing system needs very comprehensive evaluation of all relevant factors before any decisions are made.

Senator Alan Eggleston

David Bushby

Barnaby Joyce

Deputy Chair

2 North West Shelf Venture, *Submission 3*, pp 3-4, citing North West Shelf Project, Authorisation No A90624, 29 July 1998, pp 47-8.