



CHAMBER OF COMMERCE AND INDUSTRY
WESTERN AUSTRALIA

13 October 2008

The Secretary
Senate Standing Committee on Economics
PO Box 6100
Parliament House
CANBERRA ACT 2600

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Dear Secretary

Inquiry into the Joint Marketing Arrangements on the North West Shelf

The Chamber of Commerce and Industry of Western Australia (CCI) welcomes the opportunity to provide a submission to the Senate Standing Committee on Economics regarding its inquiry into the joint marketing arrangements on the North West Shelf project and their impact on competition in the upstream gas market and on prices paid by consumers.

About CCI

CCI is the leading business association in Western Australia. It is the second largest organisation of its kind in Australia with a membership of over 5,000 organisations in all sectors including manufacturing, resources, agriculture, transport, communications, retailing, hospitality, building and construction, community services and finance.

Most members are private sector businesses but CCI also represents firms in the not-for-profit and government sectors. About 80 percent of members are small businesses, and members are located in all geographical regions of Western Australia. Some 100 business associations are affiliated with CCI, expanding the organisation's representative coverage to more than 10,000 enterprises.

Gas Market in Western Australia

In May 2007, CCI released a Discussion Paper, '*Meeting the Future Gas Needs of Western Australia*' (enclosed), which considered a broad range of issues in relation to the Western Australian gas market, including exploration, resource development, market characteristics and the role of Government. The paper also included a significant review of the joint marketing arrangements for gas.

Consumption of natural gas in Western Australia has increased by an average of 6.2 percent per annum between 1986-87 and 2004-05. In the intervening period, domestic demand for natural gas has continued to grow, and supplies of domestic gas are now considered very tight.

In the past five years North West Shelf Gas has supplied approximately 65 percent of Western Australia's total domestic gas requirements. It also controls approximately 90 percent of the State's developed gas reserves.

Gas is a key input for the State's key manufacturing, electricity generation and mining industries, which together consume up to 90 percent of the State's natural gas supplies each year. In turn, this volume of industry consumption is concentrated amongst just five major users.

North West Shelf Gas Joint Venture Marketing Arrangements

The joint marketing arrangement undertaken by the North West Shelf Gas joint venture has been identified as an issue that reduces competition in the supply of gas to the domestic market. CCI considers it to be the role of the Australian Competition and Consumer Commission (ACCC) to determine whether it is practically feasible for separate marketing to occur rather than joint marketing, and whether separate marketing would result in benefits for consumers.

CCI notes that on 5 March 2008, the ACCC revoked its Authorisation with respect to joint marketing arrangements by the North West Shelf Gas joint venturers. Furthermore, CCI notes that the ACCC received no objections to the proposed revocation.

CCI considers that if joint marketing arrangements are adversely impacting upon competition in the supply of gas to the domestic market, then this should be tested by the ACCC. It is understood that the ACCC will continue to monitor the marketing arrangements of North West Shelf Gas as part of its regular program of on-going market surveillance. CCI believes such monitoring is appropriate and that the ACCC is best-placed to make such determinations regarding joint marketing and its effects on the marketplace.

Domestic Gas Supply and Pricing

CCI believes that Western Australia faces inherent energy security issues as a result of its heavy reliance on gas supplied from North West Shelf Gas as a primary fuel for electricity generation. Multiple alternative energy sources would assist any response to supply shortages affecting particular energy sources, while also providing downward pressure on pricing for end-users.

The most flexible and efficient electricity supply system is likely to include a range of technologies, each economically meeting the portion of the system to which it is best suited. We recommend that Government considers policies to encourage the development of a more diverse primary fuel base.

While CCI contends that future gas projects should only proceed if commercially viable, the aforementioned CCI Discussion Paper calls on Government (both State and Commonwealth) to reform the retention lease process, approvals process, taxation framework and to provide infrastructure support to bring new supply to market.

These measures could facilitate development of gas resources and additional gas production facilities. An increase in the number of gas production facilities, operating in addition to North West Shelf Gas, would enhance security by increasing diversity of supply. It would mitigate the

supply impacts of both unscheduled events and scheduled supply interruptions. An increase in the number of gas production facilities could also increase domestic gas supplies by encouraging the entry of additional market participants.

CCI recommends that Government continue to pursue policies that encourage onshore gas exploration and development of gas fields in relative proximity to the Perth metropolitan region. This could also lessen the State's dependence on the gas produced by the North West Shelf Gas facility.

State Energy Strategy

The recent and ongoing natural gas supply disruption affecting Western Australia, caused by a failure of a single processing facility at Varanus Island, highlights the State's lack of diversity in energy supply. It also emphasises the overall vulnerability of the system to unforeseen events.

CCI strongly recommends that the State Government should develop an overarching State Energy Strategy that provides policy direction regarding the management and development of the State's energy resources, energy production, security and supply. CCI believes an effective policy framework will encourage investment in the energy sector, improve supply and encourage competitive pricing to the benefit of consumers.

Conclusion

It is critical to ensure that industry has access to sufficient energy supplies to ensure sustainable State growth and that reliable and affordable gas supply is available..

CCI's Senior Adviser, Industry Policy, Andrew Canion is available to provide further information and can be contacted on (08) 9365 7688 or email andrew.canion@cciwa.com.

Yours sincerely,



Trevor Lovelle
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(Enclosed)