

## OPTIONS TO ADVANCE THE EAST COAST GAS MARKET CONSULTATION ON THE WALLUMBILLA GAS SUPPLY HUB & PIPELINE CAPACITY TRADING FRAMEWORK

The Energy Users' Association of Australia (EUAA) is the peak body representing Australian commercial and industrial energy users. Our membership covers a broad cross section of the Australian economy including significant retail, manufacturing, building materials and food processing industries. Combined our members employ over 1 million Australians, pay billions in energy bills every year and in many cases are exposed to the fluctuations and challenges of international trade.

This submission reflects the comment made by the EUAA and its members to the Department and KPMG on 16<sup>th</sup> December.

The initial ACCC Gas Report back in April 2016 finally brought into public focus what gas users had been saying for some years about rising prices and difficulty of getting offers, but was denied by gas producers. As Rod Simms said at the launch of the report<sup>1</sup>

“There has been unprecedented change in the east coast gas market over the last four years with the development of Liquefied Natural Gas (LNG) facilities in Queensland. These changes have created winners and losers, and industrial gas users in particular have been acutely affected by the transition...”

“Some suppliers have taken advantage of this supply uncertainty and potential shortfalls to increase prices and implement more restrictive non-price terms and conditions,”

...

A competitive market requires more gas supply and more sources of gas supply.”

This report led to a number of actions through COAG Energy Council and now Energy Ministers since 2016 and this current consultation is a continuation of that. We welcome these initiatives. Yet, however well intentioned these reforms, it is only really the Queensland Government's Australian Market Supply Condition<sup>2</sup> that has had an impact on the ACCC's requirements for a competitive market – more sources of supply.

Our members still face significant hurdles in sourcing competitive gas supplies. One member, Incitec Pivot, recently announcing the closing of its plant in Brisbane because it was unable to secure a new gas contract when its existing contract ends at the end of 2022<sup>3</sup>.

This is the context that we bring to this consultation process.

Our first comment is surprise at the description of demand side factors on p. vi:

“Demand side factors include the development of the clean hydrogen industry (producing hydrogen using renewable energy or using fossil fuels with substantial carbon capture and storage), anticipated

<sup>1</sup> <https://www.accc.gov.au/media-release/release-of-east-coast-gas-inquiry-report-into-the-increasingly-complex-and-uncertain-gas-market>

<sup>2</sup> [https://www.resources.qld.gov.au/?a=109113:policy\\_registry/operational-policy-australian-market-supply-condition.pdf&ver=2.01](https://www.resources.qld.gov.au/?a=109113:policy_registry/operational-policy-australian-market-supply-condition.pdf&ver=2.01)

<sup>3</sup> <https://investors.incitecpivot.com.au/static-files/4a590226-75dd-40b7-8ed5-295b45d00cc0>

electrification, volatility in LNG export markets, and the need for additional dispatchable generation (from gas, pumped hydro or long duration batteries) to support increasing levels of intermittent renewables.”

has no reference to price despite every ACCC Gas Report starting in April 2016 highlighting the importance of price to demand.

We have no problems with the Vision Statement that prioritises the establishment of a liquid gas market. However, we believe that focussing on the development of the Wallumbilla Gas Supply Hub as suggested in this Paper will have little substantive impact on our members ability to source competitive gas for their operations.

The Paper notes the preference for bilateral contracts to manage risk and provide ongoing certainty on price and availability and then suggests that if the problems in Table 1 were fixed, large gas users would decrease their reliance on bilateral contracts and increase sourcing through the Wallumbilla hub.

Our members’ view is that this will simply not occur. Our members stick to bilateral firm delivery contracts because of their certainty on price and availability for their operations. The amount of gas traded through the hub is simply too small for them to bet their operations on. Further, their operations are in the capital cities and regional areas, considerable distances from the hub so even if there was sufficient gas available for trade it is a complex process to get it to their operations.

What Table 1 fails to mention is the key problem at Wallumbilla – the lack of gas and number of supplies willing to trade. No amount of reform in how the hub might operate and the services it might offer will address the fundamental problem. All the elegant suggestions for reform will come to nought in the absence of volume and supplier competition.

For example, market making might seem a good idea in theory, but it will not work if the market maker is not a gas producer or has access to gas.

There are some members who are already or are in the process of registering for the Hub for the potential for ‘overs and unders’ trading when required to support their existing bilateral contracts. They have found the process very lengthy, time consuming and expensive – a significant barrier to participation. Specific suggestions for reform include:

In summary we would suggest that concentrating on increasing the volume and sources of supply at Wallumbilla will have a much greater impact on achieving the Ministers’ vision than all the the proposals in this Paper.

Sincerely,



Andrew Richards  
Chief Executive Officer