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Energy Ministers

By email: gas@industry.gov.au

Dear Ministers

RE: Gas Pipeline Regulation Reforms

Thank you for the opportunity to respond to the proposed amendments to the NGL, NGR and Regulations as set out in the Consultation Paper dated September 2021.

Our response to the proposed amendments is set out in the attached response submission template. However, we have set out below some further background and explanatory detail in relation to two main areas of concern.

Background Information

Tas Gas Networks (TGN) owns gas distribution networks in Tasmania and is the sole natural gas distributor in Tasmania. The networks are currently subject to Part 23 of the NGR and TGN holds a Category 3 exemption from the information disclosure obligations under that Part.

Currently there are two Retailers providing retail services on the networks one of which (Tas Gas Retail) is a related business to TGN. In addition, there are two other retailers who hold natural gas retail licences in Tasmania.

Of the approximately 14,600 customers, most are small retail customers; with only 63 of them being commercials consuming over 5TJ per year and industrial customers.

In the markets in which TGN operates, natural gas is a discretionary fuel of choice and since commencement of our operations TGN has had to actively compete with other fuels including electricity, LPG, wood and renewable energy.

This is demonstrated by the following points:

- In respect of the market share of natural gas:
 - In the industrial market – TGN has approximately 12% of the market share in relation to energy demand of major industrial markets in Tasmania
 - In the mass market - TGN has rolled out network past approximately 60,000 premises over the past 18 years. To date we have connected approximately 14,600 mass market customers, which is under 25% of the possible market.
 - Connection numbers are around 250 per annum and loads are, on average, declining. Alternative fuels such as subsidised electricity tariffs, solar, wood and LPG are dominant.

- Every large customer that we have won over has had to be persuaded to move from their existing fuel source and absorb the cost associated with the installation of the necessary infrastructure to be able to receive natural gas, and the conversion costs of equipment behind the factory gate to enable the use of natural gas. In many cases, these industrial users have also maintained the infrastructure to switch back to alternative fuels and this is used as a negotiating tactic.
- Each of our large industrial customers therefore has an individually negotiated tariff that we specifically tailored in part to entice them to switch from an alternative fuel.
- The competitive tension exerts considerable pressure on our business to continually strive to provide competitive distribution pricing in the marketplace to gain or retain end users. This enables the customer to evaluate a range of energy choices which include LPG, diesel and bio-waste depending upon the energy requirement.¹
 - In the industrial market, we have seen strong competition in recent times due to low oil and LPG prices which has resulted in a number of commercial and industrial users switching back to LPG to supply their businesses required heat load
 - In the mass market, greater consumer choice is driving declining average household gas consumption loads with natural gas appliances being increasingly replaced by more efficient electrical appliances and/or the adoption of new technologies such as solar PV and hot water. These signals suggest TGN operates within a competitive market in the residential sector.
- 63 out of TGN's 65 users are large commercial and industrial customers who negotiate their gas distribution contracts individually. The other 2 users are natural gas retailers, Tas Gas Retail and Aurora Energy, who are contracted using an industry standard Use of System Agreement.
- All TGN user contracts currently have a provision for either party to seek commercial arbitration and this has not been taken up in the 18 years of operation by any party. The evidence suggests that TGN already operates in a workably competitive market and does not possess market power.

GDSA Customers are classed as Shippers

Unique to Tasmania, all end-users consuming over 5TJs per annum contract directly with TGN for the provision of network services under a Gas Distribution Services Agreement (GDSA). Accordingly, they are all "users" within the meaning of the NGL/NGR and the proposed new disclosure obligations in the proposed new Part 10 of the NGR will require TGN to disclose a range of information (including pricing information) on a user/contract specific basis. In the absence of an effective exemption from these disclosure obligations, we will be unable to be compliant with some aspects of information disclosure required by the legislation due to confidentially provisions in our GDSAs. The proposed changes also may expose TGN to having to publish commercially sensitive information which would have an adverse effect on TGNs ability to balance mass market distribution charges with those offered to GDSA customers, leading to an increase in prices to the small retail customers.

Exemption Criteria for Information Disclosure

TGN currently has a Category 3 exemption from the information disclosure obligations under Part 23 of the NGR. The exemption is based on the average daily injection of gas into the pipeline, calculated over the preceding 24-month period being less than 10TJ/day. If the exemption criteria is changed, as proposed, to be predicated on the pipeline's operating capacity, TGN will likely not to be eligible for the exemption. Without the exemption TGN will be required to publish financial information which it doesn't currently have to provide. This information could be detrimental to TGNs ability to compete fairly with other fuel providers, and to the commercial interests of its shippers.

Summary

Tas Gas has developed a modest market position in a small and competitive market. We have little market power and are currently under threat from increasing gas pricing through increasing commodity and transmission prices. Our customer contracts and pricing are developed in a competitive environment whereby we have to provide a compelling case to incentivise a customer to swap fuels.

¹ The typical aggregate annual electricity demand by Tasmanian major industrial users is around 700MW. Compared with approximately 85MW of natural gas supplied by TGN to major users including educational institutions and hotel chains

Our concerns in relation to the amendments are based on the size and nature of our business which operates in a highly competitive environment. Any increased costs overall or a forced reduction in prices to our GDSA customers as a result of the amendments will have a significant adverse impact on the businesses and the ability to grow and provide an ongoing excellent service to our customers.

We request that the Energy Ministers amend the proposed draft legislation to enable Category 2 exemption criteria to match the current Category 3 exemption under Part 23 of the NGR. Alternatively, we will need to seek derogation from these aspects of the new legislation from the Tasmanian State Government.

If you require any further details or have any queries in relation to the attached submission please do not hesitate to contact me on 6336 9398 or by email to phaedra.deckart@tasgas.com.au.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Phaedra Deckart', with a stylized flourish at the end.

Phaedra Deckart
CEO

Enc. Submission Response Template – Tas Gas Networks.