

21 October 2016

Dr. Michael Vertigan AC  
Chair – Gas Market Reform Group  
COAG Energy Council Secretariat  
GPO Box 787  
Canberra ACT 2601

[via email: [energycouncil@environment.gov.au](mailto:energycouncil@environment.gov.au)]

Dear Dr Vertigan

**RE: EXAMINATION OF THE CURRENT TEST FOR THE REGULATION OF GAS PIPELINES  
CONSULTATION PAPER**

The Australian Petroleum Production & Exploration Association (APPEA) is the peak national body representing the oil and gas exploration, development and production industry in Australia. The Association's 60 full members account for more than 95 per cent of Australia's petroleum production and most exploration. APPEA's members also include many companies providing services to the industry.

APPEA welcomes the opportunity to comment on the *Examination of the current test for the regulation of gas pipelines* consultation paper (the consultation paper). APPEA's submission should be read in conjunction with comments provided by our members.

The recently completed reviews into the east coast gas market, conducted by the Australian Competition and Consumer Commission (ACCC) and the Australian Energy Market Commission (AEMC), recommend numerous reforms to market structure, pipeline regulation and information provision. APPEA welcomes the Council of Australian Governments Energy Council's support for removing barriers to developing onshore gas resources. New gas supplies are essential for improving security of supply and putting downward pressure on gas prices.

**Consultation Paper Comments**

APPEA notes that many of the questions posed in the consultation paper seek specific examples/evidence of market participants' experience accessing gas pipelines. As an industry association, APPEA is not privy to the commercial negotiations around pipeline access. Hence our comments are limited to feedback provided directly by our members.

APPEA notes the ACCC's report on its *Inquiry into the east coast gas market* found strong evidence that monopoly pricing exists in the gas transportation pipeline sector. The ACCC reached this finding after assessing the evidence obtained through public consultation and from commercial-in-confidence documents supplied by gas market participants.

Based on the ACCC's analysis and advice from members, APPEA agrees that there are concerns that the current regulatory coverage test is ineffective in addressing market power and monopoly

pricing. APPEA notes the ACCC's suggestion that monopolistic pricing may lead to lower ex-plant gas prices for producers and may inhibit the development of new gas resources. Advice from our members also suggests that pricing arrangements are inhibiting the efficient movement of gas in the market.

A thorough review of all potential coverage options is required, including non-firm tariffs in addition to the reference tariff, to ensure that any changes achieve the National Gas Objective and lead to efficient outcomes for the market.

Changes to the coverage criteria should be done in conjunction with the proposed introduction of day ahead capacity auctions, increased information transparency and a regular market monitoring report by the AEMC.

APPEA supports maintaining the 15-year exemption option for greenfield pipelines. As evident in the process for the Northern Gas Pipeline, there is effective competition for new market opportunities, with multiple pipeline consortia bidding to invest in greenfield capacity. This competition for the market is leading to more efficient outcomes than competition in the market, as the ACCC has found.

APPEA appreciates the opportunity to contribute to this aspect of the gas market reform process. Please contact Mr Adam Welch, Senior Policy Adviser, on 08 9426 7205 or [awelch@appea.com.au](mailto:awelch@appea.com.au) should you or your staff wish to discuss any aspect of APPEA's comments.

Yours sincerely



**Dr. Malcolm Roberts**  
Chief Executive