

Competition and Consumer (Gas Market Emergency Price) Order 2022

Submission to the Treasury 15 December 2022

ACCI welcomes the opportunity to contribute to the consultation of Australia's *Competition and Consumer (Gas Market Emergency Price) Order 2022* and provide recommendations that will assist in implementing reforms that support gas-reliant businesses and improve efficiency and effectiveness of the domestic gas market.

This submission makes the following points:

Price Cap

- The government must prioritise getting the fundamental settings for energy policy right, as this is the only way to ensure affordable prices and secure supply while meeting emissions targets.
- Price caps on goods and services are generally regarded as poor public policy because they reduce incentives for supply and investment and create larger problems over time.
- The proposed \$12/GJ price cap must only be a temporary stop-gap measure, for a maximum of 12-months, to deal with the current problems in the gas market.
- Gas-reliant businesses welcome any price relief that can be provided, but the government needs to ensure that it is not inadvertently creating a larger problem by diminishing incentives for future supply.

Code of Conduct

- A well-designed code of conduct can be a useful mechanism for transparency and efficiency but making it mandatory and having a Government determined 'reasonable price' is a significant impairment to an efficiency market that will deter crucial investment in the industry.

Long Term Strategies

- A framework that encourages affordable and long-term gas contracts needs to be installed.
- Develop new measures to improve transparency in price setting, including real time information on the volume of available gas supply, gas price by regions, and details of costs of production and delivery of gas to customers
- Increase domestic supply at a Federal and State level by fast tracking the approval of new gas field developments and removing restrictions on gas exploration and development
- Develop a National Gas Strategy to increase competition, create a more interconnected network and improve the efficiency and effectiveness of the gas market.
- Develop an Energy Roadmap to guide investment and the NEM's transition to net-zero.

Introduction

With gas prices skyrocketing over the past 12 months, up almost 150% from around \$10/GJ in Q3 2021 to \$26/GJ in Q3 2022, the Government must do all it can to ensure commercial and industrial (C&I) gas users to remain viable.

ACCI believes that there is a case for support for government measures to provide relief for gas-reliant businesses, but it is concerned that the measures that have been proposed may create larger problems down the track.

The current gas crisis being driven mainly by international events, specifically the Russian invasion of Ukraine destabilising global energy markets and constraining gas supply. However, the Australian domestic gas market has been dysfunctional for almost a decade, due poor government planning and coordination following the opening of the east coast to international gas markets with the development of the three gas export terminals at Gladstone in Queensland. The new gas field development in Queensland have been insufficient to meet the export contracts, requiring gas supply to be diverted from the existing domestic network. In addition, the gas fields in the Otway and Gippsland Basin, that had previously been relied on for much of the supply to the southern states, are drying up and the Victorian Government moratorium on new gas field exploration has left insufficient new gas field development to replace it.

The Government's proposed \$12/GJ price cap of gas is the latest in a series of short-term solutions that have done little to address these core issue of ensuring there is enough gas supply in the system to maintain lower prices. The price cap should only be seen as a stop-gap measure while the Government develops more comprehensive reforms to address the gas security and affordability for east coast gas users.

To provide long-term stability to the gas market, ACCI continues to advocate for the development of a comprehensive National Gas Strategy (NGS). A holistic strategy is needed to increase competition, create a more interconnected network and improve the efficiency and effectiveness of the gas market. We need to strike the right balance between providing secure, affordable and reliable supply to C&I gas-reliant businesses and residential customers, while maintaining our gas export market and the benefit it brings to Australia's trade balance and GDP.

\$12/GJ Price Cap

The Commonwealth's decision to implement a price cap in the current circumstances is expected to provide some relief to households and C&I gas users overburdened by excessive gas prices. However, it should only be viewed as a very temporary measure while the Government identifies and develops more robust policies to ensure secure, reliable and affordable gas supply over the longer term.

Ongoing market intervention of this nature does little to address the underlying problems and only serves to deter investment in gas exploration and new gas field development, which will ultimately drive further increases in gas prices over the long term.

Support to small businesses and households

The \$1.5 billion in support to households and small businesses, although varying widely from state to state, is welcome. However, these rebates are provided only to small businesses, so will do little to

support energy intensive mid-sized businesses, particularly C&I gas users that are the worst affected by the extraordinarily high gas prices.

C&I gas users that rely upon gas as a feedstock, such as plastics, fertiliser and chemical manufacturers, are in particular struggling in the current gas situation. Natural gas is the main input for these manufactures and can represent up to three quarters of their operating costs. In the current environment, with rapidly increasing gas input costs, unless they are able to pass these costs onto the customer, C&I gas-reliant businesses will struggle to remain viable.

It is therefore important that these energy rebates also be extended to mid-sized energy users, to enable them to continue to operate while energy and gas prices are exceptionally high.

Code of Conduct

While consultation on the proposed reasonable pricing framework is separate, ACCI agrees a code of conduct can play a role in enabling C&I users to access affordable, long-term gas contracts.

A well-designed code of conduct can be a useful mechanism for transparency and efficiency. However, ACCI has concerns about the Government's proposal that this code of conduct becomes mandatory. The provision for the government to determine 'reasonable prices' would be a significant impairment to the efficient operation of the market and would deter future investment in the industry. The open-ended nature of this provision is also a problem. Once it is embedded the likelihood of the government relinquishing this power is low, thus compounding the deterrent effect on investment and supply.

Long Term Strategies

Long-Term Contracts for C&I Gas Users

Most large C&I gas users seek long-term contracts for security of supply and only use the spot market to deal with variability in their production cycles. For example, a plastic manufacturer using gas as a feedstock may have a long-term contract for 80% of supply and purchase the remainder through the spot market, when operating above their long-term average production levels. However, even before the current gas crisis, C&I gas users nearing the end of their gas supply contract were finding it extremely difficult to negotiate new long-term contracts at affordable prices. In the current market, very few east coast gas supplier are willing to offer long-term contracts at any price. Many C&I users have been forced to accept short-term contracts (12 months) at very high prices. Others cannot secure a contract at all and are left to source their gas through the highly volatile spot market.

Reliance on short-term contracts and the spot market also has ramifications for investment and the ongoing operation of many businesses. Many gas users have maintenance schedules that align with their gas supply contracts, as they will often need to shut down operations for 3 to 6 months to carry out major refurbishments, upgrade or replacement of machinery. If these C&I users cannot secure long-term gas contracts at reasonable prices, it limits their ability to secure finance to support this investment.

We have seen a number of major gas-reliant businesses either leave our shores or shut down completely in recent years. Incitec Pivot recently announced it will cease manufacturing AdBlue at its Brisbane-based Gibson Island plant at the end of 2022, as it had been unable to secure a long-term contract for affordable gas supply from 2023 onwards. Similarly, Dow Chemicals in Melbourne, RemaPak in Sydney and Claypave in Queensland, have closed their Australian operations in recent years.

Incentivise Domestic Supply and Remove Regulatory Barriers

ACCI strongly advocates for the increase of supply of gas to the domestic market. Acknowledging the substantial timeframe and investment required to increasing supply through the exploration and development of new gas fields, it is a long-term strategy that requires action today. Currently, the ability to increase supply is limited by extensive regulatory barriers to investment in gas exploration and the development new gas field developments.

The Victorian Government is averse to any new gas field development. NSW has burdened the development and operations of the Narrabri gas field since it was first proposed in 2016. Slow environmental assessment processes have significantly delayed the supply of gas to the network. With Victoria and NSW imposing restrictions on gas field development, they are forcing a significant proportion of Australian households and C&I users to pay extra to transport their gas from northern Australia. NSW imports 98% of its gas requirements from other states. Improving the regulation to fast-track gas field development would increase supply to the market and contribute to affordable gas prices.

While largely determined at a State Government level, the Federal Government has an important coordinating role in influencing the states to lift restrictions of gas exploration and extraction. Increasing supply is the key to addressing the current dysfunction in the gas market.

National Gas Strategy

As we move to decarbonise the economy and achieve net zero by 2050, it is important to recognize the value of gas that will play a continuing role in providing stability of supply during the energy transition. AEMO in their Integrated System Plan for the electricity market to 2050, show that gas power generation will continue to play an important role in electricity generation over the next 30 years. Therefore, it is essential that work begins now to develop a comprehensive long-term National Gas Strategy. This should aim to achieve a functioning competitive gas market with a focus on improving its efficiency and effectiveness, increasing competition and removing regulatory constraints. The overall goal must be to ensuring secure, reliable and affordable gas supply over the long term. A key focus must be to increase supply through greater exploration and the development of gas resources on the east coast.

To be consistent with the National Gas Objective, the strategy would be consumer focused, catering for the needs of C&I gas users and residential customers. At the same time, it needs to support the LNG export sector, which is a major contributor to Australia's trade balance and GDP. LNG exports have grown to become Queensland's second largest merchandise export, after coal, estimated to be valued at \$49 billion in 2021-22. In addition to meeting the needs of domestic gas users, the strategy also needs to factor in the importance of these exports and limit any disruption to this trade.

In developing the National Gas Strategy, ACCI recommends the Government work with its State and Territory counterparts through the Energy National Cabinet Reform Committee and Energy Ministers' Meetings to ensure consistency of policy and regulation in the highly integrated east coast gas market. With a National Gas Strategy comes greater clarity, direction and confidence for investment and development in the gas market, this is particularly important considering the disruption to private sector caused by the price cap.

Greater Transparency

Greater transparency in the domestic gas market will also contribute to the efficiency and competitiveness of the market. New measures to require the publication of real time information on the volume of available gas supply and gas prices by regions would greatly improve the transparency of the

market. This would consequently act as a competitive incentive to gas producers and LNG exporters, driving improvements in their operations and the market overall and support reasonable price setting.

Energy Roadmap

Alongside the National Gas Strategy, the Government needs to produce an energy transition roadmap. The Government has committed Australia to a substantial transition task but has set no guidelines for the private or public sector to follow. This ambiguity disincentivises investment, slows the transition, and continues to leave the National Electricity Market (NEM) and consequently the gas market in a volatile state. Gas-fired generation of electricity will be increasingly relied on to support the transition of electricity supply to renewable sources. This was most prevalent this year when surges in demand were met with increases in gas-fired electricity generation to cover for planned and unplanned closures of coal plants and variability in the renewable generation. In Q2 2022, gas contributed to 9.3% of electricity generation, a significant proportion that places further strain of the gas market. The accelerated transition to renewables and early closure of coal-fired power plants will continue to place strain on gas supply, emphasising the need to establish an energy roadmap such that the NEM can operate effectively.

Using the resources of Treasury, the Commonwealth should conduct its own analysis and modelling of the significant transition to renewable energy. From this analysis, the production of a roadmap will serve as a pathway and checklist to make the abatement task transparent and accountable and provide confidence for private investors.

Acknowledging the Budgets \$1.9 billion to a Powering the Regions fund that assists with the transition to net zero emissions, as stated in the AEMO's Electricity Statement of Opportunities, project delays risk the ability of the NEM effectively replace retired coal generation with renewables. The increases the reliance on gas to reduce the risk of instability and insecurity of supply in the NEM. The creation of an energy roadmap would help ensure that the transition to a renewables grid follows the abatement task closely.

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