

17 December 2019

Gas and Governance Branch

Department of the Environment and Energy

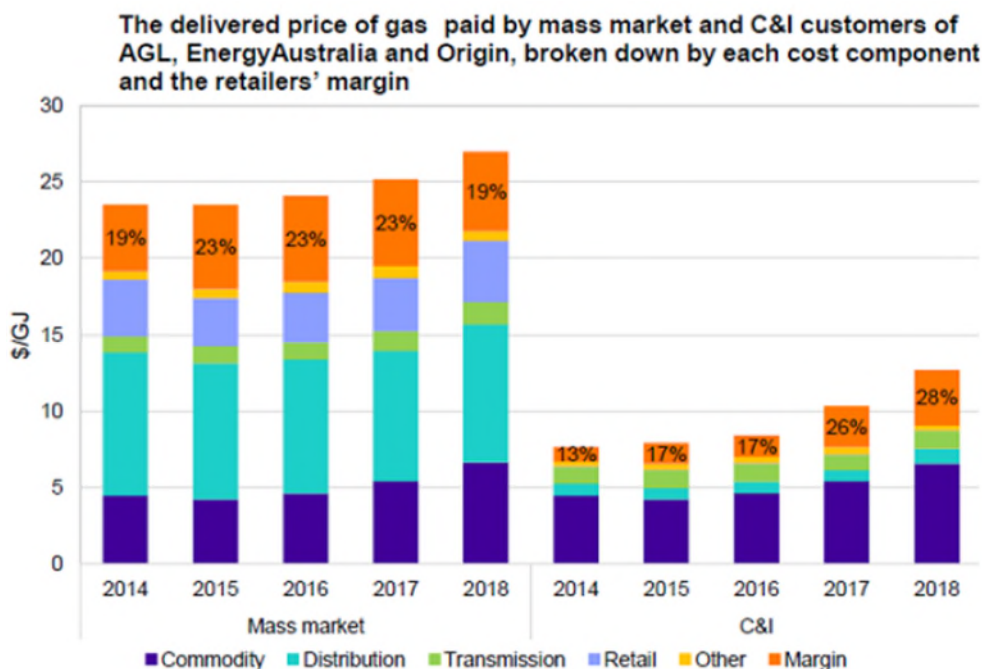
GPO Box 787

CANBERRA ACT 2601

NSW Business Chamber Limited
 140 Arthur Street
 North Sydney NSW 2060
 Postal address
 Locked Bag 938
 North Sydney NSW 2059
 t 13 26 96
 f 1300 655 277
 e businesshotline@nswbc.com.au

Options to improve gas pipeline regulation

The NSW Business Chamber (“the Chamber”) welcomes the opportunity to make a submission on the proposed options to improve gas pipeline regulation.



Gas underpins around 250,000 jobs in the NSW manufacturing sector. Thousands of small businesses, from commercial laundries to bakeries, depend on gas. These businesses face pressure with wholesale and network components of gas costs rising (see Figure). These pressures are forecast to worsen in coming years, with AEMO warning of potential gas supply shortfalls in NSW by 2025 if actions are not taken to boost supply and improve transmission links to gas fields in Queensland and

elsewhere. Transmission costs are liable to rise significantly for NSW businesses simply as a result of gas having to travel longer distances to reach them. Gas costs are already putting severe pressure on gas using businesses in NSW to relocate overseas or to gas-producing states elsewhere in Australia; they are not in a position to absorb further cost impositions from any abuses of market power or information asymmetries by incumbent pipeline operators (though we are not in a position to judge whether or not that is occurring).

The Chamber recently published a report on the impacts of gas policy on businesses in NSW. (The report is attached alongside this submission). While the paper focuses in large part on supply policy beyond the scope of this RIS, it does note the importance of pipeline infrastructure to NSW's ability to secure gas supplies in coming years. As the balance of supply into NSW shifts from Victoria being the main supplier to Queensland taking over that role, it will be necessary to invest in pipeline infrastructure to remove bottlenecks and increase capacity. Potential production from the Narrabri gas fields, and imports from proposed LNG facilities on the NSW coast, will also need to be met with investment in pipeline infrastructure to bring gas to users.

At this stage of the process, it is unclear from the RIS Paper how speculative some of the more theoretical concerns being raised are in practice.¹ With the data gathered in response to this Paper, particularly from shippers and (existing or prospective) pipeline operators, it will be possible for consumer groups as well as the Department to better judge the significance and materiality of the issues raised.

Smaller businesses who use gas have low visibility of the issues under consideration in this RIS. Their relationship to pipeline charges is, in the majority of cases, intermediated by a supplier/shipper, and potentially by an energy consultant or broker as well. In most cases they won't have dedicated staff attending to energy matters in general, let alone matters of this complexity. Yet the issues at stake here affect their costs as much as they do those of biggest industrial users.

We note the submission from the Energy Users Association of Australia (EUAA) – we support their submission to this consultation and its emphasis on information disclosure and ACCC review. While we do not expect information disclosed through such processes to be of direct applicability to small business end users, empowering shippers/retailers (especially new market entrants and smaller competitors) to negotiate better terms will enhance competitive pressure, and ultimately constrain prices paid by end users. And, as EUAA note, more smaller business users are becoming able to bypass retailers thanks to a combination of changing market dynamics and technology that enables more direct relationships to the upstream.

¹ As the paper notes, "it is difficult to know in some cases how significant the problems are".

Among the options available to regulators, information disclosure requirements are at the lighter-touch and lower compliance cost ends of the spectrum. Adjusting information disclosure requirements for unregulated pipelines and those currently under the 'light regulation' framework appears to be a sensible incremental step to take.

We support the Energy Council's intent to pay close attention to the costs from gas pipeline charging (and the risks of monopoly power inherent in such infrastructure). We understand the Council's caution against recommendations that could deter the investments in pipeline assets that will be needed. However, given the many other uncertainties about the future of the gas market it is unclear what the marginal effect on investment appetite of incremental changes to pipeline regulation would be, compared with among other factors: the future stringency of climate change policy; the viability of hydrogen as a future fuel; conditions in the LNG export market; to what extent and in which locations onshore domestic gas resources are approved for production. These factors may prove more significant than decisions about the future of regulation as owners of existing pipeline and proponents of new ones decide on their plans.

Table A.2 which sets out the initial risk assessment of the options under consideration gives a framework which simplifies the decision. Of the two options with the lowest residual risk (Options 2 and 3), there are several shared characteristics: Higher administrative costs for regulators and decision makers and higher compliance and reporting costs for service providers. What is left is a simpler trade-off, between the risk that smaller shippers are potentially still exposed to exercises of market power on one hand, versus reduced greenfield investment incentives on the other. Given the context outlined above of other impediments to greenfield investment, the *marginal* effect of Option 3 on greenfield investment is likely to be dwarfed by these other factors. The residual risk to shippers in Option 2 is more consequential at this stage of the market's evolution.

Yours sincerely

Simon Moore

Policy Manager, Infrastructure