



# Perspectives from Gas Users

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**THE AUSTRALIAN INSTITUTE OF ENERGY SYDNEY BRANCH FORUM**

***NSW and Eastern Australia – Gas in Transition Price, Availability, Sustainability***

**Monday 17 August 2015**



## **Perspectives from Gas Users**

*How will changes in gas price and availability affect the operation and competitiveness of industrial and commercial gas users in Eastern Australia?*

*How should government policies and regulations respond to these changing circumstances?*



## Energy Policy versus Industry Policy

***Energy policy has driven Industry policy - it should be the other way around!***

*“One could not imagine a health policy that did not address the needs of patients, or an education policy that did not address the needs of students...”*

*Yet the Government’s gas policy has little regard to how gas is used in the Australian economy.”*





## **The Current Australian Gas Market is Problematic**

**Forget a competitive gas market – there simply is no functioning gas market in the Eastern States at all...**

- **This is not a market failure – it is a “non-market” or “government” failure!**
- **Governments have failed to provide the right foundations for a viable industry policy structure**
- **There is no competition, legislative, or property rights framework to increase supply**

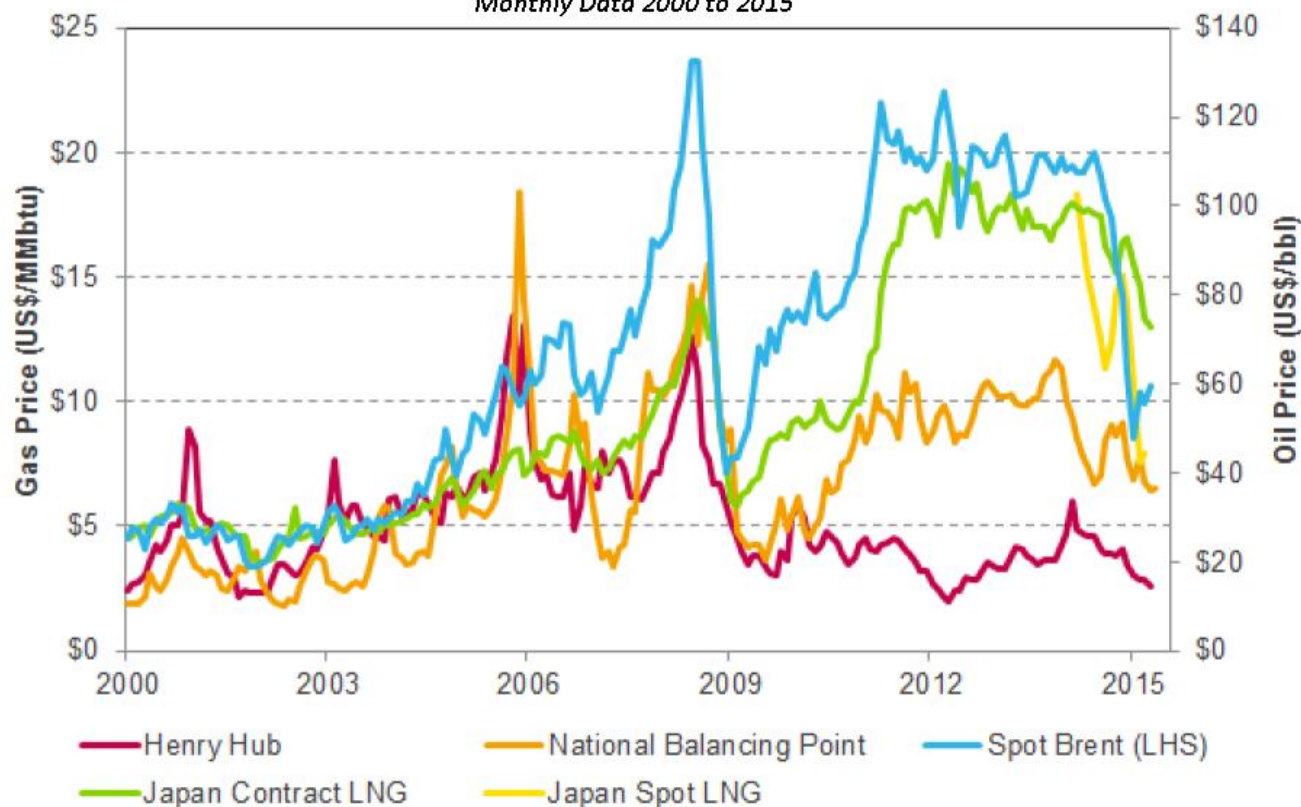




## Cheap Gas is Gone...

### International Gas Price Benchmarks

Monthly Data 2000 to 2015



Source: IMF, EIA, PAJ, METI, SE Global Research & Analytics, Schneider Electric

Eastern Australian Gas prices are becoming increasingly correlated with international Gas prices...

Local supply & demand equations are being skewed by global supply and demand equations...

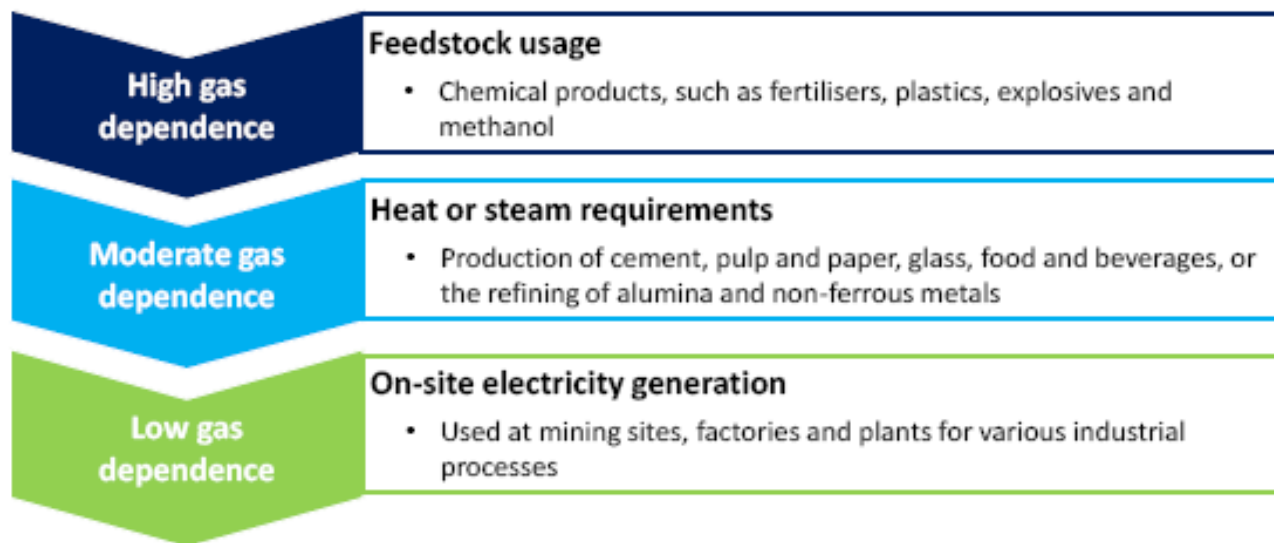
After initial dislocation adjustments, these factors may eventually be beneficial over the long term...

But the short term risks to Australian gas users are too great.



## Industrial Gas Use and Dependence

There is no doubt that existing Australian Industrial and Commercial Gas Users rely on gas, and the uses are varied...



*Source: Deloitte Access Economics*

If Australia is to reach its target to reduce greenhouse gas emissions by between 26 and 28 per cent on 2005 levels by 2030, it is logical to expect more gas to be used going forward.  
- But where do we get it from?



## DAE Research

### *“Gas market transformations – Economic consequences for the manufacturing sector”*

In 2014 Deloitte Access Economics was commissioned by the EUAA and an industry alliance group to investigate the likely impacts from official gas price projections in Australia.

Specifically modelled price projections based upon an assumption that gas producers and shippers will be able to exert “market power”

Large gas users have already suffered from this “market power” and have found it difficult or impossible to get more than one proposal for future gas supply.

Received proposals have restrictive acceptance conditions and prices well above what our members regard as indicative of a competitive gas market.





## Impacts of “Market Power” Pricing

DAE research found that official gas price projections will lead to over \$118 billion of cumulative lost output (in NPV terms) from manufacturing from 2014 to 2021 with some 14,600 job losses as a result.

### Australian Industry Output Impacts based on "Market Power" Pricing

	Value of difference from baseline			NPV
	2015	2018	2021	Cumulative impact over 2014-2021
<i>Output (\$ million)</i>				
Manufacturing	-23,199	-22,259	-30,386	-118,069
Gas	8,922	17,672	24,225	80,746
Mining	-7,226	-6,031	-9,679	-33,804
Agriculture	-1,110	-798	-1,430	-4,705
Electricity and Water	-1,962	-1,989	-2,204	-10,269
Construction and Trade	18,049	2,443	13,265	38,519
Transport	-2,328	-1,988	-3,288	-11,044
Commercial & Services	3,015	-897	649	1,695

Source: Deloitte Access Economics

NB: NPV calculated using discount rate of 7%

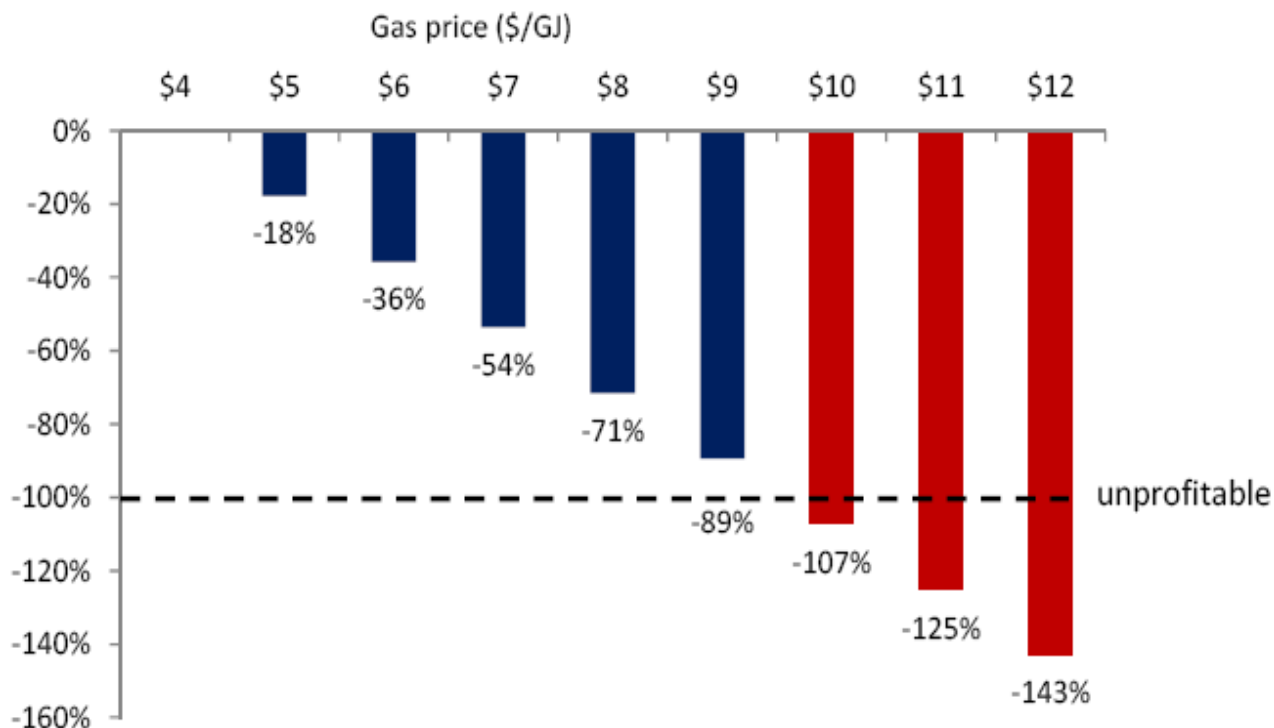




## Impacts of “Market Power” Pricing – Case Study 1

### Orica's Ammonia Facility – Hunter Valley, New South Wales

#### Orica's Ammonia Production Sensitivity to Gas Prices



- Orica's NSW Ammonia facility is needs to run continuously and consumes 14 PJ of gas pa as a feedstock.
- The impact on profitability of this facility from higher gas prices can be seen.
- Changes to the East Coast gas market will increase the costs and risks associated with gas intensive operations in NSW.



## Impacts of “Market Power” Pricing – Case Study 2

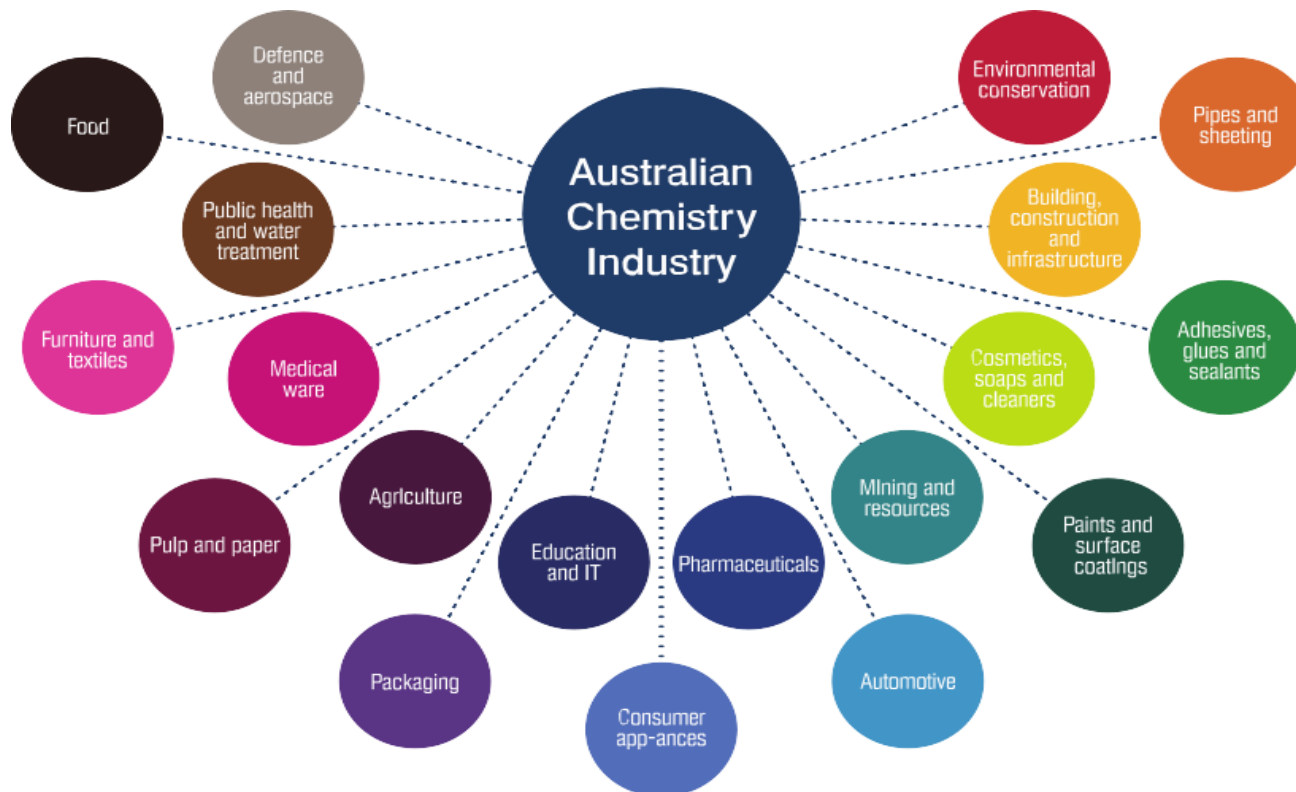
### Australian Paper’s Maryvale Mill – Gippsland, Victoria

- Mill supports 900 direct regional jobs and consumes a total of 7.5 PJ of gas per year.
- Increase of \$4/GJ will translate into an additional \$30 million of input costs.
- Even with AP hedging its energy production with biomass renewables, this will not be enough to save them.
- Without access to an affordable and reliable gas supply, the Mill’s operation would be seriously impacted.





## Gas is a Critical Feedstock for the Australian Chemical Industry



**The Chemical Industry relies on a gas as a feedstock  
Consuming 110PJ per annum as Feedstock and 20PJ Processing (130PJ pa).  
Many other industries are reliant on the chemicals produced**





## Gas Reservations

**The EUAA is not in favour of government mandated gas reservations...**

**However, government has allowed large gas developers to acquire smaller players, thereby effectively reserving >90% of Queensland gas reserves for LNG.**

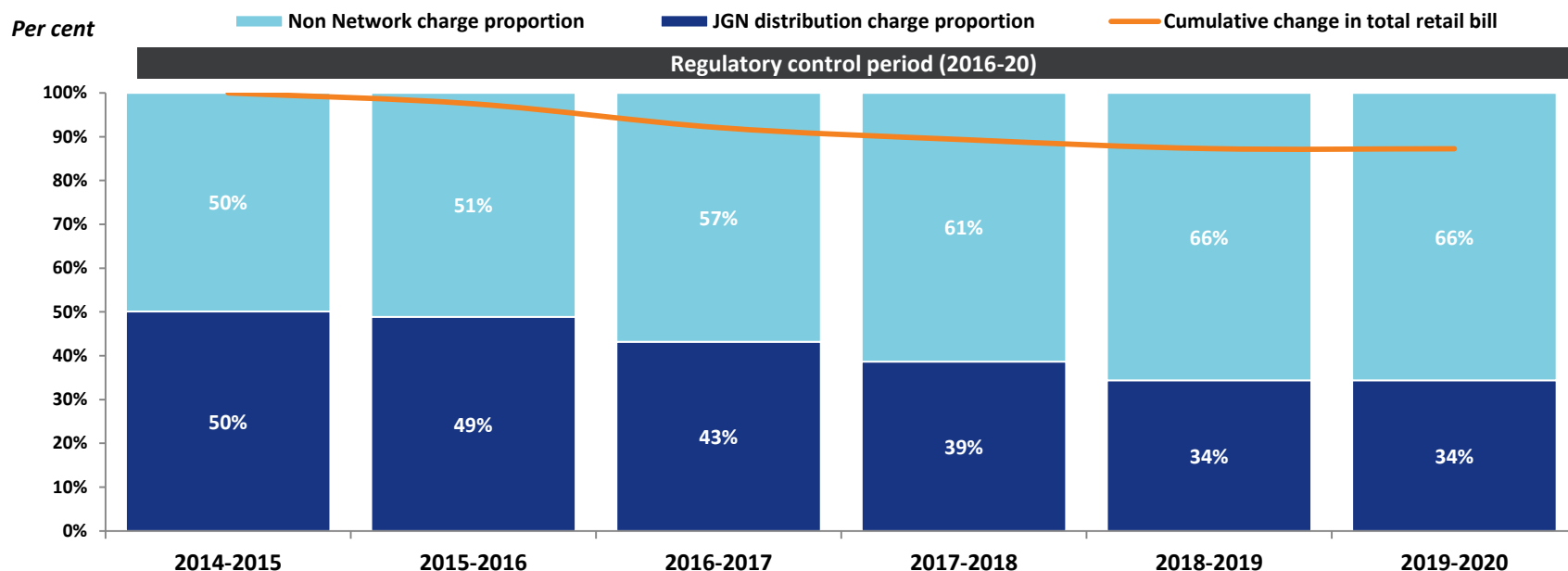
**These private gas reservations are not in the interests of Australians.**

**In favour of a “use-it-or-lose-it” approach to retention leases or mandatory development of such reserves to discourage gas “warehousing”**





## Reducing retail bills as declining network prices offset rising wholesale prices






Jemena's revised proposal claims to ensure the distribution component of customers bills' shrinks significantly meaning:

- Minimises volatility in retail prices and bills (avoid 'price shock')
- Ensure gas remains competitive

BUT what of large energy users?



## JGN revised proposal and AER final decision – pricing outcomes

Customer type	JGN % of retail bill (approx.)	JGN revised proposal (Total real price change 15/16-19/20)	AER final decision (Total real price change 15/16-19/20)
 <p><b>RESIDENTIAL</b> 1.2 MILLION CUSTOMERS</p>	<b>50%</b>	-40.2%	-54.2%
 <p><b>COMMERCIAL</b> 15,000 CUSTOMERS</p>	<b>40%</b>	-21.3%	-27.4%
 <p><b>INDUSTRIAL</b> 400 CUSTOMERS</p>	<b>10%</b>	+13.1%	+13.1%





## **What Can Government Do?**

**The EUAA believes a gas market should be...**

- **deep in capacity**
- **liquid in supply**
- **competitive in price**
- **transparent in pricing, &**
- **well informed**

**Industry needs these “price discovery” features to be able to plan for future investments.**

**Australia needs not only an increase in supply, but also an increase in the diversity of gas supply**

**These factors will strengthen the gas market and support the broader economy through increased transparency and competition.**



## **Advocated to the AEMC for the following action:**

- Greater market transparency - available volume, pipeline capacity and pricing
- Implementation of the Moomba GSH
- Development of other risk management tools including financial derivatives

The following additional measures are required:

- Include prices from the Facilitated Markets in the Gas Bulletin Board ;
- A centralized location for market participants to post relevant information
- Incorporate MSV trading into the STTM market in preference to intraday trading
- Streamline and simplify the STTM registration process to encourage more participants.



## There Are No Simple Answers

*The EUAA acknowledges that there are no simple answers.*

*Fixing the market, policy and supply issues will require a co-ordinated response from all stakeholders*

*- Governments, producers, consumers and the public now engaged*

*Industry policy levers from Governments will take time to work*

*- there will be casualties*

*The prime objectives of both the national gas and electricity laws are words to the effect of*

*“... in the long term interests of consumers”*