

North Queensland Energy Forum
Townsville

Do We Have A Competitive Gas Market For Customers?

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Background History

Pre-Competition Policy

- Fixed Retail Tariffs (franchise with safe areas)
- Limited suppliers
- Limited transportation & capacity
- Long distance to markets (regulated costs), capital for re-investment is based on fixed margins
- Insufficient markets and lack of market systems
- Lack of competitive tension hence inefficiencies
- Lack of interstate connection
- Large project driven expansions
- Nodal point controls with infrastructure
- Fixed, limited transportation arrangements



Supply Rationalisation

- Potentially uncompetitive
 - Limiting competitive suppliers
 - Limiting regional suppliers
 - Transport capacity domination
- ACCC determination RE: Proposed SANTOS/QGC takeover
 - Removal of a vigorous and effective competitor
 - Ability to increase prices and profit margins
 - Height of barriers to entry
 - Market concentration
- Supply “Cradle to the Grave” scenario
 - Lack of transparency
 - Value shift & transfer – cross subsidisation??
 - Internalisation of markets – External buyers?? Monopolisation of value chain??



Gas Market Regionalisation

- QLD - NE QLD → Lack of infrastructure
 - NW QLD → Lack of Nodal Independence
 - SE QLD → Pipeline capacity, constraints/Monopoly
- NSW - Hunter → Distance, Cost, Capacity, Supply
 - Sydney → Distance, Cost, but options
 - Country → Distance, Capacity, Pipeline Monopoly.



Gas Market Regionalisation

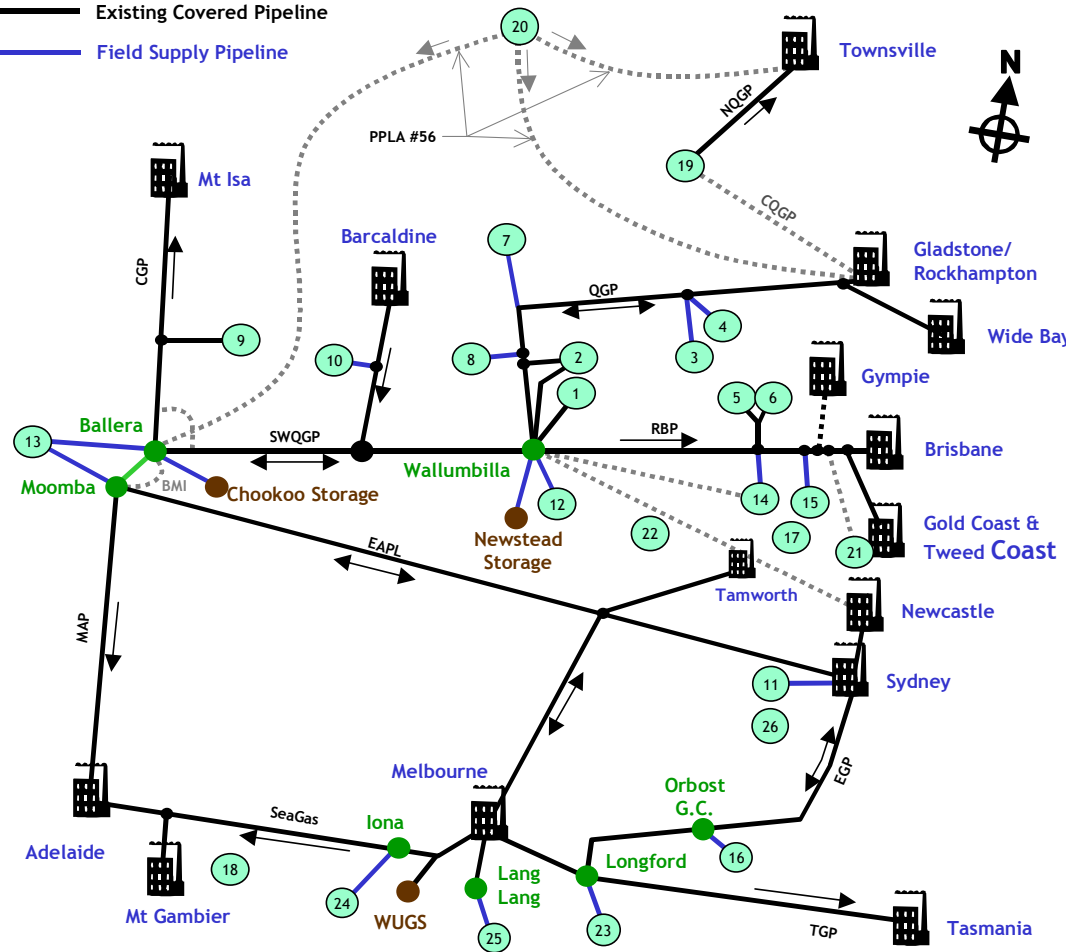
- VIC → NSW & SA
 - Interstate connections & multi supply over larger distances hence cost
 - Approaching National Market Impacts
- SA → Gas from VIC and Cooper Basin
 - Approaching National Market



Australian Gas Market Map

East Australian Gas Grid, 2007

- Planned / Proposed Pipeline
- Existing Covered Pipeline
- Field Supply Pipeline



Field No	Field / Basin Name	Gas Type
1	Spring Gully	CSM
2	Fairview (Comet Ridge)	CSM
3	Dawson Valley	CSM
4	Moura Seam Gas	CSM
5	Scotia	CSM
6	PEAT	CSM
7	Rolleston (Denison)	Conventional
8	Rolleston (Yellowbank)	Conventional
9	Eromanga	Conventional
10	Gilmore	Conventional
11	Camden - Sydney Gas	CSM
12	Surat	Conventional
13	SWQP / CB	Conventional
14	Queensland Gas Co	CSM
15	Arrow Energy	CSM
16	Patricia Baleen	Conventional
17	Talinga	CSM
18	Katnook	Conventional
19	Moranbah - CH4	CSM
20	PNG	Conventional
21	Metgasco - Casino South	CSM
22	Gunnedah Basin (Eastern Star)	CSM / Conventional
23	Gippsland Basin: (Kipper, Basker, Manta, Gummy, Golden Beach, etc)	Conventional
24	Otway Basin: (Casino, Henry, Pectin, Netherby, Martha, Minerva, Geographie, Thylacine)	Conventional
25	Bass Basin: (Yolla)	Conventional
26	Sun Resources (Wollongong & Burragorang Projects)	CSM

Pipeline Effectiveness & Interconnection

- Lack of Market Mechanisms to encourage Trade
- Current Contractual Limitations – e.g. receipt and delivery points
- No Market Transparency
- Nodal Constraints
- Capacity Constraints & No Incentives
- GMLG Proposed Bulletin Board & Short Term Market System likely to develop a trading regime



Regulation

- Speed of implementation
- Suitable feedback/input into process?
- Light handed regulation
- Jurisdictional regional market variations – does one system cover all?
- Aim to provide competitive market → outcome?
- Needs to be iterative



Vertical Integration – Cycle of Life

- Initial energy industry was vertically integrated by Governments
- Competition Policy lead to break up of chain
- Commercialisation is trying to re-evolve to vertically integrated model to limit competition
- Vertical cost savings not incentivised to be passed on
- No control yet in limiting vertical integration (issue has been raised by COAG)



Where are we now & future steps

- CBM impact on supply
 - Was the PNG Shadow
 - Examples in CBM Market Maturity e.g. Scotia/CS Energy, Origin Incitec + QAL, Moura to Gladstone, Fairview, Local Surat Generation, Origin Gas swap to NSW, Gladstone LNG Concept
- GOC Restructure/Sales → Retail competition and Generation?
- Margin Risks
- Legislation/Regulation Evolution
- Integrated Pipeline Network
- Greenhouse Carbon Trading
- Potential Market Directions → International?



Townsville – What does this mean?

- Power Generation potential major consumer sector
- What of the proposed power station(s)? – Is it feasible if pipeline to Gladstone built?
- Do other power station proponents have a chance?
- Non power consumers – Is this the ultimate value for gas? Will this impact on Townsville being a mineral value adding hub?
- Will Townsville be impacted by vertical integration?
- ACCC review underway

