

Gas – too good to burn?

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Mark Grenning
Director

Energy Users Association of Australia

Three propositions...

1. Energy policy has driven industry policy when it should be the other way around
2. The current east coast Australia gas market does not operate as a properly functioning, transparent, competitive gas market. This is caused by a combination of market and “non-market” failure. It is not simply a transitional disequilibrium that can be ignored by Government.
3. The domestic gas supply business model has fundamentally changed and all stakeholders need to recognise the impact this has on the role they need to play

Proposition 2 - The current east coast Australia gas market does not operate as a properly functioning, transparent, competitive gas market. This is caused by a combination of market and “non-market” failure. It is not simply a transitional disequilibrium that can be ignored by Government.

Three parts:

- i. The legal framework around mergers and the ACCC approval process allowed the LNG developers to acquire smaller players to substantially lessen competition. These developers are effectively in control, by ownership or offtake contract, almost all Queensland P2 reserves
- ii. This concentration of ownership has contributed to the current market failure shown by the lack of a properly functioning, competitive, gas market.
- iii. This lack of a functioning market is not simply a “transition period” in a normal market which can be ignored by policy makers. Governments should consider what industry policy instruments they have to shorten this transition period.

Proposition 3 - Areas for Governments to consider to reduce barriers to entry

1. Lessening controls on exploration and development
2. Releasing exploration licences to upstream producers on the condition that they are used to supply domestic consumers
3. Reviewing the 'use it or lose' it rules for undeveloped gas reserves and contingent resources that are not offered to the market in time of severe market illiquidity
4. Developing more trading hubs and review restrictive access principles
5. Removing joint marketing protection from producers
6. Start looking at the rules for priority allocation if there is a shortfall