



Adequacy of weighted average pricing information

ACCC recommendations

Australian Competition and Consumer Commission
23 Marcus Clarke Street, Canberra, Australian Capital Territory, 2601

© Commonwealth of Australia 2019

This work is copyright. In addition to any use permitted under the *Copyright Act 1968*, all material contained within this work is provided under a Creative Commons Attribution 3.0 Australia licence, with the exception of:

- the Commonwealth Coat of Arms
- the ACCC and AER logos
- any illustration, diagram, photograph or graphic over which the Australian Competition and Consumer Commission does not hold copyright, but which may be part of or contained within this publication.

The details of the relevant licence conditions are available on the Creative Commons website, as is the full legal code for the CC BY 3.0 AU licence.

Requests and inquiries concerning reproduction and rights should be addressed to the Director, Content and Digital Services, ACCC, GPO Box 3131, Canberra ACT 2601, or publishing.unit@acc.gov.au.

1. Introduction

In December 2018, the ACCC and Gas Market Reform Group (GMRG) released a joint paper on measures to improve the transparency of the east coast gas market (the Joint Paper).¹ The Joint Paper followed an announcement by the then Prime Minister in March 2017 that the ACCC and GMRG would work together to:²

“...advise on options to quickly improve transparency in the gas market, to facilitate competition between producers and information for purchasers. The scope will include the full supply chain – producers, transporters, retailers.”

The Joint Paper noted that the ACCC would examine the adequacy of the weighted average prices (WAPs) published by non-scheme pipeline operators³ and provide further advice in the first half of 2019 on whether this metric should be retained in the National Gas Rules for transportation, compression and storage charges, or if individual prices (or some other reporting metric) should be used instead.

2. Background

Weighted average prices

WAPs provide a measure of the amount that users are charged, on a volume weighted average basis, for a particular service. The requirement in Part 23 of the National Gas Rules to publish WAPs was intended to enable shippers to compare an offer to what other shippers paid for similar services in the last financial year.⁴

The AER has developed a mandatory Financial Reporting Guideline for Non-scheme Pipelines (‘the Guideline’), which requires non-scheme pipeline operators to publish WAPs for the following services:

- transportation services
 - firm forward haul transportation services⁵ (includes bi-directional services, if a pipeline operates in a bi-directional manner)
 - interruptible⁶ or as available⁷ transportation service
 - backhaul services⁸

¹ ACCC and GRMG, Measures to improve gas market transparency, December 2018.

² Hon. M Turnbull MP, Measures agreed for Cheaper, More Reliable Gas, 15 March 2017.

³ A non-scheme pipeline is a pipeline that is not subject to either full or light regulation, but is subject to the information disclosure and arbitration framework in Part 23 of the National Gas Rules. Under Part 23 of the National Gas Rules, non-scheme pipeline operators are required to publish, amongst other things, the weighted average prices paid by users for each service. An equivalent requirement was recently implemented for light regulation pipelines through amendments to Part 7 of the National Gas Rules.

⁴ GMRG, Gas Pipeline Information Disclosure and Arbitration Framework – Final Design Recommendation, June 2017, pp. 44-45.

⁵ A service that allows the transportation of gas on a ‘firm’ basis up to a maximum daily quantity and maximum hourly quantity. It has the highest priority of any transportation service.

⁶ A service that allows the transportation of gas on an ‘interruptible’ basis. The pipeline operator does not have an obligation to guarantee capacity and has the right to curtail the service if the pipeline becomes capacity constrained or higher priority services are required. This service has a lower priority than firm and as available transportation services.

⁷ A service that allows the transportation of gas on an ‘as available’ basis, subject to the availability of capacity. This service has a lower priority than a firm transportation service.

- stand-alone firm compression services, and
- firm storage (i.e. park and/or park⁹ and loan¹⁰ services).

Where more than one charging method applies to a particular service, pipeline operators must also report the WAPs by charging method. For example, if a pipeline operator charges:

- some shippers on a distance¹¹ or zonal¹² basis and others on a postage stamp¹³ basis, then separate WAPs must be published for each charging structure
- some shippers a fixed charge and others a fixed and variable charge, then separate WAPs must be published for the fixed charge and the variable charge.

Pipeline operators can seek an exemption from publishing the WAP for a particular service if the service was provided, directly or indirectly, to no more than two users of the non-scheme pipeline. This exemption framework was introduced to address confidentiality concerns that were raised during the development of the framework.

In line with the Guideline, WAPs must be determined as follows:¹⁴

$$\text{Capacity based charges} = \frac{\$Revenue}{\text{Maximum daily quantity}}$$

$$\text{Volumetric based charging} = \frac{\$Revenue}{\text{Giga joules transported}}$$

In those cases where a shipper pays a bundled price to use multiple pipelines, the Guideline allows estimates to be used to calculate WAPs for each pipeline.

Issue

While the requirement to publish WAPs only commenced in October 2018, questions have been raised by some stakeholders about the usefulness and the quality of this information and whether prices should instead be published on an individual basis.

This issue was considered by the GMRG when developing the information disclosure and arbitration framework. While the GMRG had some concerns about the potential for WAPs to mislead shippers (e.g. if there were significant differences in the underlying terms and prices), this option was advocated by a number of shippers and pipeline operators. These stakeholders noted that the publication of WAPs would provide an indication of what other shippers were paying while also overcoming the confidentiality concerns associated with the publication of individual prices. Although there was more support for the WAPs, a number of shippers did advocate the publication of individual prices. Having regard to the feedback provided by stakeholders and the concerns that had been raised in the AEMC's East Coast

⁸ A back haul service involves the notional 'transportation' of gas in the opposite direction to the predominant flow of gas. The transportation is notional because the service does not actually result in the physical transportation of gas in the opposite direction. Rather the service involves a physical swap with gas 'exchanged' at the point at which it is intended to enter the pipeline for an equivalent amount of gas at the backhaul delivery point. The practical effect of the back haul service is that the net forward haul flow is offset by the volumes of gas nominated for back haul. If there is an insufficient volume of gas being transported on a forward haul basis then the back haul service will be interrupted, which is why this service is usually only sold on an interruptible basis.

⁹ A service that allows users to store gas in a pipeline, which in practice involves injecting more gas into a pipeline than what is taken out on a particular day.

¹⁰ A service that allows users to "borrow" gas from a pipeline, which in practice involves withdrawing more gas from a pipeline than what is injected on a particular day.

¹¹ Where a charge for a service is based on the dollar per GJ per kilometre basis. Each major delivery point is required to be disclosed separately.

¹² Where a pipeline is separated into zones and a separate tariff is calculated based on the number of zones through which gas is transported. Each zone is required to be disclosed separately.

¹³ Where the same charge is payable along the length of the pipeline, irrespective of the distance transported.

¹⁴ The maximum daily quantity should to be measured in GJ, and revenue should be reported on an accrual basis.

Review about confidentiality,¹⁵ the GMRG recommended that WAPs, rather than individual prices, be reported.

While this issue has previously been considered by the GMRG, in the joint ACCC-GMRG transparency paper we noted that there would be value in revisiting this issue given the questions that have subsequently been raised about the adequacy of WAPs.

3. Observations

In January this year, we used our compulsory information gathering powers to obtain information and documents on how pipeline operators derived their published WAPs, including intermediary calculations and individual shipper information. On the basis of this information we are of the view that:

- WAPs do not provide a good representation of the prices paid by individual shippers, and
- WAPs are not always comparable to standing offers.

We have also identified other limitations and issues with WAPs such as:

- the aggregation of prices ignoring the fact that the underlying non-price terms and conditions associated with a service may differ substantially between individual contracts
- some apparent errors in published WAPs
- the delineation between volumetric and capacity components of WAPs creating difficulties in comparing published WAPs to standing offers
- the calculation of WAPs being open to manipulation by pipeline operators, and
- the exemption framework resulting in WAPs not being published for all services (i.e. if there are two or less users of the service).

These findings will be discussed further in our July 2019 interim report.

The ACCC considers that there are significant issues with the WAP information that is currently being reported, and that published WAPs may not be meeting their intended objective.

4. Recommendation

Given the limitations of WAPs identified above, we have considered alternative price reporting options. Namely:

1. the reporting of a price range, in addition to the reporting of WAPs, that reflects the upper and lower limits of what shippers have paid for services, and
2. the reporting of individual prices (plus key terms and conditions) instead of WAPs.

Both of these reporting options would provide shippers with actual pricing information, which would overcome the majority of the issues associated with WAPs. In particular, reporting a price range to supplement the reporting of WAPs would enable shippers to:

- identify the outliers that are influencing published WAPs

¹⁵ AEMC, Submissions: East Coast Wholesale Gas market and Pipeline Frameworks Review, May 2016, p. 55.

- identify where published WAPs sit within the range of prices paid by individual shippers, and
- get a better understanding of the extent to which price discrimination may be occurring.

Publication of individual prices (plus key terms and conditions) would provide full transparency, however, requires further consultation and consideration as:

- there have been mixed views expressed by shippers (in previous consultations as well as the ACCC's current inquiry) about whether publication of individual prices raises confidentiality concerns, and
- the impact disclosure might have on competition in other upstream and downstream markets needs to be tested more broadly with gas industry participants.

It is worth noting that, as mentioned in the joint ACCC-GMRG transparency paper, the risk of coordinated conduct amongst pipelines, standalone compression and storage facilities is relatively low because they are typically monopoly infrastructure.¹⁶ The publication of individual prices in this context is therefore less of a concern than it is for gas prices.

Given the Commonwealth is currently undertaking a RIS process on gas pipeline regulation, we consider this to be the most appropriate forum to consider the above reporting options further, and to obtain stakeholder views on the issues identified above. We therefore recommend that the Commonwealth consult on both:

1. the reporting of a price range, in addition to the reporting of WAPs, and
2. the reporting of individual prices (plus key terms and conditions) instead of WAPs.

If publication of individual prices plus key terms and conditions occurs, consideration will need to be given to what those key terms and conditions should be. We note that in the context of the secondary capacity trading framework, service providers are required to publish the trade date and service term, the type of service purchased, the amount of capacity procured, the price structure and price escalation mechanism.

Such reporting on the prices actually paid by users could also apply to stand-alone compression and storage facility operators that are providing third party access.¹⁷

¹⁶ ACCC and GRMG, Measures to improve gas market transparency, December 2018, pp 13, 34.

¹⁷ In contrast to pipelines, stand-alone compression and storage facility service providers are not currently required to publish information on the prices actually paid by users of these services. In the joint ACCC-GMRG transparency paper, we therefore recommended that stand-alone compression and storage facility operators that are providing third party access be required to publish information on the actual prices paid by users of these facilities.