

18 March 2019

Nicole Ross
General Manager, Gas Unit
Australian Competition and Consumer Commission
24 Marcus Clarke Street
Canberra, Australian Capital Territory 2601

Re: Chemistry Australia submission to the Framework for the consistent reporting of natural gas reserves and resources consultation paper

Dear Nicole,

Chemistry Australia welcomes the ACCC's consultation paper on the Framework for the consistent reporting of natural gas reserves and resources. Chemistry Australia is pleased to provide this submission to the consultation process, contained in the attached Response Template.

Chemistry Australia is the pre-eminent national body representing Australia's chemistry industry. This is one of the largest manufacturing sectors in Australia, employing over 60,000 workers and provides industry value-add of \$11.6Bn. It supplies inputs to 109 of Australia's 111 industries¹.

Chemistry Australia members are major industrial users of gas – the largest consumption sector in the economy. Gas is used as a chemical feedstock, as well as for its energy value. The industry provides chemicals and polymers as critical inputs to many domestic value chains.

Chemistry Australia recognises that commercial and residential gas consumers also need to have improved security of affordable supply.

Chemistry Australia maintains a market-based approach in relation to gas with the objective of: **“a domestic gas market that is deep in capacity, liquid in supply, competitive, transparent, informed and with adequate price discovery”**. This objective is consistent with the Council of Australian Governments Energy Council's Domestic Gas Market Vision set out in December 2014.

Chemistry Australia endorses the principles and application of the The **National Gas Objective (NGO)** as stated in the **National Gas Law (NGL)**: “to promote efficient investment in, and efficient operation and use of, **natural gas** services for the long term interests of consumers of **natural gas** with respect to price, quality, safety, reliability and security of supply of **natural gas**.”

The provision of gas exploration licenses for Australia's gas by Australian governments must support the NGO. The well-established and documented problems with information asymmetry, scarcity, inconsistency and opacity have long been barriers to industrial consumers being able to operate in

¹ CSIRO: Elements in Everything

Australia. The ACCC recommendations are a welcome and valuable start to providing the balance gas consumers need, as part of broader market reforms.

The operation of Australia's domestic gas markets must be globally competitive from a consumer's perspective - seeking to attract global and local investment for plants, processes and markets that use gas for both feedstock and energy. The information reported regarding reserves and resources needs to meet these consumer focused needs.

A range of gas market stakeholders need access to more accurate and timely information than has been the case. These stakeholders and their information requirements include:

- Companies seeking to become market participants in addition to those who are end consumers
- Companies seeking to take upstream discovery and exploration positions as a mean of dealing with supply and price risk
- Companies needing to manage current and ongoing supply contracts and the terms and conditions involved
- Companies needing to renew, extend or otherwise change their supply contracts and the terms and conditions involved
- Aggregators seeking to assist the above-mentioned processes
- Market regulators and operators needing to support, inform, oversight and regulate the market, its volumes, forecasts and implications
- Policy makers needing to support, inform, develop strategy and oversight the market, its volumes, forecasts and implications.

Chemistry Australia trusts that this submission is helpful to the gas market reform process and the principles and outcomes of the National Gas Objective.

Please let me know if you would like any additional information of clarification.

Yours sincerely,



Peter Bury

Director – Strategy, Energy and Research



Framework for the consistent reporting of natural gas reserves and resources – Consultation Paper

Attachment 1: Response template

Stakeholder name: Chemistry Australia

	Questions	Feedback
Box 2.2 Questions on categories of reserves		
1.	<p>Do you agree that producers should be required to report on their 1P, 2P and 3P reserves estimates?</p> <p>(a) If so, please explain how you would use this information and the benefit it would provide.</p> <p>(b) If not, please explain why.</p>	<p>Yes</p> <p>The information will be used by the stakeholders identified in the cover letter to meet the objectives outlined including: price discovery; current and future contract management; exploration investment support; contract extension and management; market participation; policy; strategy; support; oversight and regulation.</p>
2.	<p>Do you agree that producers should be required to break down their 1P, 2P and 3P reserves into developed and undeveloped reserves?</p> <p>(a) If so, please explain how you would use this information and the benefit it would provide.</p> <p>(b) If not, please explain why.</p>	<p>Yes</p> <p>For the reasons set out in 1. Differentiated reserve information is material to the stated stakeholders, their objectives and the NGO.</p>
3.	<p>Should it be mandatory for producers to develop 3P reserves estimates, or should the reporting of this information be optional as it is under the ASX Listing Rules and in other jurisdictions?</p>	<p>Yes. 3P reserve estimates are material to the domestic market, its operation, management, strategy, regulation and the National Gas Objective</p>
Box 2.3 Questions on categories of resources		
4.	<p>Do you agree that 1C and 2C contingent resources should be reported?</p> <p>(a) If so, please explain how you would use this information and the benefit it would provide.</p>	<p>Yes</p> <p>For the reasons set out in 1.</p>



	Questions	Feedback
	(b) If not, please explain why.	
5.	Do you think it should be mandatory for producers to develop 1C and 2C contingent resource estimates, or should the reporting of this information be optional as it is under the ASX Listing Rules and in other jurisdictions?	Yes For the reasons set out in 1. Differentiated reserve information is material to the stated stakeholders, their objectives and the NGO.
6.	Do you think any other resource categories (e.g. 3C contingent resources or prospective resources) should be reported? If so, please explain how you would use this information and the benefit it would provide.	Yes For the reasons set out in 1. Differentiated reserve information is material to the stated stakeholders, their objectives and the NGO.
Box 2.4 Questions on gas field information		
7.	Do you agree that information on the field's stage of development, the type of gas and the nature of the gas field should be reported? (a) If so, please explain how you would use this information and the benefit it would provide. (b) If not, please explain why.	Yes For the reasons set out in 1. Information on development stages, gas types and nature of the fields is material to the stated stakeholders, their objectives and the NGO. In particular the types of gas: wet; dry; the types of condensate; NGLs; depth; contaminants and other issues material to viability, timing and investment are critical for consumers.
8.	Do you agree with the categories that have been proposed for the field's stage of development, the type of gas and/or the nature of the gas field? If not, please explain why and what alternatives you would suggest.	Yes. Contaminants and other risks factors that will impact viability are important to also include.
9.	Is there any other gas field information that you think should be reported? If so, please explain why you think this is consistent with the objectives of the reporting framework.	Any known factors that will impact viability, investment or timing are important to disclose and report. The issue of contaminant type, reserve or resource depth and geology are likely inclusions. Chemistry Australia recommends the development of a standardised list of risk factors to assist this aspect.



	Questions	Feedback
Box 2.5 Questions on movement in 2P reserves		
10.	<p>Do you agree that annual movements in 2P reserves should be reported?</p> <p>(a) If so, please explain how you would use this information and the benefit it would provide.</p> <p>(b) If not, please explain why.</p>	<p>Yes</p> <p>For the reasons set out in 1. Markets, contract management, forecasting, strategy and investment are highly dynamic environments requiring disclosure of material information.</p>
11.	<p>Do you agree with the categories that have been proposed for the breakdown of movements in 2P reserves? If not, please explain why.</p>	<p>The proposed categories are helpful.</p> <p>Chemistry Australia recommends the inclusion of new or changed risk factors. It may be necessary to compile a standardised list of risk factors to assist this aspect as recommended in 9.</p>
12.	<p>Do you think there would be value in also requiring producers to report on annual movements in 2C resources?</p> <p>(a) If so, please explain how you would use this information and the benefit it would provide.</p> <p>(b) If not, please explain why.</p>	<p>Yes</p> <p>For the reasons set out in 1. Markets, contract management, forecasting, strategy and investment are highly dynamic environments requiring disclosure of material information.</p>
Box 2.6 Questions on contracted 2P reserves		
13.	<p>Do you agree that if the ACCC and GMRG's recommendation on contracted 2P reserves is implemented that:</p> <p>(a) producers should be required to report the total quantity of 2P reserves that they are contracted to supply as total contract quantities under GSAs at a basin level? If not, please explain why.</p> <p>(b) AEMO should be required to further aggregate the information if there are less than three producers operating in the basin? If not, please explain why.</p>	<p>Yes</p> <p>(a) For the reasons set out in 1. Markets, contract management, forecasting, strategy and investment are highly dynamic environments requiring disclosure of material information.</p> <p>(b) The issue of aggregation, privacy and the needs of the market will require balance. Authorities have recognised the conditions and potential for the exercise of market power. Where aggregation materially disadvantages consumers in terms of market power, it may be necessary to develop additional guidelines consistent with the NGO.</p>



	Questions	Feedback
Box 2.7 Questions on other information		
14.	<p>Is there any other information that you think should form part of the reporting framework? If so, please set out:</p> <p>(a) what the information is</p> <p>(b) how you would use the information and the benefit it would provide</p> <p>(c) why you think the inclusion of this information would be consistent with the objectives of the reporting framework.</p>	<p>As discussed at 9., Any known risk factors that will impact viability, investment or timing are important to disclose and report. The issue of contaminant type, reserve or resource depth and geology are likely inclusions.</p> <p>Chemistry Australia recommends the development of a standardised list of risk factors to assist this aspect.</p> <p>(c) the information is consistent with the objectives of the NGO and this framework as they are material to removing information asymmetry. Given the need for consumers to be in all parts of the market to secure supply, manage risk and assist price discovery, all known risks with Australia’s gas licenced to licence holders are material to disclose.</p>
Box 2.8 Questions on reporting standard		
15.	<p>Do you agree that the PRMS classification system should be used in the proposed reporting framework? If not, please explain why.</p>	<p>If the PRMS is the global standard for reporting and provides domestic consumers with globally competitive information for domestic investment, then its use seems appropriate.</p> <p>Chemistry Australia recommends:</p> <ul style="list-style-type: none"> - that any changes in the PRMS mechanism or methodologies are reflected in a timely and accurate manner for Australian markets - that where changes in the PRMS create material impacts to known information, markets or the development of future information, that these are provided to the market in an accurate and timely manner.
16.	<p>Do you agree that the PRMS definitions set out in Box 2.1 should be used in the proposed reporting framework? If not, please explain why.</p>	<p>No comment at this stage.</p>
17.	<p>Are there any other reporting standards or definitions that you think should be reflected in the reporting framework?</p>	<p>Other than the information previously recommendations on risk and viability factors, no further comments.</p>



	Questions	Feedback
Box 2.9 Questions on quantities and analytical methods		
18.	Do you agree that reserves and resources should be reported on the basis of sales quantities? If not, please explain why.	Yes
19.	Do you agree that reserves and resources should be reported on a net revenue basis? If not, please explain why.	Yes
20.	Do you agree that producers should be required to disclose the analytical method they have used to estimate their reserves and resources? If not, please explain why.	Yes. This is a critical factor.
Box 2.10 Questions on reserves and resources reporting level		
21.	<p>Do you agree that the reserves and resources information set out in sections 2.2.1-2.2.4 should be reported at a field level?</p> <p>(a) If so, please explain how you would use this information and the benefit it would provide.</p> <p>(b) If not, please explain why and set out what reporting level you think should be adopted.</p>	<p>Yes</p> <p>For the reasons set out in 1. Differentiated reserve information is material to the stated stakeholders, their objectives and the NGO.</p>
Box 2.11 Questions on the frequency and timing of reporting		
22.	Do you agree that the frequency of reporting should be annual? If not, please explain why.	<p>Yes. Annual seems an appropriate timing.</p> <p>Chemistry Australia also recommends consideration needs to be given to</p> <ul style="list-style-type: none"> - The lag time of reported information - The coincidence of this reporting with other market information such as the GSOO and similar.
23.	<p>Do you agree that producers should also be required to report on any material changes in reserves and resources estimates that occur within the year?</p> <p>(a) If so:</p>	<p>Yes</p> <p>(a) i. For the reasons set out in 1. Markets, contract management, forecasting, strategy and investment are highly dynamic environments requiring disclosure</p>



	Questions	Feedback
	<p>i. do you think there should be any limitation on the requirement to report changes (for example, should the requirement be limited to changes in reserves and resources that are advised to the ASX and/or government agencies, or should it be limited to material changes in reserves and resources)?</p> <p>ii. do you think the threshold for material changes should be set at +/-10% or do you think another threshold would be more appropriate?</p> <p>(b) If not, please explain why.</p>	<p>of material information.</p> <p>iii. The issue of material changes and reporting is important. The driver for reporting change is market impact. A smaller than 10% change in a large volume may have greater impact than a 10% change in a smaller volume. Authorities have recognised the conditions and potential for the exercise of market power.</p> <p>Chemistry Australia recommends that further work is done on this threshold with a clear focus on the needs of market stakeholders.</p>
24.	<p>Do you think that all producers should be required to report their reserves and resources as at a fixed date? If not, please explain why and the option you believe should be employed.</p>	<p>It is desirable to have all reserves and resources reported at the same time.</p> <p>Options (a) and (b) seem the most appropriate.</p> <p>Other considerations for report timing should include:</p> <ul style="list-style-type: none"> - Other report timing such as GSOO - The accuracy and lag time of the information reported
Box 2.12 Questions on evaluation requirements		
25.	<p>Do you agree that reserve and resource estimates should be required to be prepared by, or under the supervision of, an independent qualified evaluator? If not, please explain why.</p>	<p>Yes.</p>
26.	<p>Do you think that any other evaluation requirements (e.g. a requirement to obtain an independent audit) should be implemented?</p>	<p>Yes. Chemistry Australia recognises the need for market operators and regulators to have a very high level of confidence in the information reported.</p> <p>It will be necessary for AER, AEMC, AEMO or other bodies to ensure that they have this capability and consistency within their organisations.</p>



	Questions	Feedback
Box 2.13 Questions on compliance costs		
27.	What incremental costs do producers expect to incur in complying with the reporting requirements proposed in sections 2.3 and 2.4?	Given this information is already developed for producers own use, and this reform exercise is about eliminating information asymmetry, the cost of disclosing and providing it to regulators is likely to minimal incremental.
28.	Do you think there are any refinements that could be made to the proposed reporting requirements in sections 2.3 and 2.4 to further reduce compliance costs or the regulatory burden, whilst also ensuring the requirements are fit for purpose and achieves the objectives set out in section 1?	No further comments.
Box 3.1 Questions on the manner in which reserves are to be estimated		
29.	Do you agree that producers should be required to estimate their reserves on the basis of forecast economic conditions? If not, please explain why.	Yes.
Box 3.3 Questions on gas price assumptions to be used for uncontracted reserves		
30.	<p>Do you think that:</p> <p>(a) Producers should be responsible for determining the forecast gas prices they will assume when estimating uncontracted reserves and required to disclose these assumptions (i.e. Option 2)?</p> <p>i. If so, please explain why.</p> <p>ii. If not, please explain why.</p> <p>(b) Producers should be required to use a mandated common gas price assumption when estimating uncontracted reserves (i.e. Option 1)?</p> <p>i. If so, please explain why and set out:</p> <p>a. the benefits you think this would provide over the producer-determined assumptions?</p> <p>b. how you think the forecast common gas price</p>	<p>Yes</p> <p>(a) 1. The information will be used by the stakeholders identified in the cover letter to meet the objectives outlined including: price discovery; current and future contract management; exploration investment support; contract extension and management; market participation; policy; strategy; support; oversight and regulation.</p> <p>In particular, the long-held and documented concerns about gas banking and withholding supply from the market may be improved by better understanding the basis on gas will be developed and brought to market.</p> <p>(b) A common reference price has benefit to consumers and other stakeholders. There are a variety of price-related factors relevant to producers ,and applied by them to their pricing formulae that need to be disclosed and made available to stakeholders.</p>



	Questions	Feedback
	<p>assumption should be determined?</p> <p>ii. If not, please explain why.</p> <p>(c) Producers should be responsible for determining the forecast gas prices they will assume when estimating uncontracted reserves and not required to disclose their assumptions (i.e. Option 3)?</p> <p>i. If so, please explain why and set out how do you think this option would address the concerns outlined in section 3.1?</p> <p>ii. If not, please explain why.</p>	(c) Not supported – for the reasons provided above.
31.	<p>If Option 2 is implemented, do you think that the disclosure requirements in section 3.6 will impose sufficient discipline on producers, or do you think the gas price assumptions used by producers should be required to satisfy a test that would be overseen by the AER? If you think the gas price assumptions should be subject to a test, please set out:</p> <p>(a) what form you think the test should take and if the test should apply to the gas price assumptions or the method used to determine the gas price assumptions</p> <p>(b) how you think the test should be enforced by the AER (for example, should the AER have the power to require producers to re-estimate their reserves using an alternative price assumption).</p>	Yes.
Box 3.4 Questions on gas price assumptions to be used for contracted reserves		
32.	<p>Do you agree that the gas price assumptions underpinning contracted reserves should be based on the prices specified in the relevant GSAs? If not, please explain why.</p>	Yes.
33.	<p>Do you agree with the ACCC's proposal to allow producers to account for the operation of:</p> <p>(a) price escalation mechanisms when determining the prices to apply under the relevant GSAs over the forecast period? If not,</p>	Yes.



	Questions	Feedback
	<p>please explain why.</p> <p>(b) contract extension provisions if the GSAs are likely to be extended and the prices (or pricing mechanisms) to apply in this period have already been determined? If not, please explain why.</p>	
Box 3.5 Questions on the disclosure requirements for gas price assumptions		
34.	<p>Do you agree that producers should be required to disclose the following information when reporting their reserves estimates?</p> <p>(a) The gas price range within which there would be no material change in the 2P reserves estimates, which is to be reported at a basin level for each of the following five years and generally for subsequent periods (with the range to be based on the price assumptions used to estimate uncontracted reserves).</p> <p>(b) The sensitivity of the 2P reserves estimates to a +/-10% change in the gas price range reported under (a).</p> <p>(c) A description of the method used to determine the gas price range and any other assumptions that have been made when determining the price range.</p> <p>(d) An explanation of any changes that have been made to the gas price assumptions from the previous year and why the changes were made.</p> <p>If not, please explain why.</p>	<p>Yes.</p> <p>(b) The driver for reporting sensitivity and change is market impact. A smaller than 10% change in a large volume may have greater impact than a 10% change in a smaller volume. In particular, this market is recognised as having very high potential and conditions for the exercise of market power.</p> <p>Chemistry Australia recommends that further work is done on this threshold with a clear focus on the needs of market stakeholders.</p> <p>(c) Yes</p> <p>(d) Yes.</p>
35.	<p>Do you agree with the proposal to require producers to report the gas price range:</p> <p>(a) for each year over a five year period and generally thereafter? If not, please explain why.</p> <p>(b) for uncontracted reserves only? If not, please explain why.</p> <p>(c) at a basin level? If not, please explain why.</p>	<p>Yes.</p>



	Questions	Feedback
36.	If producers are required to report the gas price range within which there would be no material change in 2P reserves, what materiality threshold do you think should be adopted for this purpose and why?	Chemistry Australia recommends that further work is done on this threshold with a clear focus on the needs of market stakeholders.
37.	Do you agree that the threshold for measuring the sensitivity of the reserves estimates should be 10%? If not, please explain why and what alternative threshold you think should be applied.	<p>The driver for reporting sensitivity and change is market impact. A smaller than 10% change in a large volume may have greater impact than a 10% change in a smaller volume.</p> <p>Authorities have recognised the conditions and potential for the exercise of market power.</p> <p>Chemistry Australia recommends that further work is done on this threshold with a clear focus on the needs of market stakeholders.</p>
38.	Is there any other information that you think should be disclosed about the gas price assumptions? If so, please explain what the information is and why it is required to meet the objectives set out in section 1.	The previously mentioned issue of viability and risk factors, including contaminations.
Box 3.6 Questions on compliance costs		
39.	What incremental costs do producers expect to incur in complying with the proposed reporting requirements set out in sections 3.4-3.6?	Given this information is already developed for producers own use, and this reform exercise is about eliminating information asymmetry, the cost of disclosing and providing it to regulators is likely to minimal incremental.
40.	Do you think there are any refinements that could be made to the proposed reporting requirements in sections 3.4-3.6 to further reduce compliance costs or the regulatory burden, whilst also ensuring they are fit for purpose and achieves the objectives set out in section 1?	The previously mentioned issue of viability and risk factors, including contaminations.