PUBLIC SUBMISSION
TO ACCC EAST COAST GAS INQUIRY
BY
ENERGY AND MANAGEMENT SERVICES
ON BEHALF OF REGIONAL CLIENTS

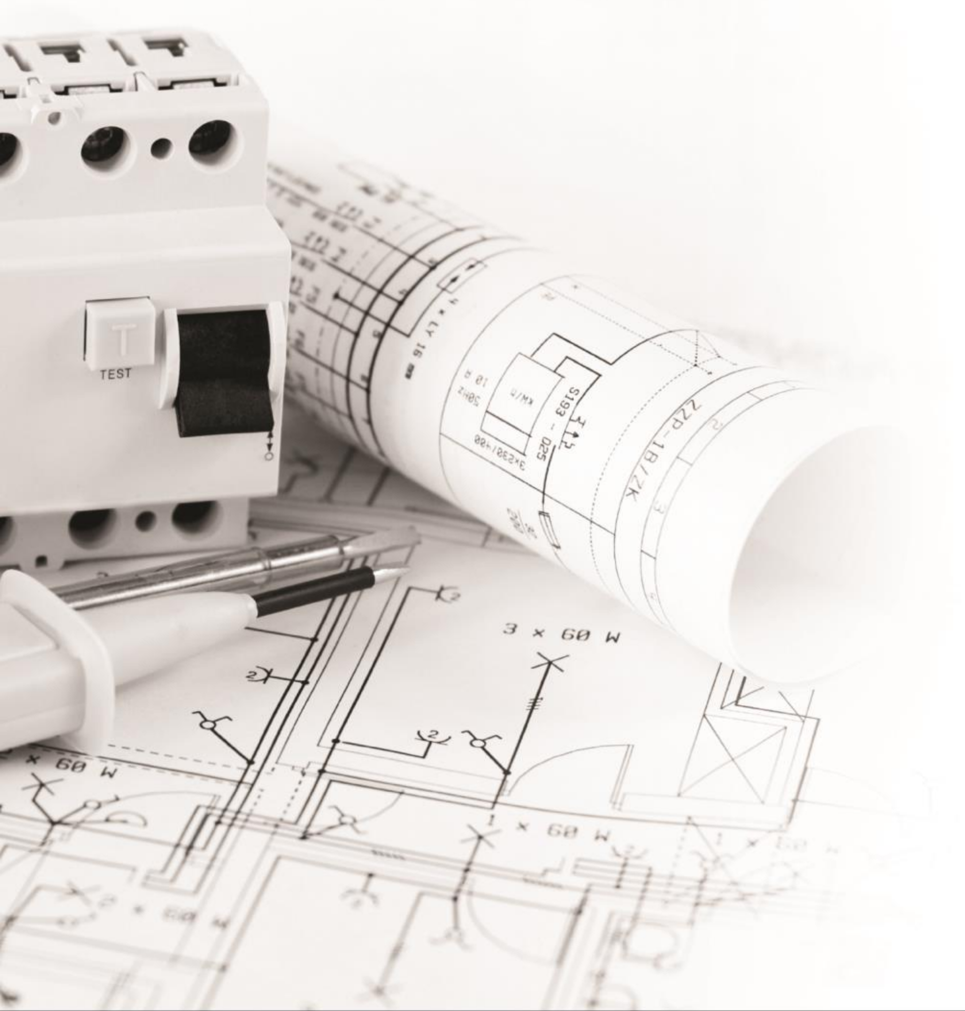

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TABLE OF CONTENTS

1 INTRODUCTION

Energy and Management Services (EMS) was engaged by two clients as listed below to assist in the preparation of a submission to the ACCC East Coast Gas Inquiry

Clients for whom this submission is prepared:

- Food & Beverage Industry (Customer A);
- Food & Beverage Industry (Customer B).

A separate confidential document will accompany this response which will clearly identify the customer names and locations. The confidential document also identifies the Retailer involved in each case rather than Retailer A, Retailer B, etc.

2. BACKGROUND

EMS is a long established independent consultant assisting clients with gas and electricity supply negotiations, energy management and bill verification along with other various associated energy services.

EMS has become aware over many years that certain regional clients have difficulty obtaining competitive Retail gas offers for their regional sites. The Retailers who consistently decline to price in these regions often cite inability to obtain transportation on regional pipelines or lack of network access undertakings as the reasons for declining to price.

This means that the client may often only have one choice of Retailer who can then charge a premium for gas supply. Although direct comparisons with city based customers gas prices is somewhat difficult, it appears that the regional customers are paying a premium for lack of competition.

3. EXAMPLES OF GAS TRANSPORTATION ISSUES

Customer A operates large sites in Regional South Australia (SA) and Regional Northern NSW consuming approximately 250 TJ pa and 75 TJ pa respectively. Both are supplied from regional pipelines and both suffer from relatively high natural gas prices and a lack of Retail competition.

With respect to the Regional SA site, the location of the connection of the Adelaide to Mildura transmission line to the Moomba Adelaide Pipeline (MAP) ensures that only gas sourced from Moomba can physically be delivered to all customers on the lateral connection (and also to some parts of Adelaide). APA has indicated that an interconnection of SEAgas and MAP is planned for late in 2015 which could alleviate this issue. Anecdotal evidence appears to indicate that natural gas originating from Moomba is more expensive than gas originating from Victoria however a lack of transparency in Retailer pricing offers makes this difficult to prove.

Retailer A has been supplying this Regional SA site for many years and has booked the entire capacity of the Epic pipeline from Adelaide to Angaston and the AGN (formerly Envestra) pipeline from Angaston to Mildura including the branch line to the Regional SA site. This means that other suppliers cannot quote on a "firm" supply basis for the Epic line to Angaston and cannot quote at all on the AGN pipeline. Anecdotal evidence suggests that neither pipeline is constrained and Retailer B and Retailer C claim to have had several customers on the Epic line on "interruptible" contracts for several years without any supply interruptions.

A further complication is that the site is not supplied directly from the transmission pipeline but from the local AGN network, however other Retailers have indicated that this should not prevent them from offering a supply contract.

The end result of the incumbent Retailer booking the entire capacity of a key lateral pipeline is that it effectively locks out other Retailers from competing on an equal footing and that Retailer A is effectively a monopoly supplier.

Customer A is now attempting to negotiate a private haulage agreement with the pipeline owners/operators to facilitate competition from other Retailers, however this requires Retailer A to agree to a modification of their haulage agreement with the pipeline owner/operator.

To exacerbate matters, as is common in the gas industry, Retailer A refuses to divulge the individual breakdown of costs. Hence, this lack of transparency means that the customer is unable to determine if they are being overcharged compared to customers in other areas who can avail themselves of competitive offers from multiple Retailers. For example when Retailer A was queried over the significant changes in the relative magnitudes of the fixed and variable commodity charges for this Regional SA site over the last five years they admitted that a pricing policy decision some years ago resulted in moving some significant costs from the fixed to the variable component and vice versa. As is common with NSW and SA gas pricing offers there is only three components of the price:

- Commodity Charge i.e. $/GJ;
- Supply Charge i.e. fixed $/month;
- DUOS charge (pass through from local network owner).

Unfortunately the Customer A Regional Northern NSW site suffers from a similar lack of competition but from a slightly different cause.

Retailer A has also been supplying this Regional Northern NSW site for a number of years after acquiring the previous government owned gas Retailer. The site is supplied from the Moomba to Sydney Pipeline (MSP) through the Central West Pipeline (CWP) and then the Central Ranges

Pipeline (CRP). This is unfortunate as both CWP and CRP transportation charges add up to $6.53 per GJ onto the price compared to sites supplied directly from the MSP.

A further impediment to competitive pricing is that Retailers are required to have an access arrangement with the network owner (Jemena on behalf of APT). Retailer A is the only company that currently has an access arrangement in Regional Northern NSW and Retailer B and Retailer C have both stated there is insufficient justification for them to obtain an access arrangement (there is a substantial cost for Retailers to prepare an application for approval by IPART).

Customer B are another medium sized gas consumer (150 TJ pa) in Regional Central West NSW who have had difficulty getting Retailers to quote and where lack of transparency has led to misunderstandings about comparing the price from Retailers. For example Customer B were foundation customers for the Central West Pipeline and were initially allowed to purchase transportation services directly from the pipeline owner at a discount to the “published” rate. When the volumes on the pipeline increased the pipeline owners were not willing to provide discounts and one large Retailer (Retailer B) stated they could offer a cheaper price than the published rate. However Retailer B would not clearly show the CWP rate in their gas supply offer as it was bundled with Moomba to Marsden pipeline costs and other fixed monthly charges. This made it impossible to determine if the offered bundled price was in fact cheaper than the CWP published rate. It also led to a dispute between Retailer B and the customer when the CWP price was not charged for some time and then back-charged in one large lump sum.

EMS is aware of a third large gas consuming client in the ACT/Nowra region of NSW who suffered from relatively high gas prices for many years and a lack of Retail competition for similar reasons e.g. Retailers having difficulty in obtaining capacity on the short lateral pipeline connected to the Eastern Australian Pipeline (EAPL) plus high local network charges from the monopoly network owner. This client eventually solved both problems by the drastic step of obtaining all the necessary approvals to commence a duplication of the local network from the EAPL to the site. It was only at the eleventh hour that the local network owner finally offered a reasonable negotiated price to avoid the need for duplicating the infrastructure.

This customer has also responded to the increasing natural gas prices by increasing their proportion of energy derived from alternative sources such as coal and biomass.

4. CONCLUSION

Lack of competition in gas retailing to large regional customers appears to be driving up prices.

The three key problems are:

1. Retailers booking the entire capacity of key pipelines hence effectively locking out competitors.

2. The high cost of obtaining Access Arrangements for network distribution is an impediment to Retailers to compete in areas where they have no existing customer base.

3. Lack of transparency in Retailer gas supply offers prevents customers from seeing where Retailers are allocating costs and hence understanding if the price they are being offered is competitive.

Combined with the increasing commodity costs of natural gas, customers in regional areas such as Customer A are highly likely to commence moving from natural gas to cheaper alternative fuels such as biomass or coal which will bring negative net environmental effects.

5. DISCLAIMER

This report documents the results of an analysis by Energy and Management Services. The findings, conclusions and recommendations and all written material contained in the report represents our best professional judgement based on the information made available.

In preparing the report, we have relied upon information provided by customers and others through referral, to form our conclusions. Whilst we have reviewed this information to assess its reasonableness and internal consistency, we have not allowed for an audit of any of the information provided.

The analyses have been based on actual historic usage data and offered prices. No warranty is implied or expressed regarding the accuracy of such data nor regarding movements of future prices and customers should form their own opinions about such matters.

Energy and Management Services warrants that our services have been performed in a professional manner and in accordance with applicable professional standards.