



EVOLUTION OF THE GAS MARKET

ACCC COMMISSIONER ED WILLETT OUTLINED THE BENEFITS OF A NATIONAL APPROACH TO ENERGY REGULATION

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A COMPLETE COPY OF THE SPEECH IS AVAILABLE AT WWW.ACCC.GOV.AU.

Australia's reserves of natural gas could meet current domestic demand for more than 100 years. The problem is either the users or the gas are in the wrong place: most Australians live in the south-east, and nearly all of the gas reserves are at the opposite end of the country—in basins off the north-west coast of Western Australia. These basins are not currently connected to south-east Australia and are being developed mostly to supply export markets with liquefied natural gas (LNG).

Coal seam methane

Australia also has massive reserves of coal seam methane. These are 10 times greater than all the conventional natural gas reserves in eastern Australia combined and could be a substantial future source of gas.

While coal seam methane is dearer and more technically difficult to produce than traditional gas production, it is much closer to the major population centres.

Options

The major options for providing new gas supplies to meet demand in south-east Australia beyond 2012 are the:

- > discovery of new reserves in south-east Australia
- > commercial development of coal seam methane
- > connection of the massive north-western gas reserves to south-eastern Australia via new pipelines
- > proposed PNG pipeline.

The market will ultimately decide which option (or combination of options) is able to deliver the gas most efficiently. Extensive government intervention currently seems unnecessary to ensure continued gas supply to the heavily populated south-east. However, policy settings need to be such that they ensure the option or options that proceed are in the best interests of gas customers.

Competition in the gas sector

The opening up of the gas sector to competition flowed from the 1994 Council of Australian Governments agreement on free and fair trade in gas. The agreement saw a major restructure of the gas industry, with monopolies such as pipelines being separated from more competitive segments, such as production and retailing. The agreement also removed barriers to inter-state trade in gas and developed a national framework for creating a right of access by gas producers and retailers to Australia's major monopoly gas pipelines.

These reforms were furthered through the 1997 natural gas pipelines access intergovernmental agreement, which sets down the current legislative and regulatory framework for the gas industry.

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The gas code, as the agreements are known, aims to:

- > facilitate the development and operation of a national market for gas
- > prevent abuse of monopoly power
- > promote a competitive market for gas in which customers may choose suppliers, including producers, retailers and traders
- > provide a right of access to gas pipelines on fair and reasonable terms for both pipeline owners and those seeking access
- > provide for resolution of access disputes.

Gas code regulation outcomes

The gas industry has ended the bad old days when local authorities took gas supplies from monopoly producers under long-term contracts that left little room for an injection of competition from third parties.

Regulation has gone from legislating intra-state monopolies to promoting competitive markets through structural reform and facilitating access to monopoly infrastructure on terms that still encourage further investment.

Gas consumption has grown at an accelerating rate since the mid-1990s, averaging four per cent since 1995, while gas has increased as a proportion of Australia's energy mix from 12 per cent in 1980–81 to 20 per cent in 2000. The augmentation of coal fired energy with natural gas is also a big plus for the environment.

Pipeline investment

The Australian Pipeline Industry Association has reported that 14 000 km in new transmission pipelines have been laid in Australia since 1997. This is a significant increase in transmission pipelines in just seven years. Capital expenditure on new pipelines has increased substantially with major new pipelines constructed in recent years.

The development of an effective access regime over the past decade also means niche players can now invest in gas exploration and development, confident they can access transmission and distribution systems on reasonable terms. This opens up the possibility of gas fields being developed without long-term contracts being in place.

Now, with access to pipelines and other infrastructure available, we are seeing new developments in places like the Otway Basin and the coal seam methane developments in New South Wales and Queensland. This is in turn increasing investment and diversity in ownership.

And it's not just the industry that is benefiting. Material prepared by consultants ACIL Tasman for the ACCC's submission to the Productivity Commission estimates the benefits of gas and electricity access regulation to the economy at \$2.2–11 billion over a 15-year period, and the costs at just \$185 million. Furthermore, the price of delivered gas to consumers would have been higher without regulation.

Conclusion

In fewer than 15 years Australia's entire gas sector has been radically transformed benefiting the gas sector, consumers, and the nation as a whole. From the original integrated monopoly supply companies and single transmission pipeline delivery of the early 1990s, business and consumers now enjoy the benefits of diversified supply sources, new infrastructure and competition.

Simultaneously, the institutional framework for economic regulation of gas and electricity in Australia has converged at a national level, delivering a coordinated approach to security of supply, fuel mix and prices.

Consumers enjoy more reliable and cheaper gas supplies and gas exploration has increased dramatically. New gas fields have been developed, pipeline infrastructure has doubled in just seven years and gas pipeline companies have enjoyed returns that outstrip the stock market average. In short, the benefits of this national approach to energy regulation are myriad and substantial, delivering long-term advantages for investors and end-users alike.