7 February 2014

Energy White Paper Taskforce
Department of Industry
GPO Box 1564 CANBERRA ACT 2601

By email: EWP@industry.gov.au

Dear Energy White Paper Taskforce

Re: Energy White Paper Issues Paper submission

Epic Energy South Australia (EESA) welcomes the opportunity to make a submission on the issues paper for the Energy White Paper to be released in 2014. EESA is the owner of the Moomba to Adelaide Gas Pipeline and the South East Pipeline Systems and has been responsible for the safe and efficient supplies of gas into South Australia since the commencement of natural gas production in 1969.

The energy markets in Australia are in a state of flux and the White Paper review comes at a critical juncture for the development of efficient and liquid markets across the energy chain. The development of such efficient and transparent markets requires the coordination and harmonization of all markets that impact on the energy industry; which markets are currently distorted across the industry chain. Therefore this review is opportune in its timing and EESA appreciates the opportunity to highlight its key areas of concern and areas which it believes should be the primary focus of the taskforce.

1. **The Security of Energy Supplies**
    a. ways community expectations can be better understood and reflected in reliability standards;
    b. the value of developing fuel reserves to meet Australia's international oil security obligations, and augment domestic security;
    c. ways to increase new gas sources to meet demand and measures to enhance transparency in market conditions; and
    d. issues relating to the regulation of energy infrastructure.

Liquid Fuels

EESA is engaged in the business of the transportation of natural gas in South Australia and is therefore not in a position to comment on issues related to the security of liquid fuels.

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Gas Supply

In respect of the development of new gas sources to meet demand, EESA agrees with the position in the Issues Paper that "removing barriers that may limit a supply response and improving the market's ability to operate in a more dynamic environment are increasingly important".[1]

Maximum price impact will be achieved where the number of competing suppliers is maximized, as well as the number of sources, to ensure the market shifts towards maximum efficiency. The development of Upstream reserves and their subsequent delivery to markets is a highly capital intensive exercise, with substantial risks involved at each level of the development process. The ability to attract funding for these projects requires a significant derisking of the returns, across the development chain; which in turn requires medium to long term contracting certainty over the initial development volumes. Such longer term contracting requirements, which are typically commercially sensitive and confidential, are somewhat at odds with other gas market developments reflecting recommendations to more transparent and transactional based markets (which are typically shorter term in nature).

EESA believes this is a transitional issue in that once liquid transactional markets are developed; the physical and financial contracting tools will be present to address the financing risk issues. The issue is, however, effectively a Catch 22 one as the development of liquid markets requires the presence of new participants, who require a high degree of return certainty to finance their projects to deliver the supplies to provide the liquidity in the market.

Existing, vertically integrated, market participants have a strong competitive advantage over new entrant producers in developing projects through the reduction in this financing risk by providing captive demand to supply into; and the ability to effectively manage transactional market risk through inter-company transfers. Such strategies are not available to new entrant, stand alone participants though a similar result can be achieved through innovative funding and joint venture arrangements.

Analysis of options to ensure that such multi-party arrangements are not subject to any competitive disadvantage against integrated solutions should therefore be a focus of the White Paper.

In this context, the removal of barriers should focus on the whole development process and focus on the requirements to achieve all approvals, not just government and regulatory approvals, with all developments competitively neutral regardless of the extent of integration of the players. Method to achieve this competitive neutrality and support new entrants to the market should be considered in the White Paper.

Whilst increasing levels of supply and new entrants into the market will have positive outcomes on market liquidity, maintenance and growth of demand (in respect of both volume and participants) is also a key aspect of driving market liquidity.

Gas Demand

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[1] Issues paper p13

The focus on competitive neutrality described above will help to increase the number of contracting parties by promoting greater market participation of large industrial players; however gas demand at a domestic level faces significant downward pressure through the reduction in gas fired generation.

The impacts of the MRET (increasing wind), SRET (increased solar power and reduced peak demand) and increased energy efficiency, combined with the likely impact of the removal of the carbon tax driving increased coal generation are all causing a decrease in the requirement for gas fired power generation. This is most strongly evident in the volume of energy required, but is also impacting on peak requirements, though to a lesser extent than energy.

These downward pressures on demand are exacerbated through their consistency with the short term pressures on price. Whilst the potential for integrated approaches assists with the maintenance of industrial demand, the combination of high prices and lower demand in the generation sector provides a vicious circle where higher prices drives lower output resulting in higher prices driving lower output, etc.[2]

Whilst this impact on volumes will likely be short term in nature, the infrastructure capacity response however could be far longer term as unfunded short term capacity will be removed from the market, with a significantly increased cost to return this capacity to the market when required in the medium to long term.

Although the capacity is potentially required on peak occasions to meet generation requirements, the costs of maintaining this capacity at both a wellhead and pipeline level is not economic in the short term given the limited volume over which this cost is spread, resulting in other short term options being more economic; though the capacity is required to meet longer term needs.

The short term nature of the power market, and the drive for a similar transactional approach to the gas market, will ensure this capacity is neither contracted nor utilized in the short term unless innovative solutions can be developed. The absence of such innovation will result in the removal of excess short term capacity from the market, which will have longer term impacts on the market dynamics.

This short term incentive to remove capacity from the market will result in longer term market inefficiencies as the costs to return the capacity will be greater than the costs to maintain it in the period in which it is not required. Consideration should therefore be given as to assessing how the longer term efficiency of capacity requirements can be maximized in the face of short term incentives to remove capacity from the market.

2. **Regulatory Reform and Role of Government**
    a. priority issues, barriers or gaps within the COAG energy market reform agenda;
    b. possible approaches and impacts of review of tariff structures including fixed network costs, further time-of-use based electricity tariffs and the use of smart meters;
    c. possible measures to promote greater price transparency in gas markets; and

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[2] This is noted as an issue in respect of power transmission regulated prices, but the demand destruction highlighted in electricity market analysis also impacts gas transmission through the impact on gas fired generation volumes

d. areas where further privatisation of government-owned assets would contribute to more effective regulatory frameworks and better outcomes for consumers.

EESA has defined its priorities for market reform above; which priorities focus on increasing liquidity and transparency of markets and managing the transitional conflicts to achieve both aims.

Recent gas market reviews have focused significantly on the issue of availability and access to transmission pipeline capacity as a means to promote greater liquidity and transparency in gas markets. EESA believes that such access is neither restricted nor market distortive. In an efficient and transparent market, it is important for all aspects of the industry chain to be harmonized and EESA believes that equal attention should be provided to transparency across all aspects of the energy market.

Developments by the pipeline industry are resulting in a cooperative approach to maximizing the efficiency of capacity access to promote upstream and downstream market liquidity. These developments, however, only have a marginal impact on market developments as it is the reforms promoting greater supply side participation and maximizing demand which will drive the long term industry outcomes.

EESA's position in respect of the focus of the Energy White Paper in respect of these two critical issues is outlined in Section 1 above.

3. **Growth and Investment**
    a. commercial or market initiatives that could enhance growth and investment in the energy and resources sectors;
    b. areas where approvals processes could be further streamlined while maintaining proper environmental and social safeguards;
    c. further ways that regulatory burdens could be reduced while maintaining appropriate levels of disclosure and transparency in energy markets; and
    d. the impacts of variable land access policy and ways the community could be better informed and engaged on development in the energy sector.

EESA supports the streamlining of approvals processes whilst maintaining proper environmental and social safeguards. In respect of comments regarding a "social license" to operate, EESA considers that this represents a potential risk to the goal of streamlining approvals as it adds an additional layer of licensing that is both subjective and at substantial risk of capture by vocal minorities. The regulatory and license requirements should be clearly, and objectively, stated and, if met, approval should be gained. Adding a further, subjective, requirement through acknowledgement of a "social license" which is undefined, neither streamlines the process nor reduces the ability of vocal and self interested parties to significantly delay developments through the denial of such a subjective license.

4. **Trade and International Relations**
    a. how to grow the export of value-added energy products and services;
    b. ways to remove unnecessary barriers to continued foreign investment in Australia's energy sector;
    c. ways to strengthen support for access to export markets; and

d. ways to support business to maximise export opportunities for Australia's energy commodities, products, technologies and services, including the value of Australia's participation in the variety of international forums.

The presence of export markets have been critical to the growth of the industry and have significantly expanded the geographic boundaries of the natural gas market; to mirror that of the oil and liquids markets which effectively reference an internationally traded price.

This expansion of the market, has had an observable impact on the price of natural gas which has further impacts on the economic viability of some of the uses of natural gas through the removal of a key competitive advantage for some industrial developments (against their competitors based in higher cost countries), being low energy prices.

The price shock associated with this market expansion is short term in nature and the market will re-establish an equilibrium price in the medium term. Where industries are economic at the equilibrium price but at risk due to the short term price spike, innovative solutions to manage this timing risk should be assessed by the White Paper; to ensure the maximization of long term demand levels in the domestic aspect of the market.

5. **Workforce Productivity**
    a. the nature of any current skills shortages being experienced and how these could be addressed by and with industry;
    b. the capacity of industry and education sector-led programs to meet long-term training and skills development needs of the energy and resources sectors; and
    c. specific long-term training and skills development needs for alternative transport fuel, renewable energy, energy management and other clean energy industries.

EESA supports the development of harmonized national training and skills development to ensure the development and sustenance of a deep pool of skilled accessible by all areas of the market.

6. **Driving Energy Productivity**
    a. the current suite of energy efficiency measures, ways these could be enhanced to provide greater energy efficiency or possible new measures that would enhance energy productivity;
    b. the use of demand-side participation measures to encourage energy productivity and reduce peak energy use; and
    c. measures to increase energy use efficiency in the transport sector.

EESA supports a non discriminatory focus on energy efficiency and demand management technologies to ensure that energy is utilized at maximum efficiency in the market.

7. **Alternative and Emerging Energy Sources and Technology**
    a. ways to encourage a lower emissions energy supply that avoids market distortion or causes increased energy prices;
    b. the need to review existing network tariff structures in the face of rapidly growing deployment of grid-backed-up distributed energy systems, to ensure proper distribution of costs;

c. additional cost-effective means, beyond current mandatory targets and grants, to encourage further development of renewable and other alternative energy sources and their effective integration within the wider energy market;
d. how the uptake of high efficiency low emissions intensity electricity generation can be progressed;
e. any barriers to increased uptake of LPG in private and commercial vehicles and CNG and LNG in the heavy vehicle fleet; and
f. any barriers to the increased uptake of electric vehicles and advanced biofuels

EESA believes that the current energy technology focus discriminates against gas fired technology and believes strongly that the Energy White Paper should recommend a non discriminatory approach to generation technology to achieve the emissions reduction goal. Given the focus on efficient, transparent markets in the supply of gas to market, it is imperative that the demand for gas not be distorted by market inefficiencies which benefit one type of generation technology over another.

In conclusion, EESA supports the development of transparent and liquid markets across the energy industry chain, ensuring no particular segment is distorted through inefficiencies at the expense of another. The key focus of the task force should be identifying the key market inefficiencies and ensuring that any such impediments are removed across the chain in a consistent manner.

Further, the White Paper should highlight what transitional measures are required to ensure that when the market re-establishes itself at the new equilibrium level based upon the expanded nature of the market; that such an equilibrium is efficient in nature and not impacted by short term distortions driven by the expansion of the geographic nature of the gas market.

EESA would be happy to expand on the issues presented above if requested by the task force and encourages any follow up questions or comments by the Taskforce. Such comments or questions can be directed in the first instance to myself or our Manager, Commercial Jonathan Teubner either by phone on 0438 400 250 or by email to jonathan.teubner@epic.com.au.

Thank you again for the opportunity to comment and best of luck with your analysis.

Yours sincerely

Clive D'Cruz
Chief Executive Officer