DCAN submission to the Australian Energy Regulator

South West Queensland Pipeline Form of Regulation Review

https://www.aer.gov.au/industry/registers/resources/reviews/south-west-queensland-pipeline-form-regulation-review

To Pipeline Form of Regulation review team, AER

Copies to

- Ms Ged Kearney MP, Member for Cooper
- Mr Chris Bowen MP, Minister for Climate Change and Energy, Parliament of Australia
- Ms Lily D'Ambrosio, Minister for Climate Action, Minister for Energy and Resources, Victoria

DCAN thanks you for the opportunity to make a submission on the draft decision.

We argue that the South West Queensland Pipeline (SWQP), which is privately owned by APA, should be classified as a scheme pipeline so that customer tariffs and investments will in future be approved by AER under an access arrangement.

The following grounds for our argument are set out in more detail below.

1. The National Gas Objective (NGO) needs to be followed
2. Any decision that leaves the SWQP essentially unregulated as a non-scheme pipeline has huge ramifications
3. Transfer of monopoly profits away from the pipeline owners can help achieve the National Gas Objective (NGO)
4. A complex multi-year review to determine the Access Arrangement for a scheme pipeline can be avoided
5. Economic instruments can be used such that investment risk is a non-issue, and that risks of disruption to pipeline services can be minimised
6. Gas industry pressure should be resisted
7. What else is needed, beyond the scope of this review.

1. Apply the National Gas Objective in full

In 2022, Energy Ministers agreed that achievement of targets for reducing or potentially reducing greenhouse gas emissions should be added to the NGO. These changes in National Gas Law (NGL), came into effect in 2023. Energy market authorities should seriously and systematically act on the new clauses. They should be central to deliberations about whether to make the SWQP a scheme pipeline. However, the only part of the National Gas Objective (NGO) referred to in the draft determination relates to the first clause about "price, quality, safety, reliability and security of supply of covered gas" with no mention of emission targets.

We argue that a full consideration of monopoly power, as the AER intends, would be strengthened by addressing all clauses in the NGO. This is entirely consistent with the intent of all energy ministers and with the guidance on dealing with emissions targets issued by the AER and the Australian Energy Market Commission (AEMC).[1] The Ministers expect that energy market authorities will "explicitly consider the achievement of emissions reduction targets alongside the existing components when they use their respective powers and functions." [2]

2. Wider ramifications

The implications of not upgrading the regulatory status of this pipeline are enormous. The SWQP is bi-directional. Growth in western-haul services on the SWQP to Moomba is driven by opportunities to sell gas in southern states over winter months. This will grow as availability of gas from southern sources continues to shrink. APA's use of its monopoly power will only grow.

The wider significance was seen by AER when the Deputy Chair, in outlining the importance of this review, stated that only 10 of the 113 pipelines outside of Western Australia are subject to full price regulation.[3]

3. Transfer of monopoly profits

Given its mandate under the NGO, AER should pursue opportunities to transfer monopoly profits away from APA in order to support jurisdictions in achieving emission reduction targets. AER has concluded that "APA likely has market power" with few constraints on this market power. For firm transport of gas, 26 out of 29 shippers pay standing prices, which AER finds to be ***about 1.5 to 2.4 times higher*** than if the SWQP were regulated. With some caveats, AER finds that the return to APA was ***1.5 to 1.8 times*** higher than would have applied under scheme regulation (pp.56-57).

It is unjust that well documented monopoly profits are being made when so many people are struggling with their energy bills and cost of living. According to research by Jay Gordon of IEEFA, regulated gas networks alone made $1.8 billion in supernormal profits, on top of the $2 billion profit allowed under their Access Arrangements.[4] There are many unregulated pipelines making enormous profits, with a glimpse into them being given by the AER estimates for the SWQP.

Mechanisms need to be found to transfer monopoly profits to assist electrification and energy performance gains by end users of gas. AER needs to be willing to remove the licence to operate of specific gas companies if they cannot demonstrate active engagement in achieving significant reduction of gas and electricity consumption of users. This should apply, regardless of their place in the supply chain.

4. Complex multi-year review can be avoided

It is easy to be blinded by the complexity of the gas market, noting that for the SWQP, APA offers transport, compression and park services, each of which can be either firm or interruptible. In addition, APA offers both loan and in pipe trade services as well as services across multiple pipelines. Energy Networks Australia (ENA) cites a 20 year old Productivity Commission report to claim

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[1] AER - https://www.aer.gov.au/news/articles/communications/aer-releases-guidance-amended-national-energy-objectives-0
AEMC - https://www.aemc.gov.au/regulation/neo

[2] As stated in the second reading speech introducing the amendments to the national energy laws file:///C:/Users/Jim/Downloads/House%20of%20Assembly_2023_06_14.pdf (pp.65-68).

[3] Jim Cox, Deputy Chair of AER, speech to Energy Users Association national conference, 2 May 2024 https://www.aer.gov.au/news/articles/speeches/update-latest-gas-reforms

[4] https://ieefa.org/articles/gas-networks-pocket-18-billion-supernormal-profits-over-eight-years.

enormous complexities and delays in developing an Access Arrangement for the SWQP.[5] By implication, ENA is arguing that this applies to whichever of the 93 unregulated pipelines that AER chooses to review.

Economic instruments are available that cut through complexity. If AER does not have this expertise, it should be sought externally. Australia has highly regarded economists such as Professor Mike Young who specialise in exactly this.[6]

5. Investment risk should be a non-issue, and supply disruption can be minimised

New capital works should not be needed in a carefully managed gas system for which there is a wind-down plan. The fall-back for non-compliance with directives from energy market authorities should be public ownership of strategic parts of the gas system such as the SWQP. We have yet to see this canvassed as an option in any documents of energy market authorities.

6. Gas industry pressure should be resisted

The gas companies with investments in fixed assets like production facilities, pipelines and storage have no interest in seeing local end users electrify or adopt energy efficiency measures. Gas retailers can adapt because they are essentially selling energy rather than gas *per se*. However, they and other gas interests depend in the short-term on maximising sales of gas. Their new investments are not planned, as they should be, solely around gas as a last resort fuel in case of wind and solar drought - this would most likely make them unviable.

Since 2017 the gas industry associations have been seeking to lock in gas as a so-called transition fuel - 5 of them together produced the strategic document *Gas Vision 2050.* Their arguments are now largely redundant due to the strong growth of renewables, though they will use the infrequent need for gas-powered generation in extreme situations of renewables drought to justify maintaining the whole gas transmission and distribution system as it is.

It is also unjust that gas companies, through their powerful voice, and unseen by the majority of Australians, are doing everything within their power to block or slow a fast transition to electrification and improved energy performance in households and businesses. Subsidising a TV show about cooking that features gas appliances is just the tip of the iceberg.

It is dangerous that the gas lobby does everything in its power to divert attention from the climate emergency facing the planet, and from growing evidence of devastating consequences for Australia.

7. What else is needed

Gas-powered generation (GPG) accounted for a significant 23% of domestic gas consumption in 2022. AEMO does not expect this demand to decline with 'electrification of everything', but this cannot go unchallenged. Urgent assessment of ***ways to reduce this source of demand for gas*** over the next decade is needed, and what the minimal transport and storage requirements would be. The release of Victoria's *Gas Substitution Roadmap* shifted the focus of debate from supply to demand for gas. Authorities should be striving to bring about a similar shift in relation to electricity consumption. Ministers expected the revised national energy objectives to achieve efficiency not just in investment and operation of energy services, but in their *use*. [7]

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[5] Garth Crawford, AER news 9 October 2024. https://www.energynetworks.com.au/news/energy-insider/2024-energy-insider/balancing-the-role-of-competition-in-the-energy-transition-the-south-west-queensland-pipeline/

[6] Research Chair in Energy, Water and Environmental the University of Adelaide

[7] Second reading speech, cited above.

A timeline is needed for the ***orderly wind-down*** of the whole gas system with clear targets for reduction in overall consumption. Targets for example could include reducing gas use in the Victorian DWGM to 1,000TJ per winter's day, which is currently exceeded on 15- 25 days per year.

Explicit rejection of new gas projects, especially when they depend for financial viability on pumping gas through the existing distribution networks, as distinct from the transmission networks. All gas investments with a planning horizon of more than 10 years should be scrutinised from the perspective of gas use only as a last resort for electricity generation, and in the small remaining number of industrial uses that are extremely hard to electrify.

The ***silence over gas flows northwards*** on the Eastern Gas Pipeline (EGP), effectively placing exports from Queensland ahead of Victorian consumers, needs to end. The EGP is not mentioned in this AER review, in Future Gas Strategy documents, nor in the ACCC March 2024 report. A full search is likely to find that the Energy Market Authorities are ignoring this. They should not.

Making ***granular customer data*** available to policy makers and planners would help to focus efforts to reduce consumption by big gas-using households as well as businesses. Once the data is available, targets can be set around reducing the proportion of gas used by each decile, especially the top users.

Public disclosure of more information would support the new requirements of the national gas rules. For example, gas usage by locality type of household and other characteristics is important information for planning the orderly wind-down of the industry over the next decade.

Energy market authorities should be making strong, clear and repeated ***reference to the Climate Emergency*** and to the exacerbating impact of fossil gas emissions. They should be emphasising that:

- scientists have clear and consistent evidence that earth's systems are at tipping points
- emissions of methane are 84 times more potent than carbon dioxide over a 20 year period
- our gas system leaks massive quantities of methane in extraction, transport and in end use.

About DCAN

DCAN comprises a large group of local residents of diverse ages and backgrounds who meet regularly, and work together to seek a safe climate future. We actively interact with all three levels of government, encouraging each of them to adopt the policy changes that are now urgently needed. We have over 5,000 supporters. DCAN networks with other climate groups across Australia.

Yours sincerely

Jim Crosthwaite

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