Qenos

24 July 2015

Mr Rod Sims
Chairman
Australian Competition & Consumer Commission
360 Elizabeth Street
Melbourne, VIC 3000

Dear Mr Sims,

RE: Qenos submission – ACCC East Coast Gas Inquiry 2015

Thank you for the opportunity to provide a submission on the issues and questions raised by the ACCC East Coast Gas Inquiry Issues Paper (**Issues Paper**).

Executive Summary

Qenos is Australia's sole producer and leading supplier of polyethylene. Qenos is also one of the largest industrial gas users in Australia with a total gas usage in the order of 40 PJ p.a., including ethane, which is an important feedstock used in our operations.

Qenos is a member of the Plastics and Chemicals Industries Association (PACIA), Energy Users Association of Australia (EUAA) and Australian Industry Group (AIG), and endorses the key points and recommendations of their joint submission to the AEMC Gas Market Review, including the following:

> *"A domestic gas market that is deep in capacity, liquid in supply, competitive, transparent, informed and with good price discovery."*

Qenos believes the ability to achieve this objective would be enhanced by:

- Addressing the information asymmetry relating to gas reserves that are available to be contracted.
- Providing better price transparency, in particular for medium to long term gas supply arrangements.
- Monitoring public statementsto ensure they are not used to set or inflate market prices.
- Ensuring gas consumers are notified of planned maintenance activities, which have a material impact on supply or demand.

Qenos Pty Ltd
ABN 62 054 196 771
Phone +61 3 9258 7333
qenos.com

VICTORIA
471 Kororoit Creek Rd
Altona Victoria 3018
Australia

POSTAL
Private Mail Bag 3
Altona Victoria 3018
Australia

NSW
Gate 3 Denison St
Botany NSW 2019
Australia

Qenos agrees that the following needs to be reviewed to understand their potential impact on competition:

- Improving pipeline access. A more open market in gas transportation is an enabler to a more competitive gas market.
- Joint Marketing arrangements.
- Vertically integrated companies.

Introduction

Qenos Pty Ltd ("Qenos") is Australia's sole manufacturer and leading supplier of polyethylene. Polyethylene is the raw material used in the manufacture of plastic products including water tanks, pipe, film and bottles for household chemicals. The company employs approximately 700 people across its two large manufacturing sites at Botany (New South Wales) and Altona (Victoria).

Qenos manufactures ethylene and three types of polyethylene (low, linear-low and high density). The ethylene produced on the Botany site is from ethane sourced by a 1400 km pipeline from South Australia's Moomba gas fields (constructed in 1995 at a cost of $240 million). The Altona site, sources its ethane from Bass Strait via Longford and Long Island Point processing plant through a pipeline across Port Phillip Bay.

Qenos is involved in substantial value-adding processes to Australia's indigenous hydrocarbon raw material reserves through its manufacturing operations at Botany and Altona. The Company's annual turnover of between $700 and $900 million makes it one of the largest petrochemical companies in the region and the largest in Australia (with a capital replacement cost of $2.5 billion).

Qenos is a large gas user consuming 8 PJ p.a. of natural gas (methane). When you include ethane gas (a derivate of natural gas production), which is used as a feedstock in the manufacture of ethylene, our facilities can currently consume up to 40 PJ p.a. This makes gas and the gas market a vital part of our business.

Availability and Trading Liquidity

Adequate information on future gas supply available to be contracted (Question 30)

There are conflicting reports on whether there is sufficient gas supply in Eastern Australia to meet both LNG export commitments and domestic gas demand. The recent AEMO forecast (ref: Gas Statement of Opportunities, April 2015) and Macquarie Bank report (ref: Australian East Coast Gas, 'A More Orderly Transition', 15 April 2015) both project that the market will adjust against the backdrop of lower demand from power generation, lower LNG spot prices and slower ramp-up towards LNG exports. Other reports, such as from Credit Suisse and EnergyQuest, are forecasting that there will be a supply crunch and domestic customers will come out second best due to the higher penalty rates for LNG short-supply. Given this conflict Qenos would like to see information directly from gas suppliers in relation to the future volumes available for domestic use.

Price transparency and monitoring public statements (Question 33)

There is currently no appropriate reference price for gas in Eastern Australia. Qenos is aware of price forecasts that reference oil and LNG spot prices. There are also varying gas price forecasts from consultants such as ACIL Allens, SKM and Oakley Greenwood. In addition, there are media reports with headlines such as "East Coast Gas prices set to triple" (ref: The Australian, 28 September 2013) along with statements from gas producers reporting gas deals being signed at the "higher end" of a $6 to $9 a GJ range (ref: The Australian, 23 February 2013). Without an appropriate external reference price there is a risk that any price forecast becomes 'self-fulfilling'.

The issue of information asymmetry is an issue for gas supply negotiations. Qenos has limited information to be confident that the prices that it is being offered are reasonable. Qenos supports better price transparency in particular for medium to long term gas supply arrangements. We also believe it would be worthwhile investing in the monitoring of public statements to ensure they are not used to set or inflate prices.

Facilitated Markets (Question 34)

Facilitated markets provide a level of flexibility to enable gas consumers to manage risks associated with gas supply. Qenos has been a market participant in the Sydney STTM since 1 January 2015. Qenos's participation has enabled it to access cheaper gas than it was able to secure through a contract with a gas supplier, resulting in a ~20% reduction on the overall gas purchase price. By accepting the risk of being exposed to gas prices as high as $400/GJ and implementing its own risk mitigation strategies Qenos was able to reduce its gas costs.

To ensure companies can take better informed decisions Qenos recommends that a public notice should be provided for any maintenance activity that has a material impact on gas supply and demand into STTM or Victorian DWGM. This will ensure that everyone in the gas market has access to relevant and important information.

Improving pipeline access and pricing

Pipeline transportation services are an essential part of gas supply. With the majority of gas to Sydney being supplied from Victoria, pipeline capacity on the Eastern Gas Pipeline (EGP) is an important consideration. There is currently some focus in the AEMC's gas review into pipeline capacity trading and making unused pipeline capacity available for purchase by other parties. Qenos supports any activity that will improve competition and the ability to bring gas to where it is needed.

In terms of simplicity, Qenos' preference is to purchase gas inclusive of pipeline transportation charges. This improves price transparency as the gas price includes the necessary components to get it to where it is required and avoids potential for additional charges, which might catch the consumer unaware.

Joint marketing arrangements (Questions 38 and 39)

Qenos is of the view that effective markets need a large number of suppliers and consumers to ensure they are deep and liquid. The removal of joint marketing arrangements would increase the number of suppliers. Qenos encourages the ACCC to review whether the removal of joint marketing arrangements would lead to increased competition.

Vertical integration and impact on domestic gas customers

Qenos believes that vertical integration in the gas market has a material effect on the availability of gas to supply domestic gas users. Domestic suppliers with upstream integration are less responsible to signals from the domestic market. Each of the three Gladstone LNG projects has contracts to supply greater than 400 PJ p.a. Therefore each LNG Project represents more than half the domestic gas demand for the East Australian Market, which is currently 700 PJ p.a. Qenos is concerned that the gas producers will be looking for a price premium above the LNG export alternative to incentivise supply to a much smaller domestic customer.

Conclusion

Qenos looks forward to the outcome of the ACCC East Coast Gas Enquiry and would like to see recommendations in the short-term to address the information asymmetry by providing accurate information on future uncontracted volumes, public notices for planned maintenance activity and for the ACCC to monitor public statements to ensure they are not used to signal, set or inflate prices.

In the medium term, Qenos would like to see whether more effective competition can be brought to the gas market by reviewing Joint marketing arrangements and vertical integrated, companies as well as improving pipeline access.

If you have any questions concerning this submission, please do not hesitate to contact Andrew Cheah on (02) 8336 1245.

Yours sincerely,

Stephen Bell

Stephen Bell
General Manager Commercial