Research

Commercial and Industrial Customer Attitudes to the East Coast Gas Market

Contents

Executive Summary

This report presents findings from research exploring the experiences of Commercial and Industrial (C&I) Gas Customers in Australia's East Coast Gas Market. The objectives were to:

1. *Gain a deeper understanding of C&I customer experience in the gas market, including whether the market is meeting their needs;*
2. *Understand the drivers of customer behaviour including market engagement, awareness, and information transparency;*
3. *Identify potential issues in the market, areas where improvements to information transparency can be achieved, and how the ACCC can help inform customer decisions; and*
4. *Identify policy recommendations and customer suggestion to improve how gas is currently supplied to C&I customers.*

Results are based on a series of 30 in-depth interviews conducted between June 10th and July 14th.

Interviews were conducted around the time that the Australian Government announced that it would review and extend the Heads of Agreement (HoA) and the Australian Domestic Gas Security Mechanism (ADGSM), and prior to the conclusion of other policy initiatives such as the review of the industry-led voluntary code of conduct.

Most participants (29) were energy decision makers from organisations with annual gas consumption at or above 0.01 Petajoules and we also conducted one interview with representatives of an energy consulting firm that services C&I gas customers.

1. **There was intense concern about the state of the Australian gas market with rapidly rising prices having a major impact on many businesses.** Overall attitudes to the East Coast Gas Market were invariably poor with it typically described as being "concerning", "dysfunctional", "broken", and "in complete disarray". Dissatisfaction was mostly due to the interrelated issues of rapidly escalating gas prices, difficulty securing reasonably priced supply, and a lack of market competition. This has put a lot of businesses under severe pressure, with several facing the prospect of either shutting their industrial processes down, absorbing costs or passing them on to customers (if they can).

   As shown below, aspects where the gas supplier market rated most poorly related to the level of competition between gas suppliers, the value for money provided by suppliers and having access to appropriate contracts. Large and medium customers were particularly impacted, and this is reflected in their lower scores compared to small C&I customers.

Market Performance and Supplier Behaviour Average Score (0 "extremely poor" to 10 "excellent")	**All Customers**	**Small**	**Large & Medium**
Retailers clearly communicating the breakdown of the different charges on their offers	**6.7**	6.9	6.2
The ease of working out how much you will actually be charged by a potential supplier	**6.6**	6.2	7.4
The ease of comparing offers from different suppliers	**6.0**	6.8	5.1
The clarity and transparency of offers from suppliers	**5.6**	6.3	4.9
Access to contracts with lengths and terms that meet your needs	**4.6**	5.9	3.0
The value for money provided by suppliers for their services	**3.8**	4.0	3.5
The level of competition between gas suppliers serving commercial and industrial gas users	**3.7**	3.9	3.3

2. **Customers mostly attributed price rises to producers taking advantage of international factors and demand for electricity generation.** Producer response to rising international prices, gas demand for electricity generation, the war in Ukraine and overseas demand were considered to be the main factors responsible for recent pressure on prices. Coal supplies and coal prices, local gas exploration bans and constraints, and the transition to renewables were considered mid-tier issues while factors related to retailer margins and gas transport costs were considered relatively less important.

3. **There was strong desire for Government action** possibly via an east-coast gas reservation, a lifting of explorations bans and other measures. Customers were frustrated that a gas-rich country like Australia is facing such extreme gas shortages. Many spoke of the importance of a gas reservation policy (similar to that operating in Western Australia) as an option to address shortages and keep local industries competitive and sustainable. Others noted the importance of boosting local gas production by lifting exploration bans in Victoria and NSW to provide more confidence about future supply. A few customers were considering a shift to bioenergy and hydrogen to shield their businesses from volatile offshore markets, but this was considered a longer-term solution (i.e., 5-10 years).
4. **Most C&I customers chose to use retailers with some larger customers dealing directly with producers.** The small and medium customers we spoke with all bought their gas from retailers. Arrangements for large customers were more mixed with four sourcing gas from retailers, five from producers and two using a mix of retailers and producers. Several had previously used Weston Energy (a retailer that recently shut down) and some were critical that regulators had allowed it to operate without sufficient supply. Retailer of Last Resort (ROLR) arrangements for these customers were typically unfavourable with reported prices over $40 GJ.
5. **Customers were seeking cost certainty and typically prefer long-term contracts:** Most participants were currently on fixed contracts of around three years. A few were on variable domestic spot-price arrangements, and several others were on contracts with a mix of fixed and variable components. Fixed contracts were typically preferred as it makes it easier for customers to manage their risk and make long-term business plans. However, at regular intervals, many customers like to test the market to determine if there are better prices available.
6. **The "powershift" to suppliers has reduced choice as well as flexibility on contract terms.** The tightening gas market has been associated with less suppliers providing offers to customers and less offering long-term fixed offers beyond 2023. Some supplier behaviour that was seriously questioned by customers included unreasonable expectations for fast contract approvals (e.g., within 24 hours) as well as suppliers withdrawing offers with little warning or, in some cases, resubmitting higher offers midway through tender processes.
7. **Other gas market concerns** that were raised by customers included: the spot market being illiquid, transport costs for large customers, suppliers allegedly gaming the system (e.g., taking advantage of different prices in different states by inappropriately reducing supply in states where price caps were imposed), Take or Pay clauses in contracts, and a lack of alignment on price caps and price differences across east coast markets.
8. **Claimed knowledge levels about the gas market was reasonably good, with several using energy consultants or brokers to address knowledge gaps.** Most customers felt reasonably confident in their basic knowledge of the gas market with large customers typically more knowledgeable than smaller ones. All were aware there are multiple suppliers they can seek offers from and switch to although, in the current market, a lack of acceptable offers is a key barrier to switching. More than half employed energy consultants, or brokers to provide specialised information and evaluate offers, with some large customers having sophisticated in-house energy teams. That said, there are some aspects of the market, outlined below that are uncomfortably opaque and could benefit from additional initiatives.
9. **Market information needs focus mostly on macro issues that could assist future planning and supplier choice.** There was certainly an appetite for improved market information to help with supplier selection and to inform future investment decisions and contract timing. Key customer questions include understanding: Who has the gas and what gas can be readily brought to the market?; How will gas prices change in the future and how long will they remain high?; Producers' future plans for developing their reserves?; What is being done to bring more gas into the market?; Whether small or new gas producers are financially or technically able to source gas?; The margins that suppliers are applying?; How bidding works in the wholesale gas market?; How Expression of Interest processes for sourcing new gas contracts are run and what the outcomes of them are (i.e., what prices were bid and what was the price that was settled on by the successful bidder)?
10. **Supplier communication and transparency could also be improved.** Several customers indicated that the task of comparing different supplier offers can be quite challenging and time consuming, especially for large customers entering into tailored service agreements. They claimed that the terms and conditions from each supplier can vary significantly (e.g., different transport and delivery point options), and that costs are often broken down differently by each supplier, thus making comparisons difficult. Some ways that customers are simplifying the process include: having a broker or energy consultant assist with the comparisons; requiring all suppliers to use a consistent master agreement template; and/or having basic contract terms – i.e. 100% fixed, 100% take-or-pay. Customer's gas bills

were typically easy to understand although a few wondered whether some aspects (e.g., transport costs) do reflect the true cost of this service.

11. **Despite strong concerns about the market, most were at least somewhat satisfied with their current gas supplier**. Nearly two thirds (63%) were at least somewhat satisfied with their current supplier, with 19% dissatisfied and the remainder (19%) neutral. Satisfied customers tended to be those that are on reasonably priced contracts and/or those less exposed to recent price rises and reduced competition. Once price and contract arrangements are settled, customers were mostly looking for their supplier to ensure a reliable gas supply with minimal supply interruptions. Other satisfaction drivers included: having reasonably flexible contract terms (e.g., 60% take-or-pay); having responsive staff; and providing competitive offers during the tender process. It is important to note that most customers were sourcing their gas via retailers, and they were typically not blaming the retailers for recent price rises. This was typically seen as something that is beyond their control, and instead customers were looking to the Government to fix the situation.
12. **Final suggestions to improve the functioning of the market** focussed mostly on measures to improve supply and ease domestic prices. This included: requests for gas reservations; price caps being reflective of production costs; a potential windfall tax; increased market transparency (as noted above); measures to boost supply and fast-track approvals; development of standard “fair contract” templates; and improving access to short-term trading markets. However, there was generally a sense that most of these options to address the issues in the East Coast gas market would take time to implement and would not address the current and immediate issues that customers are currently facing.

Background and Objectives

On 19 April 2017, the Australian Government directed the Australian Competition and Consumer Commission (ACCC) to conduct a wide-ranging inquiry to help improve gas supply arrangements in Australia. On 25 July 2019, the then Treasurer wrote to the ACCC extending the inquiry until December 2025. To date, this has included seeking information from Commercial and Industrial (C&I) gas customers about their experiences in the East Coast gas market, with key findings published in interim Gas Inquiry reports on the ACCC's website.

As part of the inquiry, the ACCC sought to expand this timely work by hearing from a broader range of C&I customers about their experiences in the current gas market. To this end, SEC Newgate was commissioned to undertake market research to:

- Examine the C&I market segment in detail and gain a deeper understanding of the market and the drivers behind the behavior of users, specifically, the market engagement, awareness, and information transparency; and
- Identify potential issues in the market, areas where improvements to information transparency can be achieved, how the ACCC can increase C&I user awareness and help inform decisions and identify policy recommendations where appropriate.

Specifically, the research aimed to understand:

- Overall perceptions of the East Coast gas market, including reasons for C&I gas customer views
- Knowledge of the gas market including information needs and preferred sources.
- Awareness of competition and choice of suppliers to procure gas.
- The ease of C&I customers obtaining, understanding, and comparing information relating to gas offers.
- The extent to which C&I users are actively engaging with the market to identify more competitive offers, switch suppliers or using other methods to procure gas.
- Attitudes towards current gas prices as well as perceived drivers of the current situation.
- Satisfaction with current gas suppliers.
- Suggestions for improving the functioning of the gas market.

Methodology

The results are based on a series of 30 in-depth interviews which were conducted via video by SEC Newgate Research between 10th June and 14th July 2022. Most participants (29) were energy decision makers from businesses with an annual gas consumption at or above 0.01 Petajoules and we also conducted one interview with representatives of an energy consulting firm that services C&I gas customers.

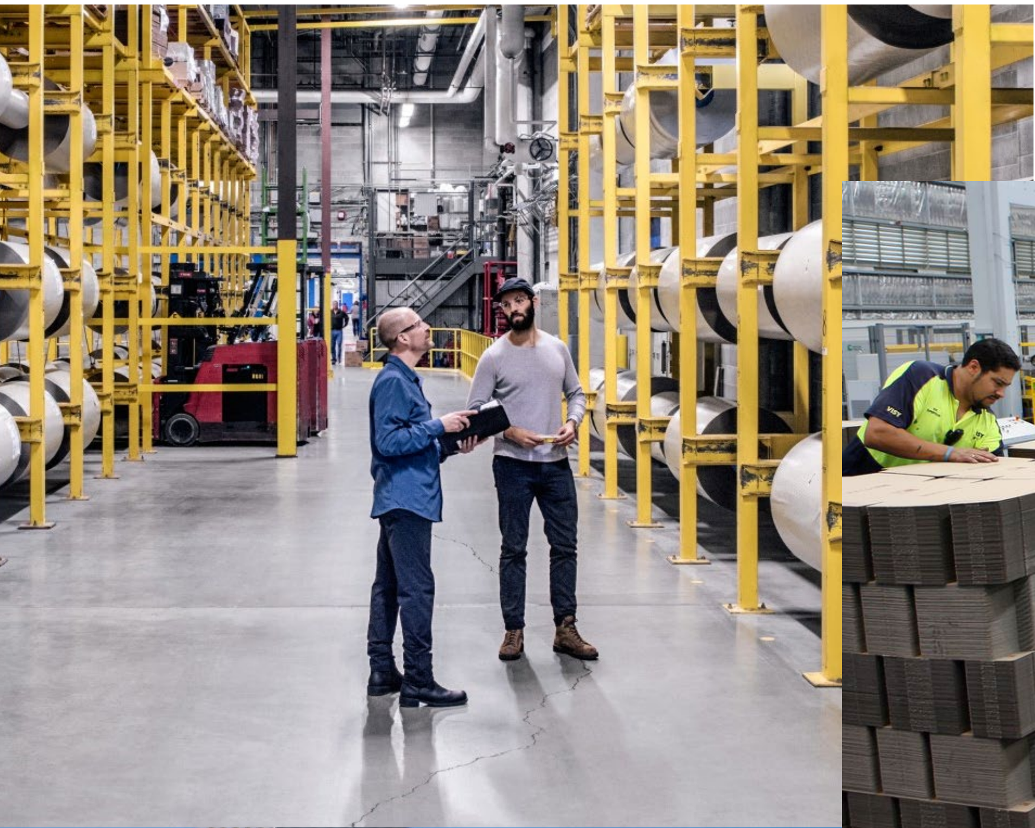
Participants represented a wide range of industries and organisations. Representatives from each of these organisations were all responsible for decision-making on gas suppliers, and they included Managing Directors, Heads of Business, Chief Operating Officers, Commercial Finance Managers, Energy Managers, Sustainability Managers, Procurement Managers and Senior Consultants.

Of the 29 participating organisations:

- 11 were classified as large users (annual usage at or above 1 PJ p.a.).
- 2 were medium users (annual usage of 0.5-1 PJ p.a.).
- 16 were small users (0.01-0.5 PJ p.a.).

Where we reported on results by segment, we have combined medium and large users (n=13) and have also reported separately on the results of small users (n=16). The results from the single interview with the energy consulting firm were included when presenting overall market results but were not included when reporting specifically on the small and medium/large segments.

Customers were active in each of the east coast gas markets (QLD, NT, NSW, VIC, SA and TAS). Several were actively sourcing gas from multiple east coast markets, although the most common markets were NSW and VIC.



Perspectives on the Current State of the Gas Market

Overall attitudes and negative aspects

Overall attitudes to the East Coast Gas Market were invariably poor with it variously described as being “concerning”, “dysfunctional”, “broken”, and “in complete disarray”. The majority of customers were highly distressed when speaking about the state of the gas market and its impact on their business. At its core, the dissatisfaction stemmed from the interrelated issues of:

1. Rapidly escalating gas prices which were impacting the viability and operations of many businesses.
2. Lack of transparency and uncertainty around future gas prices and how long current high prices are likely to last for.
3. Difficulty securing supply at a reasonable price and a lack of competition in the market.

Gas customers had a range of views on the various factors contributing to the market’s failings. What they did tend to agree on is that the issue is complex, and influenced by a range of market mechanisms, government policy and regulation settings resulting in the current “perfect storm”.

These issues seemed to be most acute in the southern states, where, compared to Queensland, the domestic demand for gas is considerably higher due to high peak winter loads, strong household gas penetration and heavy industrial and manufacturing loads. Other issues and frustrations that were mentioned by customers without prompting included:

- The absence of domestic gas reservations in the East Coast, with particular frustration at the amount of gas being exported and a perception that profits for producers are being prioritised over domestic energy security for businesses.
- The collapse of Weston Energy with a number of former Weston Energy customers citing concerns about the lack of warning about Weston Energy’s collapse and very limited communication from the designated Retailer of Last Resort.
- The spot market being illiquid.
- Suppliers allegedly “gaming the system” (e.g., reducing supply in states where price caps were imposed and potentially some companies leveraging their role as both a gas supplier as well as a gas user for electricity generation).
- Take or pay clauses in contracts, with the perception that retailers can re-sell unused gas at higher prices and be paid twice for the same gas.
- Gas transportation costs (particularly a concern for large users).
- Mentions of gas import terminals including one participant who spoke of a need for them and a couple who were annoyed that a gas-rich market such as Australia would have to import gas.
- Poor dealings with suppliers (e.g., requiring customers to make a decision on a contract offers within very short time periods).

These issues are detailed further in the following sections of this report.

Positive aspects

Not much was considered positive about the current state of the gas market although a few did mention that the gas plants themselves are typically running reliably, that transport is working well, and that customers have a choice of fixed contracts or access to variable spot prices. One mentioned that the connection of the East Coast gas network to the Northern Territory was a good idea in principle - although it hadn’t made a big difference to the current situation.

Gas Supply Issues

There was widespread awareness that around two-thirds of Australia’s gas is exported and there were numerous mentions that producers who used to supply gas to the domestic market have decided to export overseas instead. As noted above, there was considerable frustration that a country as gas rich as Australia is in the midst of an energy crisis and facing gas supply issues.

Interestingly, many participants were quite rational in their assessment that commercial logic has led to gas producers looking to sell their product to the highest market, or demand export parity prices. As such, they were not surprised that gas suppliers were taking advantage of the situation, with a few suggesting that they may be trying to "make up for previous lean years" when global demand and prices were lower.

The vast majority of participants typically saw the situation as one that should be addressed by Government policy. In this regard several spoke about the lack of a domestic reservation policy on the East Coast as well as the contrasting situation in Western Australia where the market is considered a "comparative success".

Overall, there was strong support for the development of a local gas reservation policy where producers are required to prioritise local customers over exports, to ensure supply at reasonable prices and provide more confidence about future prices to help inform their business decisions.

Other related comments about gas supply included:

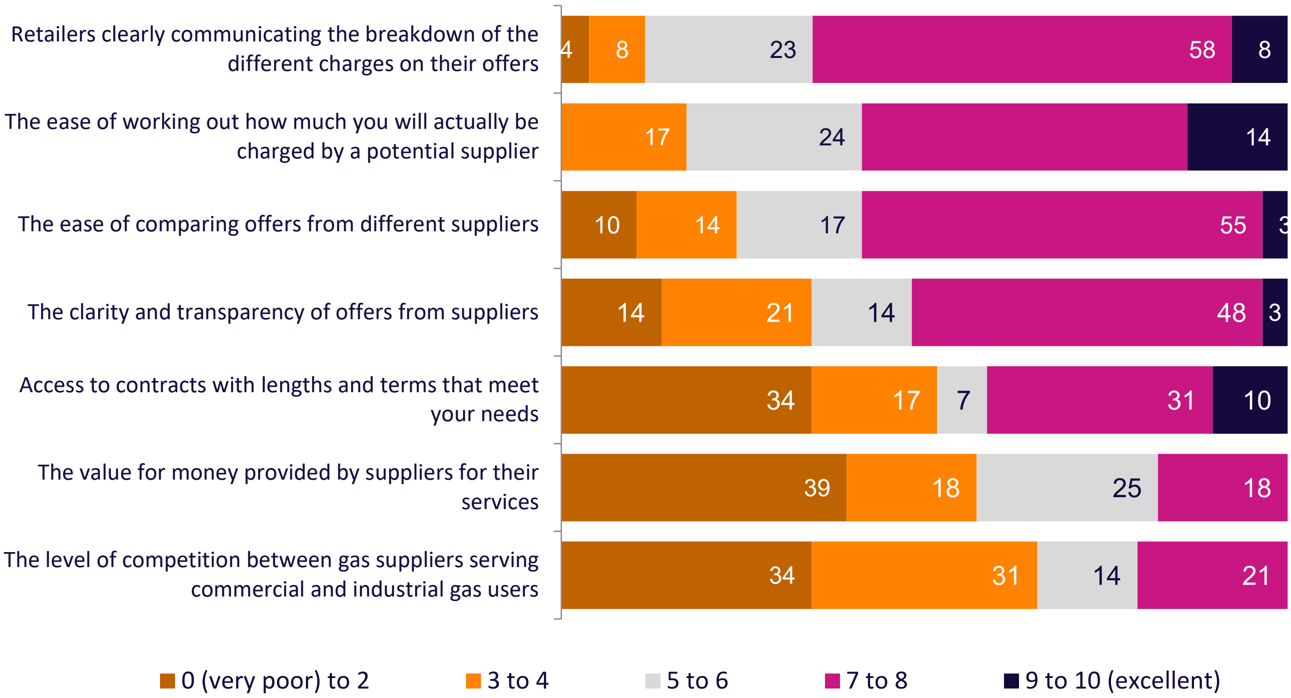
- That relatively little gas is traded through the short-term spot market compared to the volume being exported.
- That local development issues, including State Government land use policies and "social license" issues, are limiting the development of new gas deposits - especially in Victoria and NSW.
- Some southern customers noting instances where their supplier had required them to reduce their gas consumption due to supply shortages on the network.
- Supplier maintenance issues disrupting supply.
- Difficulties securing gas contracts which in turn increases customer's exposure to spot prices.

We also found that it was common for customers to have to use several different suppliers to meet their needs.

Rated Performance on Key Aspects of the Gas Supplier Market

The figure below shows how participants rated the performance of the gas market on seven key factors. Participants were asked to rate the performance of each of these factors on scale of 0 to 10, where 0 was "very poor" and 10 was "excellent". At a high level this emphasises dissatisfaction with gas prices, competition, and the availability of appropriate contracts. The market performs somewhat better in relation to communication and transparency although there is clearly still scope for improvement on these aspects.

Figure 1: Satisfaction with key aspects of the gas markets (%) n= 29*



* One participant did not provide ratings.

The table below outlines how the perceived performance on each key factor varied by customer size. Medium and large customers were generally finding it more difficult than small customers to compare and understand different offers, understand the breakdown of different charges and get access to contracts with the lengths and terms they were seeking. This relates to the fact that they are sourcing gas from producers rather than retailers as well as associated challenges in securing larger gas volumes.

Table 1: Perceptions of the East Coast Gas Supplier Market Across Customer Segments

Market Performance and Supplier Behaviour Average Score – 0 (very poor) to 10 (excellent)	**All Participants (n=29*)**	**Small (n=16)**	**Large/Medium (n=12)**
Retailers clearly communicating the breakdown of the different charges on their offers	6.7	6.9	6.2
The ease of working out how much you will actually be charged by a potential supplier	6.6	6.2	7.4
The ease of comparing offers from different suppliers	6.0	6.8	5.1
The clarity and transparency of offers from suppliers	5.6	6.3	4.9
Access to contracts with lengths and terms that meet your needs	4.6	5.9	3.0
The value for money provided by suppliers for their services	3.8	4.0	3.5
The level of competition between gas suppliers serving commercial and industrial gas users	3.7	3.9	3.3

* One participant did not provide ratings.

Market Competition

With an average score of 3.7 out of 10, most participants considered the current level of competition between gas suppliers to be very poor. The general sense was that competition had declined over the last 6-12 months with the power shifting notably towards gas producers.

Customers commonly cited the limited number of market players and increased global demand for LNG as key contributing factors. Some noted that the market is overly controlled by three or four major producers who essentially dominate market supply.

When asked how many companies they are theoretically able to buy gas from, on average participants reported around five suppliers. For some larger users this extended up to eight or nine suppliers, whereas for some smaller users it contracted to as few as two suppliers.

Some customers also spoke of a lack of actual choice and a lack of difference in the prices being offered by suppliers. Other issues that were raised by a few customers related to gas market mechanisms and this included:

- That price signals quoted by the ASX for futures contracts in the Victorian market aren't a true representation of the gas market.
- The lack of a futures market which makes it difficult to forecast future prices.
- Concerns about market bidding behaviour where a small number of "major players" can influence supply and significantly impact prices.
- Recent reductions in the number of retailers serving the market (e.g., including the closure of Weston Energy). Associated with this was some criticism of the level of regulatory oversight, which, from their perspective, allowed this company to enter and trade on the retail market without sufficient supply.

Current Gas Supply Arrangements

All the small and medium customers we spoke with were buying their gas from retailers. Arrangements for large customers were more mixed with four using retailers, five using producers and two using a mix of both (e.g., having different arrangements for different sites). Seven of the large customers were also buying at least some gas directly on wholesale markets. Around one in five used multiple suppliers and this was typically related to their supply logistics or a desire to get the best price. None of the customers we spoke with were using a buyer's group at the time of the interview.

Table 2. Supply arrangements across the surveyed sample

Current Supply Arrangement	Customer Size			
	Small	Medium	Large	Total
Retailers	16	2	4	22
Buyers Group	-	-	-	-
Producers	-	-	5	5
Mix of Retailers and Producers (e.g., for different sites)	-	-	2	2

Reasons for considering retail supply

Using a retailer was seen as the most appropriate option for most participants. Several small customers noted that a wholesale arrangement is only available for larger customers (a couple noted that the threshold is for those with annual usage of at least 2 PJ). Others spoke of retailer arrangements being an easier, simpler, and lower risk option that provides more security and stability in relation to gas price and supply. Some also noted that they didn't have the staffing, expertise or resourcing to engage with the wholesale market, particularly if energy management isn't a core part of their business.

Reasons for sourcing via direct agreement with producers

Most large customers were sourcing at least part of their gas needs via direct agreements with producers. The appeal of these arrangements included both the opportunity to source gas at a lower price by bypassing the retailer margin, as well as providing them with greater certainty over supply. Many small customers noted that this arrangement was not suitable or available for a business of their size.

Reasons for engaging directly with spot markets

Buying gas directly via spot markets was something many businesses claimed to have at least considered, if not pursued. It was frequently mentioned as an attractive idea in principle but one that smaller customers typically felt was more appropriate for larger and more sophisticated C&I customers. However, there were several small customers who, via their retailer, had an arrangement where their contract was at least partially variable and linked to the gas spot price. There were also reports that, in the current market situation, there were some retailers who were only offering new contracts on this basis.

For a few larger and sophisticated buyers, engagement with wholesale markets enabled them to recoup some of their costs. However, for most smaller customers direct engagement with wholesale spot markets was thought to require too much time, expertise and resourcing. Specific barriers mentioned by participants using retailers included:

- The initial cost (circa $400,000), time (3-6 months) and credentials and security authorisations required to register as a participant on the wholesale market.
- Challenges managing their cash flow (e.g., having to guarantee one month's payment upfront when purchasing gas).
- Challenges with having to nominate gas usage 24 hours ahead of time for businesses with highly variable consumption volumes (e.g., due to absent staff, machine breakdowns etc.).

- The time and competence required to understand and work with the various rules, regulations and guidelines that apply to participants in the wholesale market.
- Being more exposed to the volatility of market prices – especially important for businesses that are unable to flex their consumption volumes to adapt to market prices.

Consideration of Buyer Groups

No customers we spoke with were currently using a Buyer Group although three noted they had previously considered it and one was currently doing so.

The principle of buying in bulk to save was appealing to some participants although this approach also had perceived shortcomings. These included: pricing not being as competitive as hoped, difficulties finding other buyers with a "natural fit" to their business needs, and challenges securing gas for companies with multiple sites.

Contract arrangements (fixed vs variable)

As noted in the table below, 15 customers we spoke with were currently on exclusively fixed-price contracts, four were on variable spot-price arrangements, and ten were on arrangements that included a mix of fixed and variable "spot price" components. Customers typically preferred fixed arrangements as it made it easier for them to plan their finances and manage their risk without having to worry about price fluctuations.

Those who preferred engaging with the spot market spoke of perceived benefits in managing their usage and being able to 'play' the market. One also noted that, over longer timeframes, businesses would have been better off by purchasing gas at a variable market rate.

Table 3. Contract Arrangements

Current Supply Arrangement	Customer Size			
	Small	Medium	Large	Total
Fixed	10	2	3	15
Variable	4	0	0	4
Combination	2	0	8	10

Gas Prices

Overall, there was a wide range of prices currently being paid by customers, or offered by suppliers for future gas supply, from as low as under $10 per GJ including delivery to over $40 per GJ.

The large disparity in prices was mostly due to the timing of when contracts were signed and whether customers were exposed to the significant price increases during 2022. Several customers on existing long-term contracts were highly concerned about how high prices may become in the future when they need to re-contract.

Rated "value for money" was variable but typically poor (with an average score of 3.8 out of 10) and only occasionally positive. Rating scores were mostly driven by customer's attitudes to the overall market and the current rising prices as well as the nature of their relationship they have with their gas supplier. In this regard:

- Most spoke of the sharp increase in prices with some (especially smaller customers) noting that there was no change in service or additional value provided to justify the increase.
- Many spoke of supplier's reduced willingness to negotiate on contract terms and prices (where in the past they had) as well as shorter timeframes for both contract and accepting offers.
- A few mentioned transactional-style relationships with suppliers that involve little communications on aspects other than billings.

- A few noted recent deterioration in the level of customer service received from their supplier (e.g., interacting with less competent staff or offshore service teams being less responsive or understanding of their issues).
- A few also spoke of a lack of proactive engagement or assistance to customers and potential customers.

In contrast, the minority of participants who rated value-for-money higher typically referenced the basic fact that they had access to a consistent and reliable gas supply – especially if they were on longer-term contracts negotiated before the recent price rises.

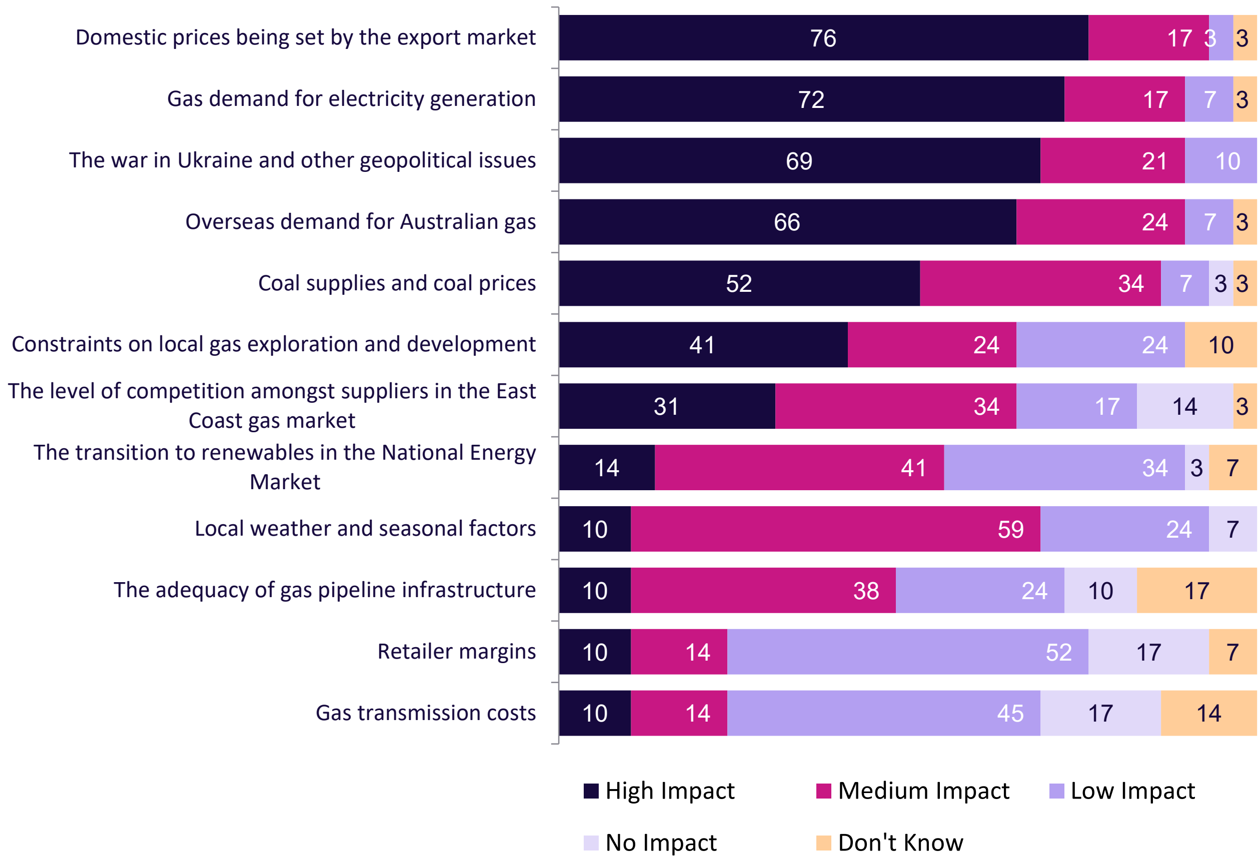
Factors Contributing to Recent Price Rises

When asked, customers mostly attributed the recent price rises to rising global gas prices and the fact that our local prices are strongly linked to it. The high global gas price was characterised as an "economic magnet" that was simply too attractive for local suppliers to ignore, either by selling offshore or demanding export parity prices from the domestic market.

Other contributing factors were also noted with one customer characterising the situation as a "perfect storm" of domestic and global factors such as: higher gas demand for electricity generation, higher demand for gas in winter, insufficient gas supply, the war in Ukraine, coal supplies and coal prices, and constraints on gas production (e.g., related to the moratorium in Victoria as well as production constraints in the Gippsland Basin).

Customers were also prompted with a list of specific factors and asked to indicate the extent to which they felt they were contributing to recent price rises. The results shown below confirmed that global factors and demand for electricity generation were considered most impactful. In contrast, retailer margins and transport costs were considered relatively less important.

Figure 2: Contributing factors to gas price rises (%) n=29*



* One participant did not provide ratings.

The Impact of Recent Price Rises on Customers

The recent price rises were described as having significant impact on over half of the businesses interviewed, with most others bracing for a significant impact in the next 6-12 months if gas prices don't fall before their current contract terms end. These impacts were broadly consistent across both large and small/medium customers.

Figure 3: The extent to which the recent price rises are impacting customers (% estimates based on verbatim feedback) n=29*

* One participant did not provide ratings.

Consumers who were previously with Weston Energy and now with their ROLR appeared to be enduring some of the steepest price rises.

The small minority (around 8%) who reported to be experiencing little to no impact tended to be businesses who had either secured a long-term contract prior to the price rise, claimed that the additional expense was relatively immaterial compared to other expenses, or that increased costs could be passed on to their customers.

Specific impacts described included: reduced profit margins, reduced production, reduced staff hours, delayed new investment and the loss of customers.

For approximately four of the worst suffering consumers, current prices were said to be unsustainable and posing a real (and in some cases urgent) threat to the ongoing viability of their business. Customers in this situation included a mix of smaller and larger consumers using both retailers and producers.

- They tended to be local manufacturers for whom gas represents a significant operational expense and a critical operational element that can't be electrified.
- They often couldn't pass on the increased cost of gas to their customers as they were on fixed priced contracts or they were competing against international businesses who, from their perspective, have not been subjected to the same steep rise in operational costs.

Importantly, some manufacturers and producers also predicted that if gas prices continue at this rate, then they will likely be forced to close their Australian operations. In some cases, this would mean the end of local manufacturing for certain products and the loss of jobs.

Mitigation strategies

In response, many affected customers have implemented short-term mitigation strategies to reduce their gas consumption wherever possible including:

- Reducing the production of certain products that require gas consumption and focusing on other business streams for the short term.
- Switching to alternative energy sources as a temporary measure, such as using electricity where possible, or burning existing coal resources.

For others (e.g., manufacturers that required extreme heat for their processes), standard electricity and renewable energy alternatives are not a viable option.

A couple of manufacturing customers were also investigating the feasibility of alternative energy sources such as bioenergy or renewable fuels as a permanent strategy to protect from future volatility of the gas market – but this was not considered a short-term solution and it remained unclear whether it would be commercially viable.

A barrier for them was that switching to an alternative supply source would involve significant financial outlay and years to implement the replacement equipment. It was also noted that switching to coal would lead to higher carbon emissions which could negatively impact their carbon targets.

Offers and Contract Terms

On average, participants rated “having access to appropriate contracts” as 4.6 out of 10 with scores on this metric covered the full range of options from zero to ten.

Those providing high performance scores were six small and one medium sized customer, most of whom were operating solely in southern regions. Their supplier agreements, which were all with retailers, represented a mix of older standing contracts (before the recent price rises) as well as some more recent agreements. Aspects they spoke positively of include their supplier’s willingness to negotiate, being provided with sufficient flexibility and variety in the contract terms, as well as securing a suitable contract duration for their needs.

In contrast, most participants rated this aspect quite poorly. For them, the major factor driving down their score was the difficulty accessing suitably priced contracts for an appropriate term. In the last year the number of suppliers willing to engage in fixed-term contracts has noticeably reduced, and virtually all had experience with suppliers who were unwilling to make an offer. Where in the past, almost all the companies they approached to tender would submit an offer, it was now the case that they may only have one fifth of suppliers responding to their request.

It was also apparent that most suppliers were not keen to renegotiate terms – it does happen on occasion, although typically not on commercially favourable terms. Similarly, there were mixed feeling about suppliers being responsive in accommodating changes in demand. Some spoke of suppliers who were willing to do so (e.g., related to COVID impacts) whereas other noted rigid contract conditions in this regard.

Contract Duration

Historically, the duration of retail contracts typically ranged from one to four years, with three-year contracts being a common duration. Feedback from large customers suggested that their contracts tended to run longer, with a few reporting five and seven-year contracts.

However, in the current environment we found that:

- At least two thirds of the customers said that suppliers have recently refused to provide them with a contract offer (or provided them with an offer and later withdrew it), saying that they will only offer supply at spot market prices and conditions.
- Several customers reported being provided with offers that they were required to respond to within three days, with the threat of significantly higher prices if they did not promptly accept and a few reported only being given only 24 hours to accept an offer.
- In most cases it seemed that suppliers were not interested in entering contracts beyond 2023 (or for some larger customers, 2025) and some businesses were in a situation where they have not been able to secure contracts even for next year. Several have settled for shorter one-year contracts and/or were increasing their exposure to spot market prices.
- In contrast we also found a few instances where customers wanted an even shorter (six month) fixed agreement until they got a better understanding on what’s happening in the market, but that they are only getting offers for 12-month contracts. Some customers were also reluctant to sign multi-year contracts, due to uncertainty about whether gas prices would remain high.

Take-or-pay and other conditions

Participants noted that take-or-pay terms negotiated in the past were sometimes as low as 60% but were now more likely to be 80-100%. Similarly, there have also been more suppliers that were only offering spot-prices rather than fixed price contracts.

Inflexible take-or-pay conditions were especially difficult to manage for businesses whose operations involved major routine shutdown periods for which they are unable to negotiate reduced gas volume for. Knowing the supplier was still charging them for the gas despite not using it, and also selling it to someone else and getting paid twice for the same gas (i.e., “double-dipping”), was a source of annoyance for some businesses, and especially bitter for those struggling to absorb the steep price increase.

Contracted shutdowns were another difficult and undesirable contract term that a few customers were facing. The ability for suppliers to interrupt supply as and when required for maintenance reportedly makes it very hard to conduct business operations and can cause a drastic loss of volume for manufacturers as well as added wage and resource costs associated with delays in suppling their clients.

In contrast, **"managing overs and unders"** did not appear be a notable issue for the majority of customers, particularly as many of them had a fairly consistent and predicable gas demand. When it came to the flexibility of suppliers in managing demand, we found that around a third of customers had not had to deal with this issue due to their steady consumption.

Customers for whom it's been a relevant issue described differing experiences. Some described an inflexible arrangement where any changes in demand had to be negotiated, usually at fairly unfavourable commercial terms. Others stated that their supplier was always very reasonable and receptive to accommodating and negotiating changes in demand.

Supplier Communication

Supplier communication was generally considered a lower order issue for participants compared to concerns about the availability of contracts and the contract prices offered, as outlined above. However, feedback suggests there was also considerable room for improvement when it comes to supplier transparency and communication, and this is reflected in the scores below which indicate moderate performance at best.

Table 4: Recap of market transparency metrics (n=29*)

Market Performance and Supplier Behaviour – Market Transparency Metrics (0="very poor" and 10= "excellent")	Average Score
Retailers clearly communicating the breakdown of the different charges on their offers	6.7
The ease of working out how much you will actually be charged by a potential supplier	6.6
The ease of comparing offers from different suppliers	6.0
The clarity and transparency of offers from suppliers	5.6

* One participant did not provide ratings.

While many participants claimed to understand the different charges on their gas bills, how suppliers arrive at their costs can be a different story. The main issues raised by customers included:

1. **Opaque transport costs and arrangements -** While the breakdown of different charges and the overall clarity and transparency on price and contract terms was generally considered adequate, a lack of transparency regarding transport costs and arrangements was raised as an issue.

   Four customers (two small, medium and one large) spoke of transport transparency as an issue. This included being unsure about how transport costs are calculated (margins etc.), and how the same (full) transport costs can apply regardless of whether a customer sits at the beginning or the end of the network, hence whether they fully utilise the transport network or not. One large customer also spoke of being unsure about where the gas is coming from and that this makes it difficult to fully assess the risk of an offer. The opacity of transport elements appeared to be a particular pain point for some customers based down south trying to secure gas from Queensland.

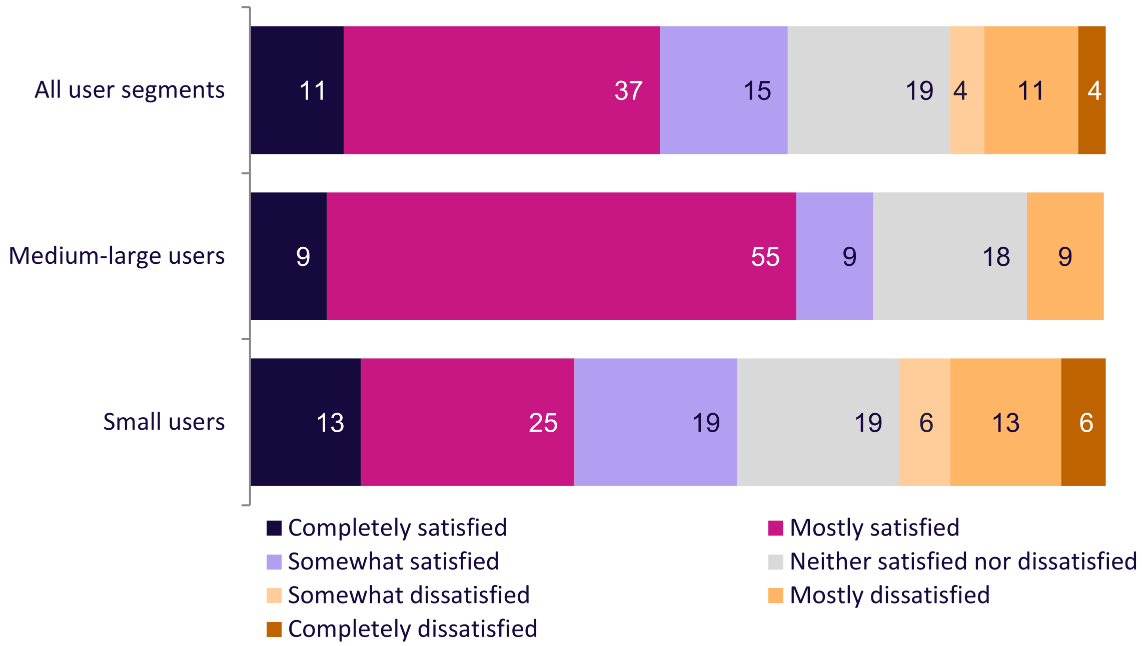
2. **Inconsistent T&Cs and metrics used between suppliers –** Four customers mentioned that the task of comparing different supplier offers can be quite challenging. They claimed that the terms and conditions from each supplier can vary significantly (including different transport and delivery point options), and that often costs were broken down differently by each supplier, making it difficult to compare 'apples with apples' and conduct price scenario and sensitivity tests.

Customers also identified some ways to simplify the process, and these included: having a broker or energy consultant assist with the comparisons (a very common option), requiring all suppliers to use a consistent master agreement template and/or having basic contract terms – i.e., 100% fixed, 100% take-or-pay.

Satisfaction with Gas Suppliers

As shown in the figure below, around two thirds of customers reported being at least somewhat satisfied with their current gas supplier. Those more satisfied included larger customers as well as those using a broker or energy consultant. This appraisal was somewhat more positive than the overall views on the gas market presented earlier. The difference is partly due to some positive long-term relationships with individual suppliers as well as a belief that the market issues and frustrations haven't necessarily been caused by the individual companies they deal with (especially if they were retailers).

Figure 4: Overall satisfaction with gas supplier % (n=26*)



* Four participants did not provide ratings.

Feedback suggests that suppliers do not typically need to do much to gain customer satisfaction. First and foremost (and for some customers, all that was required) was providing a reliable gas supply, with minimal supply interruptions. Other factors said to be driving some customers' satisfaction included:

- Having reasonably flexible contract terms e.g., 60% take-or-pay on one longer-term contract.
- Having good customer relations – including having regular contact and being responsive, approachable, and willing to negotiate.
- Providing reasonably priced offers – especially those on long-term deals negotiated before recent price rises.
- Providing transparency on their pricing.

Several of the 19% who reported feeling dissatisfied were previously with Weston Energy and now with their ROLR. Their dissatisfaction was heavily influenced by the current high prices they were required to pay (typically the default rate) and often an inability to access appropriate contract terms (e.g., with 100% take or pay terms).

More broadly supplier dissatisfaction is typically driven by:

- Unfavourable prices and an unwillingness to engage on new contracts.
- Rigid contract conditions (as noted above).
- A perceived unreasonable imbalance of power in current contract terms – e.g., a lack of security around contract terms and price protection, and unreasonable supplier entitlements, such as shutting-off supply for 1-2 days for 'maintenance' at their whim and leaving customers no option but to interrupt their operations and standby.

- An unwillingness to negotiate and/or return calls was also fuelling the dissatisfaction of several smaller customers.
- One also spoke of billings issues and errors.

Market Knowledge and Needs

Most participants claimed to feel reasonably confident in their businesses' level of knowledge about the gas market with large customers typically more knowledgeable than smaller ones.

- Amongst large and medium customers six categorised their knowledge levels as being high whereas two categorised it as medium (or similar terms).
- Amongst small customers, seven categorised their knowledge level as high with 4 categorising it as medium (or similar terms).

That said, it was also typically made very clear that several have had to become more knowledgeable and engaged in the gas market than they would have liked in order to get a better handle on rising costs and other market challenges. It was also apparent that:

1. There are areas of the market that were uncomfortably opaque (e.g., compared to electricity or share markets); and
2. The market is particularly complex (especially compared to electricity) and that building knowledge and staying informed requires a significant amount of time, which can divert resources from a company's core business.
3. Customers were particularly uncertain about future gas prices and wanted further information and forecasts of how prices may change to help them make business decisions.

Around half (especially smaller customers) engaged energy consultants or brokers to act as their expert advisers on the market and reduce the pressure on their business to maintain a comprehensive knowledge inhouse. In contrast, several large customers employed individuals or teams inhouse to monitor prices and consumption.

The main areas where customers wanted more information and greater transparency were in understanding:

- Which producers have available gas and the timing for when they can provide it to the market?
- The plans producers have for developing their reserves?
- What is being done to bring more gas into the East Coast market?
- Whether small or new gas producers are financially or technically able to source gas?
- What margins suppliers are applying?
- How will gas prices change in the future and how long prices will remain high?
- How bidding works in the wholesale gas market?
- How Expression of Interest processes for sourcing new gas contracts are run and what the outcomes of them are (i.e., what prices were bid and what was the price that was settled on by the successful bidder)?
- More information on current gas prices in general including the prices that other C&I customers are paying and retailers potentially publishing their current prices?
- Transport prices in different parts of the country and whether their charges are appropriate?

The desire for more forecast information was most apparent among larger gas customers transacting at a wholesale level. As gas is not a traded derivative like electricity, larger buyers stated that there is little ability for them to understand the longer-term outlook on prices and to make decisions for their business accordingly. These customers typically make investment decisions based on longer-term timeframes and they were looking for certainty around their cost base and to understand when to lock in an energy price.

Information Sources

When asked where participants get their information about the gas market, participants responded with a wide variety of sources, suggesting that there is no clear consistent information authority or “go to” when it comes to the gas market. Information sources included:

- Industry groups e.g., Energy Users Association of Australia (EUAA).
- Their suppliers, with a couple stating that they had established a good relationship with account managers who they relied on for market information (e.g., via quarterly market reports).
- In relation to market prices: ACCC netback pricing, spot prices, EUAA and updates from Schneider Electric and RMHEDGE daily reports.
- The Financial Review for daily gas prices and trends.
- ACCC Inquiry reports.
- Australian Energy Regulator (AER), gas, wholesale and energy market reports.
- The Australian Energy Market Operator (AEMO) website, STTM dashboard for weekly output, and publications such as the Gas Statement of Opportunity.
- Industry information and trend updates from expert consultants and brokers (e.g., Energy Quest, NUS Consulting).

While most agreed that reports such as the ACCC’s online information and regular publications can provide a good indicator, the time lag between writing and publication was said to detract from their usefulness. Similarly, the price signals coming from the ASX were also criticised as not being a true representation of the gas market.

Supplier Selection Processes and Switching Behaviour

Supplier selection

For large customers, the supplier review and selection process has typically been an involved and lengthy process that involves teams of people and can take several months - especially for large customers entering into tailored service agreements. Their internal team source offers (e.g., via tender or direct approach) and liaise directly with suppliers.

Securing a large and long-term energy contact was reportedly a very important decision for many businesses (small or large) and, as such, they preferred to take their time to ensure they were getting the best possible deal (e.g., optimising the contract duration and their timing for locking in a price).

Four of the large and medium customers explicitly mentioned they use external consultants to inform their strategy prior to going to market with the rest relying on inhouse expertise.

In contrast, most small and medium sized customers tended to rely more on external consultants and/or brokers to gather and compile offers from suppliers and get recommendations. Nine of the sixteen small customers explicitly mentioned they use these experts with many of them noting that it makes the process quite straightforward. In the few instances where small customers claimed to be the ones engaging directly with suppliers, this process was typically described as being more difficult.

All participants actively engage in the market in the lead up to a contract ending (usually 12 months in advance though some reported active engagement anywhere from two years to six months in advance). Some customers also reported conducting more frequent market reviews, and less formal conversations with suppliers throughout their contract period, e.g., triggered by a steep rise in prices or a price review clause within the contract.

Historically, the typical approach has been to conduct a closed tender or select RFQ, inviting a shortlisted selection of circa 3-5 suppliers to quote by a specific date. Further negotiations with individual tenderers could then take weeks before a supplier is chosen. However, in the current market environment, customers often needed to chase suppliers in order to get a quote, and/or be more flexible in approaching suppliers than ever before.

- Two customers described recent situations where suppliers withdrew offers and resubmitted with an increased price (including adjustments in the vicinity of 20% increases).
- One customer also noted a situation where producers announced when additional gas would be made available and then invited customers to bid on that gas as part of a reverse auction process where they competed with retailers. In this situation they noted that it is hard to find a price that is realistic and provides appropriate value to both sides.

In choosing a supplier, price was the key deciding factor but not the only one. Other important factors included:

- Their capability to reliably deliver necessary volumes.
- Their reputation for delivering reliable consistent supply (especially important for larger customers).
- Having suitable contract terms (e.g., fixed vs linked to spot price, take-or-pay proportions, contract length etc.)
- Transport price and terms (e.g., delivery point location and pipeline reliability).

The switching process

The gas market appears to be a relatively high churn market, with many reportedly switching suppliers each new contract term, then often returning to previous suppliers in subsequent contracts. However, as noted earlier in the report, there has recently been a sharp reduction in the number of suppliers providing offers as well as increased instances where suppliers were providing very short approval periods for their offers. These were both barriers to switching that are prevalent in the current market environment. Another barrier that was noted above is ensuring appropriate transportation and delivery points are available (mentioned by two large customers).

The current lack of competition and offers has led to five small customers describing their situation as feeling "stuck" with certain suppliers because of the need to lock in forward pricing or because they are on ROLR arrangements, with a related sense of uncertainty about whether they were being "taken advantage" of.

Once a new supplier was identified, and contracts signed, the actual process for changing over to the new supplier was typically considered to be easy and straightforward. The only potential "pain point" related to underestimating the time involved in the switchover – while some said it can happen within 48 hours, others cautioned to plan the switch at least 30 days ahead of the end of contract to avoid disruptions in supply during the changeover.

Participant Advice and Considerations to Improve the Functioning of the Gas Market

The most important priority for customers was for Government action to increase gas supply and ease prices for local C&I customers. This included requests for local gas reservations and related calls for domestic prices to be "decoupled" from the rising international prices that LNG producers were currently taking advantage of. A few acknowledged that it is not an easy issue to address and there were also comments that most potential options to address supply shortages would take time to implement and may not address the current and immediate issues that participants and their businesses were facing.

Other specific suggestions from customers improve the functioning of the gas market included:

- A desire for greater transparency around key supply and transport market elements from independent sources to support better forecasting, similar to how the National Electricity Market operates.
- Price caps being set at more reasonable prices.
- Potentially introducing a Windfall Tax – like what is done in the UK (25%) and for Qld's coal industry (reportedly a 45-50% tax for anything above a certain threshold.
- Easier access to short term trading markets (with the AEMO website reportedly being not that easy to navigate).

- Increasing gas supply in the southern markets, including strategies to manage the potential shortfalls that don't rely on piping gas from Queensland.
- Fast tracking development approvals for new gas supply.
- The Government increasing gas storage.
- Further developing the transport network.
- Potentially investigating a "Fuel Watch" system – or a good app with useful pricing information.
- Addressing metering issues to provide consumption data in real time
- Improved information about potential risks of each supplier.
- Proper HUB pricing where buyers are located.
- Creating a Fair Contract Commission that develops and publishes what a fair contract for retail and wholesale looks like – to assist business make informed choices and improve negotiations.

Overall, participants were typically appreciative of the ACCC and the work of the Gas Inquiry in providing useful information and addressing the "information asymmetry" in the gas market (at least to some degree). In this regard most participants would like the ACCC to continue to shine a light on the current state of the market and to provide relevant and timely information to address the information gaps outlined previously in this report.

However, several qualified this by reiterating that their main grievances related to the availability of domestic gas and the drastic price rises that have largely stemmed from producers taking advantage of rising international prices. Several felt that addressing this fundamental and clearly understood issue should be the main focus of the ACCC although a few noted that it may be beyond its remit.

Three participants also referenced the recently released Voluntary Code of Conduct. This initiative was supported in principle although two participants were somewhat concerned that it could potentially be too restrictive and curtail their ability to have informal conversations with producers.

Contact

David Stolper
Partner
E: david.stolper@secnewgate.com.au

SEC Newgate Australia Pty Ltd
ABN 38 162 366 056

Level 15, 167 Macquarie Street
Sydney NSW 2000
T +61 2 9232 9500

E: sydney@secewgate.com.au
W: secnewgate.com.au