



Our Reference: DMS# 3333471
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The General Manager
Adjudication Branch
Australian Competition and Consumer Commission
GPO Box 3131
Canberra ACT 2601

By email: adjudication@accc.gov.au

**RE: NORTH WEST SHELF JOINT VENTURE PARTNERS'
APPLICATIONS FOR AUTHORISATION A91220-A91223**

Dear Sir/Madam,

Synergy is pleased to provide comment on the application for authorisation by the North West Shelf Project (the **Project**) joint venture partners BHP Billiton Petroleum (North West Shelf), BP Developments Australia, Chevron Australia, Japan Australia LNG (MIMI), Shell Development (Australia) and Woodside Energy (the **Applicants**).

BACKGROUND

Since entering the retail gas market in 2003, Synergy has become the second largest gas retailer in Western Australia (**WA**). Synergy purchases gas from the Carnarvon and Perth basins and utilises the Dampier to Bunbury Natural Gas Pipeline (**DBNGP**), the Parmelia Pipeline, the Goldfields Gas Pipeline and the Midwest Pipeline to deliver gas to customers consuming 180 GJ of gas or more a year in the area bounded by the south west interconnected electricity system which extends to Kalbarri in the north, Kalgoorlie in the east and Esperance in the south east and includes the Perth metropolitan area.

Synergy is continually seeking to source new supplies of gas to service its growing customer base. It is concerned, however, that the authorisation sought by the Applicants to continue the joint marketing of natural gas for domestic sales (**domgas**) may have significant long-term impacts on the WA market.

ASSESSMENT

Synergy understands that, in assessing the Applicants' application for authorisation, the Australian Competition and Consumer Commission (ACCC) must determine whether the proposed continued joint marketing of domgas by the Applicants would result in a benefit, or a detriment, to the public.

Synergy would like to provide comment on the following specific matters.

Market maturity

WA is the most gas-reliant economy in Australia, with natural gas supplying more than half of the state's primary energy requirements and fuelling at least 60 percent of the state's electricity generation.

Synergy notes the assertion by the Applicants that there has been no material development in the maturity of the WA gas market since 1998¹. However, Synergy submits that the downstream gas market in WA has undergone significant reforms in recent years. Significantly:

- There is no longer a single, vertically integrated, state-owned, buyer of gas (SECWA);
- There are now around 30 customers that purchase gas directly from producers;
- There is an increase in the number of retailers, such as Synergy and Alinta, that sell gas to consumers;
- There are a number of brokers providing gas trading services;
- There has been a significant increase in domgas demand, from 250 PJ in 1999-00 to 350 PJ in 2007-08²;
- Additional transportation and storage options, such as the Mondara storage facility at the northern end of the Parmelia Pipeline and the under and over services on the DBNGP, are now available;
- There is greater connectivity between pipelines, encouraging both physical and commercial gas trades; and
- Short-term and long-term trading in secondary markets is common, despite no official market to implement such trades.

Synergy considers that these advancements have made a significant contribution to the development of the market. Additionally, recent recommendations to the WA Government by the Gas Supply and Emergency Management Committee include³:

- The establishment of a permanent Gas Bulletin Board to improve information transparency and symmetry across the gas supply chain and to facilitate trading on standard transport and commodity contracts;

¹ North West Shelf Project - Application for authorisation - supporting submission, public version, Freehills, 31 March 2010, par. 7.16, p. 24.

² *Western Australian Mineral and Petroleum Statistics Digest 2008-09*, Government of Western Australia, Department of Mines and Petroleum, Table 5, p. 56-57.

³ *Gas Supply and Emergency Management Committee - Report to Government*, Government of Western Australia, Office of Energy, September 2009.

- Implementation of a Gas Statement of Opportunities to provide long-term gas supply and demand forecasts to facilitate a competitive market and efficient investment and inform Government policy development; and
- Consideration of a Short Term Trading Market to further facilitate the trading of gas contracts.

These recommendations have been presented to the Parliament of Western Australia and implementation is underway.

The effect of the above reforms is that there is now a significant, competitive domestic market in WA with numerous players.

Level of competition

In its determination in respect of the application by the Gorgon Gas Project joint venture participants to jointly market and sell natural gas, the ACCC noted that it would expect that separate marketing would result in a more competitive market than would be the case under joint marketing⁴. Additionally, the ACCC acknowledged that if gas producers were to separately market their gas, the development of the WA domestic market could be assisted in the medium to long term by providing more market opportunities for the entry of gas storage providers and aggregators⁵.

There are just two gas suppliers - the Project joint venture and the Apache-operated Varanus Island venture - currently accounting for approximately 98 percent of the WA domestic market. With these producers holding significant market power and an ability to control the level of supply in the market no incentives exist for them to compete effectively, hence competition is reduced and the cost of gas to domestic consumers is ultimately increased.

Commercial viability

In its determination concerning the Gorgon Gas Project the ACCC considered that, without a functioning spot/secondary market, and with a lack of significant storage options, there exists a high commercial risk to parties attempting to enter into a Gas Balancing Agreement (GBA) for their domestic entitlements⁶.

However, Synergy believes that the incremental gas for which the Applicants are seeking authorisation - understood to be approximately 100 TJ/d for 6 years, out of an already operating production facility - would provide the perfect opportunity to initiate separate marketing obligations in WA.

Synergy considers that each Project joint venture partner is a highly skilled and profitable multinational company that would have the commercial acumen required to successfully negotiate individual sales contracts.

⁴ *Determination - Applications for authorisation - in respect of the joint marketing and sale of natural gas from the Gorgon Gas Project for supply in Western Australia*, 5 November 2009, par. 7.176, p. 60.

⁵ *Ibid.*, par. 7.215, p. 68.

⁶ *Ibid.*, par. 7.75, p. 40.

Price and terms of sale


Through involvement in various joint venture projects the Applicants, along with other large producers, currently enjoy the benefits of complete transparency with regard to pricing across the industry. Conversely, gas consumers lack any of the benefits that would arise from the joint purchasing of gas, which, other than in limited circumstances, they are currently prevented from doing under the Trade Practices Act.

In recent weeks, the Parliament of Western Australia's Industry Standing Committee has been directed to investigate how much consumers in WA pay for gas. Currently, WA domgas customers pay substantially more than consumers in other states despite having substantially greater reserves. Synergy considers that, should the ACCC approve the Applicants' request to continue joint marketing of domgas, probity auditors should be in place to oversee all tendering and sales activities and to ensure that production facilities are fully utilised to substantiate that the Applicants are acting in good faith.

Additionally, Synergy considers that to prevent resource restrictions, the timing of domgas sales should be made to coincide with LNG sales. Furthermore, applicants should be required to maintain domgas supply to sufficiently cover all contracts through to their end dates.

If you have any questions concerning Synergy's comments on this submission please do not hesitate to contact Catherine Rousch on (08) 6212 1125 or at catherine.rousch@synergy.net.au.

Regards,



Trevor James
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Synergy