LOCK THE GATE **ALLIANCE**
AUSTRALIANS WORKING TOGETHER TO PROTECT OUR LAND, WATER, AND FUTURE

Reply to: Georgina Woods
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Submission: Changes in regulated gas retail prices

The Lock the Gate Alliance appreciates the opportunity to make a submission on the question of a proposed increased in regulated retail gas prices in NSW. As a network of hundreds of community groups and thousands of individuals across NSW and the country that are grappling with the impacts of inappropriate coal and gas mining, Lock the Gate is a stakeholder in the orderly regulation of the gas industry in this state, as decisions made by IPART in this matter may profoundly impact on our members and the broader public interest.

In broad terms, we believe that it is incumbent upon the IPART to reject ambit price rise demands made by the gas retailers and call on the Tribunal to not take action that will further exacerbate the "dash for gas" that is driving up prices, creating an artificial gas shortage and resulting in conflict and upheaval in rural communities in NSW and Queensland.

There are two main grounds against any increase in regulated retail gas prices:

1. The IPART is bound by the objects of the Gas Supply Act 1996 which demands compliance with the principles of ecologically sustainable development and also stipulates that the market must deliver "safe and reliable" supply of gas to consumers. Acceding to the demands of gas companies to participate in their dramatic export plans is contrary to these statutory provisions.
2. Two of the major retailing companies that are asking for an increase in the regulated price are participating in practices that are driving up the wholesale price, and then using that increase as an excuse for those same price increases.

Section (3) (1) (a) of the *Gas Supply Act 1996* establishes the objects of the Act, and makes clear that though the gas market is encouraged to be competitive, it is also to be developed in a way that is delivers safe and reliable supply and is in compliance with the principles of ecologically sustainable development ESD, as laid out in the *Protection of the Environment Administration Act 1991*.

IPART is bound, then, to consider those principles, and make decisions in compliance with them, and to also "protect the interests of customers." The current "dash for gas" which is underway in NSW and Queensland is contrary to the principles of ESD, and adherence to those principles requires IPART to ensure that the environmental damage being done by gas producers is appropriately priced. The principles of ESD and their relevance to IPART's consideration of retail gas prices in NSW are iterated below;

1. The precautionary principle: if there are threats of serious or irreversible environmental damage, lack of full scientific certainty should not be used as a reason for postponing measures to prevent environmental degradation. Currently, lack of full scientific certainty

about the impacts of coal seam gas extraction and production on aquifers and on carbon pollution has meant that neither of these impacts are being prevented in NSW.

2. Inter-generational equity: the present generation should ensure that the health, diversity and productivity of the environment are maintained or enhanced for the benefit of future generations. A CSG industry which poses very serious risks to water resources and the environment is being rolled out in a rush, without proper precaution or adequate scientific assessment, and despite widespread opposition from the community. Numerous polls have shown more than 60%, and often up to 80%, of people are opposed to CSG.
3. Conservation of biological diversity and ecological integrity: there is considerable evidence to indicate that the biodiversity regulations on the CSG industry are inadequate to prevent the negative impacts of disturbance and fragmentation, and that what regulations do exist are not being appropriately applied.
4. Improved valuation, pricing and incentive mechanisms: that environmental factors should be included in the valuation of assets and services, including polluter pays (those who generate pollution and waste should bear the cost of containment, avoidance or abatement) and (ii) the users of goods and services should pay prices based on the full life cycle of costs of providing goods and services, including the use of natural resources and assets and the ultimate disposal of any waste. This latter could be an argument for increasing retail gas prices, but only if this cost increase were based on the full life-cycle cost, depletion of natural resources and assets and waste disposal of the gas mining companies. This is not the proposal being put to IPART.

It is our contention that NSW is being held to ransom by CSG companies because of their poor decision-making and equally poor decision-making by the Queensland and Federal Governments. We contend that it is outside the scope of IPART's brief to increase the retail price of gas for NSW households to fix a problem whose origins lie squarely at the feet of private companies seeking to make large amounts of money from natural assets of NSW and Queensland.

Last year, the household price of gas in NSW increased by an average of 8.5%. IPART's decision on pricing last year was to largely accede to the requests by gas retailers for price rises. In last year's report, it was anticipated that further increases were likely, that AGL and ActewAGL customers would experience an estimated 8.3% per annum in 2014/15 and some Origin customers would experience a 2.5% increase.[1] Instead of the 8.3% increase foreshadowed in last year's report, AGL and Origin are both proposing a steep increase in prices this year of over 20%, increasing household gas bills by between $169 and $205 a year. This is on top of the 9.2% increase experienced by AGL customers last year. If the request from AGL is acceded to this time, it will mean their customers have experienced a 30% increase in the cost of gas between June 2013 and July 2014. This is an unreasonable impost on consumers.

It was foreshadowed last year that there would be further reviews of the regulated price "to account for uncertainty about wholesale gas costs and other costs" but this situation is not brought about by an increase in costs: it has been brought on by profiteering. The IPART fact sheet and submissions by gas companies shows that the "retailers" of household gas in NSW are claiming that they will have to pay more for wholesale gas, but two of these companies are also involved in the gas wholesale market, and are making business decisions that are creating the situation this price rise is now supposed to be necessary to alleviate. In short, the retailers and the wholesalers are the same companies. Origin, in particular, is a partner in the Australia Pacific LNG plant on Curtis Island, and

[1] *Final report: Review of regulated retail prices and charges for gas*. IPART. June 2013.

will be exporting gas it produces from coal seam gas fields in Queensland from that facility. AGL has an eight year agreement to store LNG for the Queensland Curtis LNG plant[2] and owns a stake in the company that owns that plant. According to AGL's submission, Santos' Gladstone LNG has set the market price for gas in Queensland by its large gas purchases from Origin (May 2013 and Dec 2013) estimated at $US8/GJ/$A9.40/GJ" (page 10). Now Origin is expecting IPART to change the regulated price for NSW households to fall in line with a wholesale price increase they helped to broker.

Four LNG export terminals are approved for construction on Curtis Island, three of which are nearly complete. The decision to open three large export facilities in a short space of time has sent shock-waves through regional Queensland, in the rush to dig up, process and sell the gas, that are now reaching NSW. There are now reports that there is insufficient gas being produced from coal seam gas fields in Queensland to meet the expectations of the companies that rushed to build these plants, with an industry advisor frankly stating that, "what they have to do is to drill a lot more CSG wells in the next few years because of the commitments to the LNG trains that they are currently building in the north of Queensland."[3] NSW people are being told by the Minister for Energy and Resources that unconventional gas mining projects in this state need to be fast-tracked because of a "shortage" despite the production levels of gas in Queensland rising sharply over the last two years.[4]

Summaries of coal seam gas production rates in the Bowen and Surat Basins in Queensland clearly shows that supply has hugely increased over the last eight years: the reality is that domestic supply has no effect at all on prices, given the tiny quantities involved, compared to the international market. It is due to a failure of state and Federal governments that NSW households are facing high gas prices due to the development of a poorly regulated CSG industry. It is also clear that CSG mining in NSW will do nothing to reduce gas prices, but will place land and water resources at risk.

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[2] See BG Group *Data Book 2013* "Australia" page 9 http://www.bg-group-databook.com/pdfs/bg-databook-2013-australia.pdf

[3] Quoted in Mining Australia "Doubts raised over CSG well capacity to feed Curtis Island LNG plants" 20 November 2013. http://www.miningaustralia.com.au/news/doubts-raised-over-csg-well-capacity-to-feed-curti

[4] "NSW must grow coal seam gas industry to keep down prices: minister." *Sydney Morning Herald*. 17 February 2014. http://www.smh.com.au/nsw/nsw-must-grow-coal-seam-gas-industry-to-keep-down-prices-minister-20140217-32vjt.html

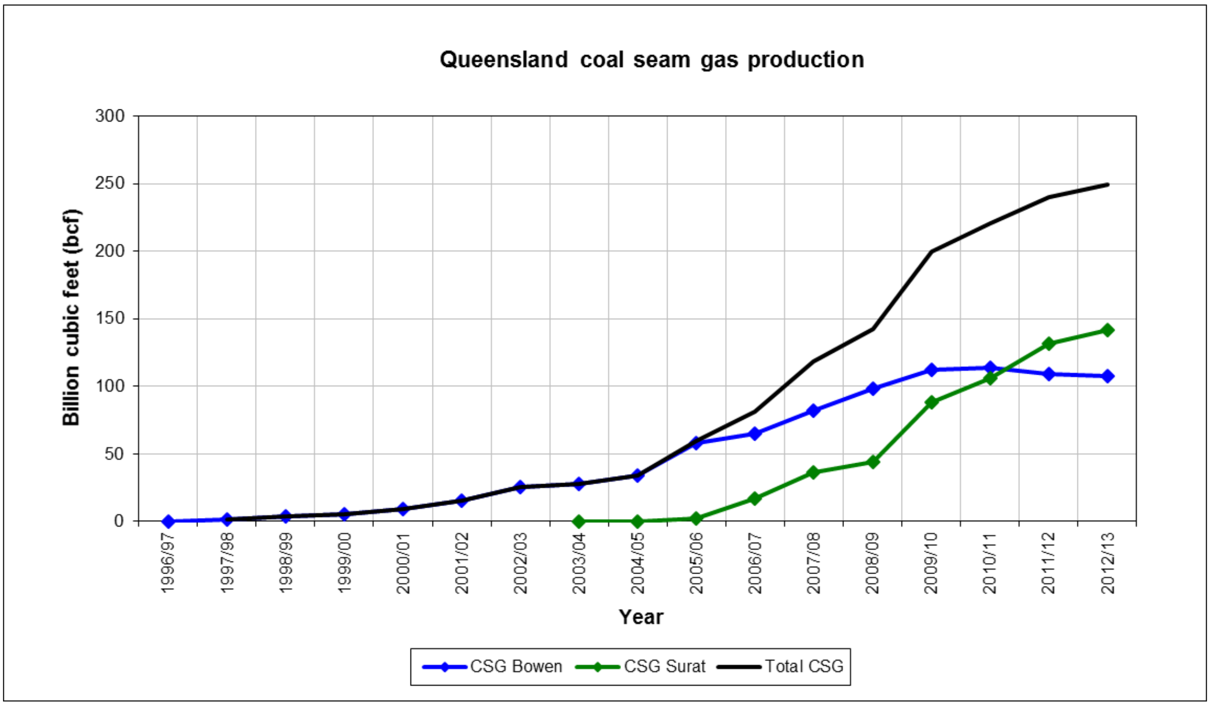

Figure 1: Sourced from Queensland Dept of Natural Resources and Mines

In their half-yearly financial reports last month, AGL noted that "NSW gas pricing proposal for 2014-2016 largely reflects increase in market prices due to LNG developments in Qld."

AGL's submission to IPART states that, "the commitment of large LNG projects in Queensland has driven intense competition for available gas between domestic customers and LNG projects as the CSG reserve have been committed to LNG projects in order to underwrite their development" and confirms that gas is already being reserved for the LNG terminals (page 9). According to AGL, Gladstone LNG "is materially short long term reserves and deliverability" (page 9) and the producers are facing "difficulties to satisfy their firm LNG contracts" (page 10).

In this environment, increased supply is not having and will not have any downward impact on retail prices, as more and more gas production, if it comes online, will be vacuumed out onto the international market by the gas companies, for the highest price they can obtain. NSW householders and the broader NSW public are the losers in this process and IPART is bound, in our view, to protect consumers from price rises brought on by poor business decisions in the private sector.

Thank you for the opportunity to comment. We look forward to the Tribunal's draft report on this matter.