

30 June 2015

Ms Kate Ryan
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via email: market.development@imowa.com.au

Dear Ms Ryan

CME submission to the review of the gas bulletin board zones

The Chamber of Minerals and Energy of Western Australia (CME) is the peak resources sector representative body in Western Australia funded by its member companies, which generate 95 per cent of the value of all mineral and energy production and employ 80 per cent of the resources sector workforce in the state.

In 2014, the value of Western Australia's mineral and petroleum production was \$114.1 billion. Iron ore accounted for approximately \$65.1 billion of production value to be the state's most valuable commodity. Petroleum products (including LNG, crude oil and condensate) followed at \$25.1 billion, with gold third at \$8.7 billion.¹

Notwithstanding the recent decline in the price of several export commodities, the estimated value of royalty receipts the state received from the resources sector still composed almost 20 per cent of estimated total state revenue in 2014-15, or around \$5.34 billion.²

As at March 2015, there was approximately \$179 billion in resources sector projects committed or under construction in Western Australia and a further \$118 billion in proposed or possible projects.³

Energy is a critical input to, and export from, the state's resources sector operations. Affordable energy supplies are important for ensuring the sector can continue to deliver economic benefits to the state and national economies.

Western Australian gas market development

Western Australia's gas market has developed organically through long term bilateral contracts between gas producers and consumers, including the state. These contracts have underwritten private sector investment in gas production projects, supporting infrastructure, such as pipelines and storage facilities, and trading platforms.

¹ Department of Mines and Petroleum (DMP), *Mineral and Petroleum Industry 2014 Review*, 2015, www.dmp.wa.gov.au/1525.aspx, p. 1

² Government of Western Australia, *2015-16 Budget, Budget Paper No. 2 Volume 2*, www.ourstatebudget.wa.gov.au/Budget-Papers, pp. 541 & 593

³ DMP, 2015, *loc. cit.*

CME welcomes the efforts of the Independent Market Operator (IMO) in supporting this organic development through initiatives aiming to improve market efficiency, transparency and competition, and its consultative approach in that regard.

The Gas Bulletin Board is an example of a recent initiative facilitating market development by providing supply and demand information to market participants. While CME supports this objective, it remains concerned at the cost to administer the Gas Bulletin Board, as well as the costs associated with its continued development.

Gas Bulletin Board zone information

Any government driven initiatives in Western Australia's gas market, such as the Gas Bulletin Board, should be supported by a transparent business case to quantify the benefits market participants are expected to receive against the costs imposed, as these costs are ultimately borne by the participants under the current cost recovery method. Quantification of the costs must also include those incurred in contracting consultants for expert analysis.

While the Gas Bulletin Board zone information and other geographic supply and demand information may be of potential interest to prospective market entrants, energy policy makers and interested citizens, CME's members have indicated limited, if any, use of zone information in their operations.

Despite the expansion in the number of market participants over recent years, the marketers and retailers of gas in the state, and particularly the geographic locations from which gas is supplied, are well known to market participants. Those seeking to purchase gas already have transparency of potential suppliers through the requirement for participants to be registered in accordance with the Gas Services Information Rules.

As such, it would be inequitable for market participants, which seemingly have limited demand for any zone information services, to be funding further development of these services for interested parties not directly participating in the state's gas market.

In the first instance, the IMO should instead prioritise a broader review of the Gas Bulletin Board, and the demand for its various services, with the aim of streamlining or removing any components seen to be ineffective or unnecessary, drawing on approximately two years of experience with its operation. Consultation with market participants should form the basis of such a review.

More broadly, the IMO should also be seeking a low cost model for all gas market services and developments to minimise imposts on market participants. The cost recovery method for the necessary services should be based on the 'user pays' principle to efficiently allocate these costs.

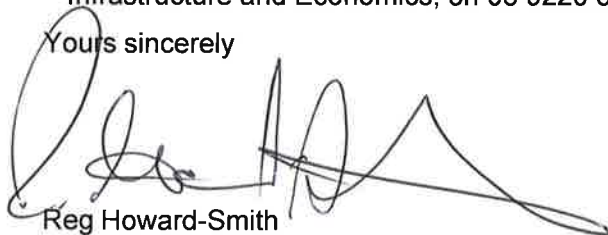
Given the broader economic conditions, resources sector companies and government agencies alike have been focusing on reducing operational costs and improving organisational efficiencies. The IMO should be no different in that regard.

Conclusion

CME again thanks the IMO for its consultative approach and looks forward to further discussion on gas market development in Western Australia.

Should you wish to discuss this matter further, please contact Benjamin Hammer, Policy Adviser – Infrastructure and Economics, on 08 9220 8527 or b.hammer@cmewa.com.

Yours sincerely



Reg Howard-Smith
Chief Executive