

OPINION

Croc of a deal for the NT on pipeline costs



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THE Council of Australian Governments (COAG), of which the NT Government is a member, commissioned the ACCC to inquire into the east coast gas market.

It issued its report in April 2016. It found there was an urgent need for new gas supplies and gas suppliers. It found there is evidence a large number of existing pipelines have been engaging in monopoly pricing, despite these investments being usually fully underwritten by shipper Gas

Transportation Agreements. As a result, in August last year COAG commissioned Dr Michael Vertigan to examine the ACCC recommendation.

His examination was tabled at the COAG Energy Council Meeting on December 14 last year and he made a series of recommendations with respect to pipelines, which sought to reduce the imbalance in negotiating power, constrain the exercise of market power, and encourage downward pressure on gas transportation prices.

The Energy Ministers accepted the Vertigan recommendations and referred the

issue to the Gas Market Reform Group (GMRG) for implementation. Last week, the GMRG issued its Final Recommendations which, in normal course, will be adopted by the Energy Ministers in early August this year.

The Final Recommendations will maul Territory and Australian manufacturers. At a time where EnergyQuest reported that in the March quarter, gas use on the eastern seaboard dropped a staggering 16 per cent (if one excludes power generation and LNG use), the GMRG's recommendations buttress and strength-

en the "barriers to entry" to the east coast market for new gas supplies and gas suppliers.

To help mitigate the alarming east coast gas shortage, a new supplier needs to overcome capacity hoarding by incumbents and pay high pipeline charges relative to international benchmarks. Being furthest from the centres of demand such as Sydney, the NT is hit hardest by these high pipeline tariffs. Around two-thirds of the cost of delivering gas to Sydney is in transportation. Despite the report by Dr Vertigan noting "the total return on the pipeline business

was double that of the average regulated electricity network operator", the GMRG failed to address the critical issue of pipeline asset valuation.

The biggest component by far of pipeline tariffs is in respect of capital, with current pipeline asset valuation methodology allowing monopoly pipeline operators to continue to charge for capital long after their investment has been repaid. This allows them to get a perpetual windfall rate of return. Imagine if government allowed banks to continue to demand mortgage charges after you had repaid them.

The GMRG recommended an arbitration mechanism and more information on financials of the pipeline owners. These recommendations are welcomed, but has been left to the arbitrator to decide the asset valuation techniques — the heart of the matter.

The GMRG has effectively offered ice cream to the Australian manufacturers on death row which, while better than no ice cream, does not alter their fate. The combined effect of not biting the bullet on asset valuation methodology and capacity being locked up by incumbents means NT gas, whether new offshore or existing onshore, will struggle to mitigate the economic carnage visited upon Australian manufacturers and their often unionised workforce as their products will soon be sourced offshore. The result for the NT is lower royalty returns as pipeline tariffs are deducted from royalties, adding salt to the NT's GST wounds.

The country has suffered from a lack of political will from the political class and the unions to address the fundamental causes of the gas crisis by imposing moratoria and refusing to create a competitive gas market through proper economic principles.

While international netback pricing may be inevitable, there is no reason why gas consumers should continue to suffer above international prices for gas transportation.

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This is the only event that the ATO will do live in the NT, concerning the Withholding charges. Bookings are essential to make sure there is a seat available.

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