



INDEPENDENT
MARKET
OPERATOR

Gas Services Information Submission to Rule Change Proposal

GRC_2014_01

GSI Fee Arrangements - Inclusion of Registered Production Facility Operators – Draft Rule Change Report

Submitted by

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Submission

Submissions for Gas Rule Changes should be submitted to:

Independent Market Operator

Attn: Group Manager, Development and Capacity

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1. Please provide your views on the proposal, including any objections or suggested revisions.

The Australian Petroleum Production & Exploration Association (APPEA) is the peak national body representing Australia's oil and gas exploration and production industry. In Western Australia, APPEA represents the interests of the owners and operators of all current and known future gas production facilities participating on the WA Gas Bulletin Board.



APPEA welcomes the opportunity to provide comments on the *Draft Rule Change Report: Gas Rule Change (GRC) 2014_01 – GSI Fee Arrangements – Inclusion of Registered Production Facility Operators*. APPEA makes the following observations on the *Draft Rule Change Report*:

1. The Report lacks a balanced assessment of all positions put forward in relation to the proposed rule change. There is no analysis of the merits of the argument in favour of the rule change. This is disappointing as the proposed rule change represents a significant shift in public policy away from heretofore accepted arrangements in Western Australia and nationally. A more thorough approach to policy changes is required if the State is not to create uncertainties which erode investor confidence.
2. The Report acknowledges that that the proposed rule change will:
 - a. place an additional regulatory, penalty, cost and administrative burden on gas producers;
 - b. likely place an additional cost and administrative burden on gas shippers, above and beyond existing cost recovery arrangements;
 - c. have no assessed benefits to gas producers; and
 - d. likely lead to an outcome that is no different to the status quo.
3. Both the initial Proposal and the Report fail to adequately outline how the rule change will better facilitate the achievement of the market objectives. No case is made that shifting the cost of the GSI functions away from end users to other parties will better facilitate the achievement of the market objectives.

2. Please provide an assessment whether the change will better facilitate the achievement of the Market Objectives.

The Report acknowledges that the existing cost recovery arrangements for the GSI functions are appropriately placed on Gas Shippers. APPEA agrees with the IMO's statement that the "*principle [is] that end-users will ultimately bear the costs associated with the provision of GSI Services*¹." This principle is also shared by the Australian Energy Market Operator with its cost recovery arrangements placed on end-users.

It is surprising that the IMO may consider that frequent changes to legislative frameworks is irrelevant². Rule changes at odds with recently concluded lengthy regulatory consultation processes only serve to erode investor confidence. Indeed the World Economic Forum recently ranked Australia 128th out of 148 nations for the burden of regulation, the second most problematic factor for doing business in Australia.

From a good policy and economic efficiency perspective, it is difficult to see how shifting the cost of the GSI functions away from end users to other parties and adding a layer of regulatory, cost and administrative burden will better facilitate the achievement of the market objectives. In light of this, APPEA recommends that the proposal be rejected.

¹ Draft Rule Change Report, p 11.

² *ibid*

3. Please indicate if the proposed change will have any implications for your organisation (for example changes to your IT or business systems) and any costs involved in implementing these changes.

Advice from APPEA's members is that any Rule Change may trigger 'change of law' provisions in existing gas sales agreements and allow Gas Producers to pass on the full costs to gas purchasers.

In addition, APPEA understands that Shippers are also likely to bear the costs of Gas Producers administrative compliance with the GSI Fees cost recovery arrangements. This is likely to lead to a significant and unintended consequence that Shippers will potentially pay more for the GSI Services than they do now.

4. Please indicate the time required for your organisation to implement the change, should it be accepted as proposed.

APPEA's members have advised that, should the IMO proceed with the proposal, the new cost recovery arrangements should commence from 1 July 2015.
