ECONOMICS AND INDUSTRY
STANDING COMMITTEE

THE COMPILATION OF THE GAS STATEMENT OF OPPORTUNITIES FOR WESTERN AUSTRALIA

TRANSCRIPT OF EVIDENCE
TAKEN AT PERTH
WEDNESDAY, 7 SEPTEMBER 2016

SESSION ONE

Members

Mr I.C. Blayney (Chair)
Mr F.M. Logan (Deputy Chair)
Mr P.C. Tinley
Mr J. Norberger
Mr T.K. Waldron

Hearing commenced at 10.20 am

Mr CAMERON PARROTTE
Executive General Manager WA, Australian Energy Market Operator, examined:

Ms NEETIKA KAPANI
Acting Group Manager, Operations and Technology, Australian Energy Market Operator, examined:

Mr JOACHIM TAN
Senior Analyst, System Capacity WA, Australian Energy Market Operator, examined:

The CHAIR: Firstly, I would like to welcome our visitors from the Parliament of the Canadian province of Saskatchewan. You have come a long way but you are sure of the warm welcome here that I know we get when we visit you.

On behalf of the Economics and Industry Standing Committee, I would like to thank you for your appearance before us here today. The purpose of this hearing is to assist the committee in gathering information in relation to the compilation of the gas statement of opportunities for Western Australia. At this stage, I would like to introduce myself and the other members of the committee present. I am the chair, Ian Blayney. With me is the deputy chair, Fran Logan, and we have our other two committee members, Jan Norberger and Peter Tinley. The Economics and Industry Standing Committee is a committee of the Legislative Assembly of the Parliament of Western Australia. This hearing is a formal procedure of the Parliament and therefore commands the same respect as given to the proceedings in the house itself. Even though the committee is not asking witnesses to provide evidence on oath or affirmation, it is important that you understand that any deliberate misleading of the committee may be regarded as contempt of Parliament. This is a public hearing and Hansard is making a transcript of the proceedings for the public record. If you refer to any documents during your evidence, it would assist Hansard if you could provide the full title for the record.

Before we proceed to the inquiry-specific questions we have for you today, I need to ask you the following: have you completed the "Details of Witness" form?

The Witnesses: We have.

The CHAIR: Do you understand the notes at the bottom of the form about giving evidence to a parliamentary committee?

The Witnesses: Yes.

The CHAIR: Did you receive and read the information for witnesses briefing sheet provided with the "Details of Witness" form today?

The Witnesses: Yes, we did.

The CHAIR: Do you have any questions in relation to being a witness at today's hearing?

The Witnesses: No.

The CHAIR: We have some questions to ask but before we get to them, would you like to make a brief opening statement?

Mr Parrotte: Yes, thank you. First of all, AEMO welcomes the opportunity to present to you today. We have a quick statement to walk through and then we will take questions. We have taken over from the Independent Market Operator the gas statement of opportunities, and AEMO has been doing that for some time. Just to give you a little bit of history, AEMO was created by COAG and developed under the guidance of the Ministerial Council on Energy to manage the national electricity market and gas markets in July 2009. AEMO was incorporated as a company limited by guarantee under the Corporations Act. We operate on a cost-recovery basis and recover our operating costs through fees paid by market participants. We are very conscious that it is participants that pay for us to exist, and so our service to them is taken very highly. Our vision is energy security for all Australians and independence, as an independent operator, is taken extremely seriously. Last year, AEMO took responsibility as the Wholesale Electricity Market operator in Western Australia integrating the functions of what was the Independent Market Operator. As a part of that, we also took responsibility for the WA Gas Bulletin Board and the gas statement of opportunities, and on 1 July this year we took over the power system operation from Western Power, so we have now become the independent power system operator within this state. Obviously, AEMO has been around for a while on the east coast, and we have developed the gas statement of opportunities since 2010, independently reporting on the adequacy of the eastern and south-eastern Australian gas markets to meet the maximum demand on annual consumption of natural gas in those states. It is important to note that these GSOOs—as is AEMO—are independent and compliance driven. We are very conscious that there are things in the rules that we are required to do and we meet those obligations, but we are also very conscious that our stakeholders who pay our fees, may, at times, want more than the minimum compliance levels.

As a part of developing those GSOOs, we draw on the information provided by market participants and consider the feedback of all stakeholders involved, whether they be producers, shippers, users or policymakers. AEMO makes transparent assumptions about external market factors, which could impact on the supply, demand and pricing of natural gas. As I mentioned before, stakeholder engagement is a critical key to AEMO. It is our key value and it is also one of our key strategic initiatives in our current strategic plan for 2016 through to 2018. It is very important to us—in fact, critical for us—to have constructive relationships with market participants to improve outcomes in domestic gas and electricity markets. You are probably aware that in WA the gas services information rules require AEMO to publish the WA GSOO by 31 December of each year and that it must contain certain information about gas reserves and committed and proposed new or extended gas production facilities, gas transition pipelines, gas storage facilities and large facilities using gas. In addition, the GSOO must contain for at least a period of 10 years projected information about the capacity of gas production facilities, transition pipelines and storage facilities, including constraints affecting those facilities and the demand for natural gas.

AEMO is very aware of the previous commentary around the adequacy of the 2015 Independent Market Operator’s GSOO. Stakeholders and gas market participants are likely to have differing views on the forecasts for supply, demand and prices and we respect that, but as an independent organisation, AEMO needs to work across all of those stakeholders to understand these views and the gas supply and demand requirements that feed into the domestic market. We are certainly looking at leveraging off east coast capabilities in developing GSOOs, which adds to our WA capability that we have inherited from the Independent Market Operator to further improve the Western Australian gas statement of opportunities. In that GSOO, which is only four years in the making, the previous organisation—the Independent Market Operator—has certainly made steps year upon year to make improvements based predominantly on stakeholder feedback, and AEMO will continue in that vein.

Before I conclude, I would like to provide the committee with the minutes from our most recent gas consultative forum, which has been established in Western Australia and held on 16 August—that will be the minutes and the presentation on the GSOO assumptions. At this forum, we presented our assumptions for the upcoming GSOO and sought feedback from participants. At the meeting we have got scheduled for late October we will present the outcomes of our modelling and take further feedback from stakeholders on board. Prior to that time we will be working one-on-one with our stakeholders to gain further information to feed into the GSOO and also formalising requests for information from that same stakeholder group. Thank you for the opportunity to provide that statement and we look forward to responding to your questions on the development of AEMO's GSOO and providing evidence, which will assist in your deliberations. Thank you, Chair.

The CHAIR: Can I just ask you the status of those documents you are going to provide to us? Are they public documents?

Mr Parrotte: They are public. They are available on the website.

The CHAIR: Thank you.

Mr F.M. LOGAN: Thank you, Cameron, for the overview. In terms of the history of the IMO—the Independent Market Operator—and the Gas Bulletin Board, you are aware that basically that all came out of the Varanus Island incident and the need for some rational allocation of gas and certainly some indication of how much gas is going to be available for downstream users. Now that AEMO has taken over the role of the state IMO and the Gas Bulletin Board, and then we have the GSOO, do you see an importation of the rules of trading from the eastern states being applied in Western Australia? How do you see the future of AEMO's role emerging and the transactions and the market structure for the record of both the supply and demand of gas and also the sales transactions here in Western Australia now that AEMO is responsible?

Mr Parrotte: Yes, I think I have got most of that—jump in if I do not fully answer the question. I guess with AEMO coming into WA, we saw that as a natural extension of what we do on the eastern seaboard. We have similar capability on the east coast. We are certainly leveraging off that capability in terms of forecasting capability and insights, but also, similarly, there is a lot of good knowledge that we have got in WA that we are jointly sharing, and the world is getting closer and closer together, as we all know. Joa and Neetika, I should have also mentioned, came from the Independent Market Operator. I am new to AEMO. I guess the crux of the question is: what are we doing in a market space at the minute? To be honest, we have got a lot to do in WA to integrate the Independent Market Operator and the system management function out of Western Power. We have got the Electricity Market Review that the Public Utilities Office and the Minister for Energy is obviously leading. That is going to take a lot of our mind and attention and our best resources. It is not that we are forgetting about gas. We are very conscious of our obligations. We have set up stakeholder forums to get feedback from the industry and we do get a mixed conversation at those forums in terms of is there a strong gas market and does there need to be a gas market. Some short-term trading markets are available, as you are probably aware, and a very small percentage of actual gas trades through it. AEMO's position is that we are ambivalent to some extent. We have got some capability. We could potentially deploy that within Western Australia but we think that that is a policy decision. We are happy to provide input and advice into a discussion on that but we just do not think that that is our role to be forcing a market or otherwise. As I said, probably for the next year or two we are going to have limited capability to introduce anything much more than on-boarding of IMO and system management and implementing the market reforms.

[10.30 am]

Mr P.C. TINLEY: That begs the question of when is the next GSOO?

Mr Parrotte: The GSOO is due in December this year, so we will meet our obligations for the gas services information. As I said, we are not walking away from those and will leverage off the broader AEMO. I guess I might have misunderstood the question from Mr Logan in terms of: does AEMO want to be introducing a market in WA?

Mr F.M. LOGAN: Yes, that is basically it.

Mr Parrotte: So we will meet our obligations, but in terms of a market, it will not be something that we will drive, but we are happy to be involved in a conversation.

Mr J. NORBERGER: In your opening statement, you alluded to the fact that you are obviously aware of the view that DomGas has put forward. Some of you may have been here a few weeks ago when we had them here. You also indicated in your opening statement, I suppose, the importance of stakeholder engagement. My two-part question is: how do you respond to the claim about the inaccuracy of the GSOO from DomGas, because it is quite specific and they do not think it is just a little bit off; and, secondly, has AEMO had any discussions with DomGas? Are they one of the stakeholder groups that you have actively sat down with and tried to find the middle ground?

Mr Parrotte: Again, I will try to cover those questions. If I jump to the last one: is DomGas one of the stakeholders that we talk to? Yes. They are invited to our stakeholder forums and we have peer-to-peer conversations as well. I think we have also got an engagement manager assigned to DomGas. Certainly, we reach out to DomGas and I think, as I said in the opening statement, they are one of many stakeholders, all with potentially different views. AEMO's role is to distil that and come up with an outcome. Certainly, a learning I think we have got from last year is to be more up-front with the assumptions around the various forecasts to let people come up with their own minds. We will put forward what we think is the most likely outcome, but I think if we are able to provide more insights into what sits behind the various forecasts, then people can draw their own conclusions from it. Again, I am not walking away that our responsibility is still to show what we think is the most likely outcome.

Talking about DomGas and their view, I guess they largely are leaning on the Wood Mackenzie report. We use Wood Mackenzie as a feedstock into our analysis. Our view is that it is a good report, but we think it only provides a subset of the gas that is available into the domestic market. So, if I boil it down, our understanding is the Wood Mackenzie report looks at what is mandated to be marketed into the domestic market from an LNG-related facility. Our view is—we have seen it over the years—that an LNG-backed supply will put gas into the domestic market if the price is right, predominantly because they get that return right there and then rather than waiting for a future outcome. Certainly, AEMO was seeing that on the east coast as well. It is actually a little bit newer over there in terms of the LNG facilities in Queensland, but we are already starting to see the LNG-based facilities are putting gas into the domestic market. Even this morning, APA have announced the build of an $80 million or $100 million pipeline to connect an LNG facility to the domestic market because they are seeing that there is going to be a shortage and they will be able to get a return on that investment. Did that answer all your questions?

The CHAIR: Yes.

Mr P.C. TINLEY: So much of what DomGas and others have talked about is the basis for pricing or understanding the price, which is basically all we are talking about really. Supply is always an interesting discussion because of the elasticity of exploration and what people will or will not disclose as producers. But the LNG netback price really relies on the calculation of the producers on the basis of the price stack for production. Are you comfortable that that is an accurate representation of their idea of the cost of production?

Mr Parrotte: I think when it comes to gas prices obligation, the GSI Rules do not actually—there is no requirement for us to comment on gas prices, but we do believe that it does help us to work out future supply. It is obvious that the higher the price, the more supply you are going to get. We have taken that into consideration for some time. I think in the last two years or so we have actually put that in the GSOO, because stakeholders have sort of said that if you have got the analysis, why not show it for transparency; so, we have actually included that in there. In terms of where the gas price might go, as I said, it is not a requirement in the rules. We do put a forecast in there. We believe it will move somewhere between the cost of production, which obviously we do go out and talk to suppliers and we get some indication of what that is, and with probably a cap on the LNG netback price, and it will float somewhere between those two. Where it goes—again, we do put in a forecast into the GSOO. I guess for us, though, we use it for helping us to work out where supply might go, but it is not a key requirement of the GSOO.

Mr F.M. LOGAN: Cameron and colleagues, do you have a capability under the act or the regulations—I am pretty sure I do not remember seeing it in the changes in the act, but under regulations that govern your role, do you have the ability, as an independent voice, to come out and make a comment about companies that push for LNG netback pricing in the domestic market, when clearly there is a physical, technical and financial difference between the production of gas for LNG and basically the processing of gas supply into the domestic market? There are completely different processes and completely different cost structures, so when you see producers pushing for LNG netback pricing in the domestic market, do you have the capacity, as an independent organisation, to make commentary on that?

Mr Parrotte: I do not think that is in our mandate, and I do not believe we have or would. Our role is energy security; it is to make sure we have enough gas to meet demand. The price outcome is then a market outcome. We will provide advice and commentary when it is sought, but, again, the GSOO does not have an obligation on us to do that. It is a sensitive one. But, yes, our key role is making sure that supply and demand are there, although in the gas world, for us, the GSOO is to provide the transparency for people to make their own decisions upon that information.

Mr P.C. TINLEY: If I can follow on from that, the key to it, though, is having accurate information. What discussions have you had with producers about providing the necessary information? My point is: how confident are you that you are getting told what you need to be told to make an accurate statement to the market? You do have significant powers.

Mr Parrotte: Yes, we do.

Mr P.C. TINLEY: I would be really keen to see if you have employed them before.

Mr Parrotte: I guess a couple of keys to that question, if I can answer that question. As I said before, one of our key values is stakeholder engagement. We prefer to have a constructive relationship with someone. We think that that will produce a better outcome than bringing the rule book out. We have used the rule book in the past when we have not been getting the information we required through that constructive engagement. I think it is only on two occasions—Joa, correct me if I am wrong.

Mr P.C. TINLEY: What was the upshot of that?

Mr Parrotte: Unfortunately, they did not give us the information we wanted in the time that we had available to produce the report.

Mr P.C. TINLEY: So they were noncompliant in their —

Mr Tan: They were compliant in providing the information we had requested for gas reserves.

The CHAIR: Were any penalties applied to them?

Mr Tan: No, because we asked them and they provided us with it in a particular time frame that we had requested for it.

Mr P.C. TINLEY: Sorry, I am just confused. Did you say they did not provide it in the time frame or they did?

Mr Parrotte: Sorry, they did. With the time we had left to finish the report, we could not really incorporate it.

Mr P.C. TINLEY: That happened on two occasions in the last—what time period?

Mr Parrotte: Two years.

Mr Tan: Two years, yes: in 2013 and 2014.

[10.40 am]

The CHAIR: Was it the same producer?

Mr Tan: Yes.

Mr P.C. TINLEY: But generally everybody is compliant to your —

Mr Parrotte: Coming back to your question, how do we know the information is accurate? We do crosscheck that against other sources to give us some confidence that we are not having the wool pulled over our eyes. What are the rule obligations in terms of the accuracy of the provision of info?

Mr Tan: They have to provide us within a particular time frame we request for, under rule 106.

Mr P.C. TINLEY: Yes, but that is timing not accuracy.

Mr Tan: The accuracy of information is crosschecked against other sources like Wood Mackenzie, so whatever they provide us is almost fairly close.

Mr J. NORBERGER: Where does Wood Mackenzie get its information from? If they are they getting the same information from the same producer, you are just —

Mr Tan: You would have to ask Wood Mackenzie, unfortunately.

Mr J. NORBERGER: Okay. Just going back a bit, you mentioned price and you said price is not the be all and end all. I suppose it does play an important factor because if your only concern is if enough gas is available at the right price—in theory, at LNG netback plus 20 per cent you would never have a supply issue in life. Under that scenario, why have we got a GSOO? We know that that is not how it operates. Whilst the gas reservation policy, I suppose, is not implicitly talking about price—it talks about marketing—I do not think we can escape the fact that part of the idea of having a domestic gas reservation is that it was supposed to act as a benefit to the local economy; that is, cheap gas or otherwise. We probably would not have the Alcoas of the world now if we had not built the pipeline for the North West Shelf. So, whilst the letter of the law says they just have to have best endeavours to market it, I think, philosophically, the policy was there to say that we should get a tangible benefit from our own gas. To buy that gas at market prices—although it is not really a benefit; you would not need a gas reservation policy. We cannot escape the fact that at the heart of it, there is this desire to see that we have an economic boost to other industry or energy users. I guess price is reasonably important. I think it would be fair to say that a lot of these producers, when they are applying and getting ready to bring these big projects onstream, they do know that. They know that they cannot scream sovereign risk; they knew what they had to factor into their calculations to make their projects viable or not viable. But, obviously, once they have it up and running, they will try whatever they can—this is the feeling I get—to get an upshot. Admittedly, that was more of a statement; I am known for that. I am just saying that you mentioned price; well, price is almost not important. I would just say that I think price is important. Yes, in black and white it says that they just have to have best endeavours to market but, I suppose the danger for them as well is that, like anything, if it continues to get gains, that was a view that future governments—any government—could say as the role of legislators, they may then need to legislate again. I do not think that is what the producers want, but that is where I suppose the accuracy of the GSOO is so important.

Mr Parrotte: Look, I do agree with what you are saying and that is why we do put price forecasting in it. We have looked at prices for many years to look at the supply side of the curve and we provide that forecast so that people can draw their own conclusions on where it might come to so that they can think about it, "Do I go short? Do I go long?" We provide some indication and, again, a key learning from last year that we will be incorporating this year is to provide more transparency in the assumptions behind the various forecasts so people can go and get their own advice and work out which way to go. It is an interesting one in terms of what is the purpose of the GSOO and what is the role of AEMO. Is it to actually help with policy or is it there to provide information to feed into policy and into the industry? We believe it is the latter, not the former, but, again, we are happy to be involved in debates and conversations. When we look at the GSOO and what its purpose is—to provide supply, provide demand, provide forecasts and provide transparencies behind the assumptions—people can then go away and do their own conclusions from that.

The CHAIR: So when you assess supply, is that based on the assumption that producers will not supply into the domestic market below LNG netback?

Mr Parrotte: No. We believe that they will supply into the domestic market at a price that is right for them. We get some insights from them—some might be above, some might be below—but each organisation will need to make that call themselves. Our view is, and what we have seen, is that they will make gas available as long as it is above their cost of supply. That is definitely the floor. If it is above the cost of supply, then they will do it simply to bring forward a cash revenue that they would otherwise forgo for some period of time.

The CHAIR: To produce the GSOO, the gas services information rules state that the AEMO may require gas market participants to provide information for the purposes of preparation of a GSOO. In your view, does this rule require gas market participants in WA to provide the AEMO with whatever information is necessary, including information that may be highly commercially sensitive, to produce a robust and reliable GSOO?

Mr Parrotte: I might need some help from my colleagues, but I believe that is the case, and there are confidentiality requirements built into the gas services information rules that then require us to be very careful in terms of what we publish. In terms of getting the information, yes, I believe we are able to get that information. What we actually put then into the report, we need to be careful about.

Mr F.M. LOGAN: Does the AEMO then agree with DomGas Alliance's view that the way in which the GSOO is constructed at the moment is that it has a potential to provide false expectations in terms of excess capacity being translated into excess supply?

Mr Parrotte: AEMO has obviously inherited the IMO GSOO. We have looked at it and we think what was landed on is accurate. As I said, probably our key learning is to put the assumptions behind those forecasts so that people can draw their own conclusions. But we do think, and my understanding is, that DomGas is pretty much leaning on the Wood Mackenzie report. We believe there is more gas available and will be, and has been, put into the local market than purely the mandated 15 per cent market requirement.

Mr F.M. LOGAN: But if you go back a few years to a previous GSOO that was released by the IMO, it came under very heavy criticism—it was raised in this committee on numerous occasions when we were looking at the economics of FLNG—that it was based on simply the plant capacity that was on the ground in Western Australia and the future plant capacity that was committed to be built. I think even Pluto was included in that at one stage.

Mr Tan: No, it was not.

Mr F.M. LOGAN: Well, others were, as you know, some of which are not even supplying at the moment. That was built into it as well. That gave a wildly over-optimistic expectation of the gas supply.

Mr Tan: To clarify, none of the non-announced FID projects have made it to the GSOO. So the supply just is based on the reserves that supply to the capacity, and that is also reported to the GSOO. That is shown at more than 10 years for each of the facilities, so hence the facility production capacity is used as a benchmark.

Mr P.C. TINLEY: So the benchmark that is used is non-FID?

Mr Tan: Yes; non-FID are not used.

Mr P.C. TINLEY: So anybody that has achieved FID is included?

Mr Tan: That is correct.

The CHAIR: Do you have any way you can measure companies' willingness to supply?

Mr Tan: The potential gas supply is a measure of the willingness to supply.

The CHAIR: So how do you put that into your report?

Mr Tan: First, we do a projection of oil prices, and it is an oil-linked formula, and based on that we project what LNG would be, and based on that we calculate a netback price. The netback price is only a maximum cap for LNG-linked facilities, and the minimum is the production cost. So the domestic price actually floats in between that and it never exceeds LNG netback. For domestic-only facilities, the minimum price is production cost and the top price is a real return of plus 25 per cent. That is how it has been managed.

The CHAIR: What about the criticism that has been made that if a customer tries to get long-term supply—a number have said this to us—if it is one or two years, yes, yes, yes, but as soon as you go out to five years or longer, the price just escalates. To me, that does not sound like a free market.

[10.50 am]

Mr Tan: I guess it varies with the amount of reserves that are left available to each facility. If they exploit new reserves, then the price would essentially go up because they would have to take into account new production costs.

The CHAIR: You are almost assuming that if someone is looking for five-year–plus contracts and that, the gas companies are going to have to go out into new gas fields to supply that?

Mr Tan: Some yes, some no.

Mr J. NORBERGER: I would have thought that not too many gas fields would have less than four years left on them at the moment, would they? I would have thought that it was more likely that if someone is trying to lock in prices while they are low—they are different with mortgage rates—the producers want to keep their options open; they probably do not want to lock themselves in for five years based on current spot prices and, as a bit of a dissuasion—they are hoping that the price is going to go back up, especially with the price of ore. I would be more likely to think that they are not keen to lock themselves in. Using reserves, I would have thought, would not be applicable to most of our major producers here. Most of these guys have 20-plus–year horizons.

Mr Tan: Yes, I guess that would be correct.

Mr F.M. LOGAN: In the calculation for the next GSOO and future GSOOs, how would AEMO take into account the ending of the North West Shelf cartel Australian LNG and now the ability of the various players to have the capacity to supply to the domestic market if they so choose? How do you take that into account?

Mr Parrotte: You would hope there would be greater competition as a result. Whether or not that eventuates will be part of the conversations that we have with individual stakeholders this year. Did you want to add any more?

Mr Tan: I guess it depends on who North West Shelf signs the next contract with. That is not very clear yet.

The CHAIR: On a similar vein, how do you factor into the GSOO supply from new projects like Pluto?

Mr Tan: We have spoken to them, and last year they provided us with information relating to Pluto, which was published in the GSOO.

Mr P.C. TINLEY: It may not come to pass; we are always looking for the opportunity. How much of the demand side of the equation do you think you could provide an assessment on? I am talking more specifically there about the potential fuel switching opportunities to gas. How much does that inform your thinking?

Mr Parrotte: There are a couple of things that we look at. One is electricity demand, not just in the south west, but broader, because obviously the more gas-fired generation, the greater supply for gas. Fuel switching is a consideration; we have seen a lot of that over the years. It is probably starting to drop off a little bit, but it is part of the consideration, and then, obviously, domestic gas use, and then the conversations with the big users to see where their demand might be going up or down or whatever it might be.

Mr P.C. TINLEY: But that fuel switching component seems to be—so the decision for somebody to switch fuel source—switch to gas from their current fuel—will largely be informed by the supply side. Are you confident that nobody is being dissuaded from fuel switching because of supply imbalance?

Mr Tan: I think last year's GSOO provided a chart showing that diesel per gigajoule is still—I mean, the gap between diesel per gigajoule and gas per gigajoule has, I think, narrowed; I am not sure. That informs us where it sits essentially.

Mr P.C. TINLEY: Okay, so using a market paper.

Mr Tan: Yes, that is correct.

The CHAIR: Do you think if we had evidence of not a great deal of fuel switching happening, that that is a sign of a lack of confidence in the GSOO?

Mr Parrotte: I think that everyone is going to look at it for their own commercial reasons. Again, the GSOO is there to provide some insight into supply, demand and pricing and for people to go and make their own decisions. Obviously, to switch from diesel to gas, there is a cost in capital, there is an ongoing operating cost and they have to work that through.

Mr J. NORBERGER: You are quite right, but if it is the key forecasting tool, government mandated, if you are going to base your expensive business decision on that, you know, the credibility within the marketplace is obviously absolutely critical. If DomGas, for example, is out there saying, "Guys, this document can't be trusted", and Wood Mackenzie, even though they are providing input to the report, are casting opposing views to it, is that a concern, because it is supposed to inform? If people are going, "Well, it's not reliable", they will not make decisions.

Mr Parrotte: It is a concern. We do want to be the trusted, independent adviser on these issues—it is why we exist—and we do take that very seriously. In Victoria this year we were talking about gas supply shortages, and that got press all over the place, so we will call it as we see it. Again, I think our key role is to take on board a multitude of stakeholder input and information, and come up with a report.

Mr P.C. TINLEY: You have national experience in multiple markets with all the different input there. Have you done a retrospective look at the GSOOs for Western Australia to determine or make qualitative assessment about their helpfulness to the market?

Mr Parrotte: No, I do not think we have. We have more looked at how GSOOs are done on the eastern seaboard to see how they generate that report and see what we can leverage off here.

Mr P.C. TINLEY: Here is the question then: how do you measure your effectiveness? How do you know you are making a contribution?

Mr Parrotte: Based on feedback.

Ms Kapani: We receive feedback from stakeholders during the development and post the GSOO publication. We actually hold a briefing or a post stakeholder briefing that is an opportunity for stakeholders to provide feedback.

Mr P.C. TINLEY: That is qualitative and that is good, but quantitative as well; how well have you picked the price?

Mr Parrotte: We do look backwards. We look at what the forecast price was and the supply was and we will compare that in the GSOO.

Mr P.C. TINLEY: What you said?

Ms Kapani: Yes.

Mr P.C. TINLEY: How do you come up?

Mr Tan: We compare it with published information from the Department of Mines and Petroleum.

Mr Parrotte: How did we go last year?

Mr Tan: We were two terajoules up.

Mr Parrotte: So close.

The CHAIR: You said you consult your stakeholders. I would assume your stakeholders are both the producers and the consumers of domestic gas. My following of the east coast market is that they are not exactly all singing from the same hymn sheet and the domestic gas consumers are really concerned about supply. The question is put that what is happening on the east coast gas market is placing a whole heap of value-adding and manufacturing industry at risk. How do you balance that? Because I do not think you would be getting the same story from the two groups; I would have thought what they would be saying would be diametrically opposed.

Ms Kapani: Can I add something before we answer that question? The AEMO's previous oversupply forecast was essentially due to the weak domestic gas demand, due to lack of new mining and industrial projects attaining FID. The second one was that the majority of the mining operations who had an intention to switch over from diesel to natural gas had already done that and the quantity of gas supply that is potentially available to the WA domestic gas market at the forecasted price. So AEMO's potential gas supply is made of aggregating the estimated quantity of gas which is already contracted to the WA domestic gas market for each year in that 10-year forecast period, and that is your contracted gas supply and also the estimated quantity of additional—which is the uncontracted supply—that can be made available at the forecast domestic gas price. That is the reason for that oversupply at that date.

Mr F.M. LOGAN: Neetika, as you know, that was highly contested; DomGas could run through a whole series of different companies who have argued: "Wait a minute; what do you mean? We are desperate for gas." Two examples that spring to mind alone are FMG and its complaint to AEMO about the GSOO and its demand that effectively fuel switching at the time and future demand for gas whilst those GSOOs were being constructed and in my own electorate Cockburn Cement could not get gas—it was not just question of price; it could not get it—and it wanted to fuel switch from coal to gas. I do not think that reflects reality.

[11.00 am]

Mr J. NORBERGER: It goes to the heart of Ian's question, which is if your stakeholder feedback is fantastically positive from the producers and terrible from the consumers, and vice versa if the producers were screaming from the hilltop and the consumers were happy with the report and the report was showing massive undersupply et cetera, which was influencing policy decisions, I would have thought you almost need to be in the middle somewhere where no-one is happy with it.

Mr P.C. TINLEY: And everybody is cranky with you! That's the idea.

The CHAIR: If you just want to respond to that and then we will close.

Mr Parrotte: I guess the quick answer to that question is: that is what we should be aiming for. You would obviously like people to understand where we are coming from and I know I have said this numerous times, but a key learning from last year is to provide greater transparency in what is behind the assumptions for people to draw their own conclusions from. What is the requirement for GSOO? What is the role that it is playing? Is it there to make sure Cockburn Cement can get gas or is it there to give Cockburn Cement some information to help it inform its decisions? I guess we are clear on what the rules tell us to do. We are clear on what stakeholders have asked us to do in the past and we think we are doing that. Yes, some will be grumpy and have a difference of opinion; we respect that. Ultimately, our role is to try to distil all that and come up with what we think is right. Again, learning from last year is to get greater transparency for people to come up with their own conclusions based on it.

The CHAIR: Thank you, very much, for your evidence before the committee today. The transcript of this hearing will be forwarded to you for correction of minor errors. Any such corrections must be made and the transcript returned within 10 days from the date of the letter attached to the transcript. If the transcript is not returned within this period, it will be deemed to be correct. New material cannot be added by these corrections and the sense of your evidence cannot be altered. Should you wish to provide additional information or elaborate on particular points, please include a supplementary submission for the committee's consideration when you return your corrected transcript of evidence. If further questions occur to us, will it be okay if we write to you with those?

Mr Parrotte: Of course.

The CHAIR: Thank you, very much, for your time today.

Hearing concluded at 11.02 am