



Our reference: COM.16.021

11 February 2016

Mr. Tom Walker
Project Leader
Australian Energy market Commission

Lodged electronically

Dear Mr. Walker

Re: East Coast Wholesale Gas Market and Pipeline Frameworks Review (AEMC Project GPR0003) – Stage 2 Report

The SEA Gas Partnership owns and operates the high pressure gas transmission pipeline system that transports natural gas from Iona Victoria into both South Australia and Victoria (SEA Gas Pipeline System).

Background

The SEA Gas Pipeline System is fully contracted to Foundation Shippers and provides interruptible haulage and sundry services to non-foundation customers. Over half of SEA Gas' annual deliveries are to Gas Powered Generation (GPG) in South Australia and Western Victoria. The remaining deliveries are to the Adelaide Distribution network, the Victorian market and regional communities along the pipeline route. The relevance of GPG compared with other market needs in our region is illustrated as follows;

SEA Gas Deliveries p.a.	GPG (PJ)	Other (PJ)
2015	39.4	30.8
2014	51.8	25.0

SEA Gas notes that the development of the East Coast Gas Market has been led by private investment and believes commercially sustainable growth in the East Australian Gas Market can be maintained where economic resources are allowed to be efficiently allocated through such mechanisms.

The addition of Queensland LNG gas demand to that of existing Domestic Aggregators (e.g. Origin, AGL, Energy Australia) and Industrials (e.g. Adelaide Brighton) has led to increased pipeline development activity; e.g. connectivity (the SEA Gas – Epic Energy connection is an example) and the creation of new services (e.g. reverse flow).

With regards the Stage 2 Report, Chapter 4 has 3 key recommendations to improve Pipeline Capacity markets. These being,

1. A daily auction for contracted but un-nominated capacity with a regulated reserve price (Auctioned Service),
2. Mandatory capacity trading platforms (Trading Platforms),
3. Publication of primary capacity sales.

Of these 3 recommendations SEA Gas considers that the Auctioned Service represents a major step change to current industry practice that will have long term implications for pipeline contracting and subsequent pipeline investment. The Stage 2 Report acknowledges that for the Auctioned Service there are a number of detailed design decisions outstanding¹. SEA Gas agrees that there is much detail to address and adds the following comments.

Auctioned Service: further considerations

1. Definition of the Auctioned Service.
 - a. All SEA Gas haulage services are contracted on an 'hourly' not 'daily' basis. The examples in the Stage 2 Report refer to 'day-ahead' nominations and 'as-available service' for the next day². SEA Gas offers an interruptible haulage service that can be interrupted on an hourly basis. SEA Gas is not contractually able to provide an 'as-available service' for the next Day.
 - b. The GPG electricity market remains a substantial part of South Australia's energy mix. The electricity market changes from hour to hour. Over a 24 hour period the needs of Adelaide based GPG plants may vary significantly from what is scheduled the day before. Variations of up to 20TJs are commonly experienced. Existing SEA Gas shippers have services scoped to meet their needs. These services are also scoped to ensure that SEA Gas can maintain a balanced pipeline system.
 - c. To ensure SEA Gas can maintain service to its customer bases, it is requested that
 - i. further consideration be given to what level of available capacity is suitable for auctioning in a region and also,
 - ii. the terms and conditions of an Auctioned Service be defined by each pipeline for its circumstances.
2. Relationship of the Auctioned Service to pre-existing contracts.
 - a. The SEA Gas Foundation Contracts and some other contracts still have some years to run. Some of these contracts are likely to be in place for years after an Auctioned Service process is implemented.
 - b. New contracts negotiated after Stage 2 Report recommendations are implemented can factor in new regulatory developments. However, for existing contracts, commitments and investments were made in an earlier regulatory framework with limited or no ability to offset cost or liability.
 - c. Consistent with other comments in the Stage 2 Report³ we agree with the view that existing contractual arrangements should be 'grand-fathered'. Stakeholders can then realise the intended value of their initial investments without 'sovereign risk' implications. Further, the risk of market disruption is reduced and the likelihood of contractual disputes is minimised.

¹ Stage 2 Report – Section 4.2.4 *Design Considerations* Page 60.

² Stage 2 Report - Box 4.2 *What is contracted but un-nominated capacity?* Page 54.

³ Stage 2 Report – Trading Platforms - *Standardisation*. Page 67.

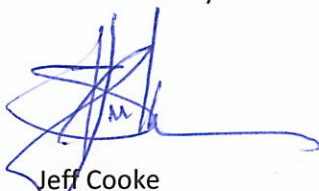
3. The Auction process

- a. We note that the time of day for running the Auction, the bidding window and the settlement of the Auction process are critical for the development of efficient processes and the control of costs.
 - i. As the Auction is daily, considerable time and effort is likely required to establish and manage the auction process. Organisations like SEA Gas with a relatively small number of employees would struggle without further resource support, which will come at some cost. Based on the Stage 2 Report, additional human and IT resources will likely be needed to prepare, process and resolve the Auction each day, with no guarantee of any increase in revenue as compensation for this activity.
 - ii. Further, SEA Gas already complies with a number of deadlines with its contractual obligations and regulatory responsibilities (e.g. Short Term Trading Market and Bulletin Board). An overall review of timing of regulatory needs should be undertaken to minimise waste and to ensure relevant market information is provided.
- b. Shippers intending to bid should be 'registered' with the pipelines prior to the day of bidding. Processes for Allocation Rules, Credit Support, Gas Quality obligations and other contractual processes can then be in place to smooth the Auction process.
 - i. As a practical matter, bidding shippers should be required to confirm they can supply Gas at the receipt point to match the capacity being auctioned. This will reduce the risk of bidding errors.

The above comments have focussed on areas of the report that are seen as a direct impact on our business. More generally, SEA Gas as a member of the Australian Pipelines and Gas Association (APGA) also supports the APGA submission on the Stage 2 Report.

We encourage and would be pleased to participate in further detailed discussion on the proposals so that commercially sensible and sustainable outcomes can be achieved for the development of the East Australian Gas Market.

Yours sincerely



Jeff Cooke
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