



12 February, 2016

Australian Energy Market Commission
Level 6, 201 Elizabeth Street,
Sydney, NSW, 2000

Re: PACIA response to the AEMC East Coast Gas Review Stage 2 Draft Report

To whom it may concern,

PACIA is pleased to provide this response to the AEMC Stage 2 Draft Report on the East Coast Wholesale Gas Market and Pipeline Frameworks Review. PACIA is the Voice of the Australian chemistry industry. The chemistry industry is a major industry gas user. It consumes approximately 10% of national, domestic gas as a non-substitutable chemistry feedstock to meet the demands of a broad cross-section of Australian industry through its value-chains. In some States this figure increases to approximately 25%, in New South Wales for example. This is in addition to the consumption of gas as an energy source for heat, steam and other process needs. As the second largest manufacturing sector, the chemistry industry supplies 109 of Australia's 111 industries.

Consistent with the COAG Energy Council Vision, our desired outcome for the gas market in Australia is defined as:

A domestic gas market that is deep in capacity, liquid in supply, competitive, transparent, informed and with good price discovery.

PACIA is supportive of the COAG Energy Council's Gas Market Vision and Development Plan and of the important work of the AEMC in helping achieve its objectives. The Stage 2 draft report is a welcomed, comprehensive and considered piece of analysis.

The three market development areas of inquiry are useful categories to tackle this complex range of issues: Wholesale gas trading markets; Pipeline access, and Information provision. The two hub approach and the simplification of the STTM, including the harmonized start to the gas day, have the capability to improve liquidity and trade. This would be particularly valuable if the objective of liquidity to all points of the network was achieved. The reference pricing and additional market information have the potential to provide users with greater capability to reference and arbitrage. Improved access to contracted but uncommitted capacity has the potential to assist consumers balance their demand needs and volumes.

We trust the following feedback provides the Commission with information and insights that will further strengthen its final report to Ministers.

1. The extent to which the integrated reform package and recommendations have specifically taken into consideration the needs of chemistry feedstock users

The needs of large industrial feedstock consumers have some specific characteristics, distinct from energy gas consumers:

- Both Ethane and Methane are used for chemistry feedstock purposes, in significant volumes
- Both of these feedstocks are non-substitutable. Chemical plants are locked into technology platforms tailored and calibrated to the characteristics and properties of specific gases. Alternatives are unable to be used and therefore feedstock switching is not a practical option
- The plants themselves need to operate within specific operational parameters and cycles. This means that they are less able to respond to demand side responses to supply fluctuations.

Given these specific needs, it would be valuable to understand the extent to which the Commission has discussed in detail with feedstock users their needs and the suitability of the reform package and recommendations.

2. The extent to which the proposed changes impact curtailment arrangements

Curtailment protocols, specifically under the NGERAC arrangements, are an important consideration for large industrial users including the chemical industry. The proposed changes to the market, in particular hubs and simplification of the STTM, will change the market dynamics and hopefully provide increased flexibility.

However the current curtailment protocols and arrangements may have underlying assumptions which may be impacted by the proposed changes. It would be important that any changes be tested against these arrangements and the objectives they are set up to ensure.

3. The extent to which the proposed changes improve the current 12 hour blind-spot in the forward market bid process

The harmonized start to the gas day is a welcomed improved for short-term markets. One of the identified challenges of STTMs remains the 12 hour blind spot between when the previous day's pricing is set (lets say midday) and the when nominations for the next day's demand need to be provided (say 06:00).

Do the proposed changes enable companies to better manage this blind-spot?

4. Price differentials between multiple pipe-line options to the same demand point

An identified issue is where there are multiple pipeline delivery options for gas to a given plant, companies have identified they need to monitor all of these routes, rather than only one. It is not clear to businesses that if there is sufficient gas in the system, flowing to all demand centres, why there are price differentials (other than standardized for distance, compression rates etc.)

The Commission's liquidity objective would seem to have benefits in improving this aspect of the market. How is current challenge likely to be addressed and over what period of the implementation plan are improvements likely to be seen?

5. How the objective of a having achieved a liquid market will be measured

The liquidity objective is recognized as being a crucial test of the effectiveness of the proposed changes. How will the liquidity objective be measured?

6. How the review for the AEMC and Roadmap process will engage with major gas feedstock users

Creating a more competitive domestic gas market is a key objective for PACIA members, consistent with COAG EC objectives. PACIA recognizes the important role that the AEMC has in implementing and measuring the results of its recommendations and Roadmap.

PACIA is interested in how the Commission will engage with chemistry feedstock users so that their unique and specific needs are identified and taken into consideration for this important piece of work.

Thank-you again for the opportunity to provide insights and feedback into this important report. If we can provide any additional information or clarification, please contact myself on (03) 9611 5410 or at pbury@pacia.org.au.

Sincerely,

A handwritten signature in black ink, appearing to read 'Peter Bury', with a stylized flourish at the end.

Peter Bury
Director – Strategy, Innovation and Research
Company Secretary