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Via online submission

12 February 2016

Dear Tom

GPR0003: East Coast Wholesale Gas Market and Pipeline Frameworks Review Stage 2 Draft Report

Jemena welcomes the Australian Energy Market Commission's (**AEMC**) continued engagement as it progresses its East Coast Wholesale Gas Market and Pipeline Frameworks Review (**the Review**), and thanks the AEMC for the opportunity to provide feedback on the Review's Stage 2 Draft Report (**the Report**).

Please find attached Jemena's submission on the Report.

In line with the need to ensure that the most appropriate responses to potential issues are developed and implemented, we strongly support industry-led approaches to the implementation of the key proposals relating to pipelines.

Accordingly, Jemena is committed, subject to sufficient market demand, to proactively implementing a day-ahead auction for contracted but un-nominated pipeline capacity and a secondary capacity trade brokerage service allowing buyer and seller anonymity, as well as trialling the removal of fees on our existing capacity trading service.

This will ensure a full suite of products to meet a wide range of market participants' needs is available, facilitating increased flexibility in their gas supply arrangements while, critically, ensuring that strong signals for efficient investment in new pipeline capacity are maintained. Over time, these arrangements should help contribute to the development of efficient wholesale markets.

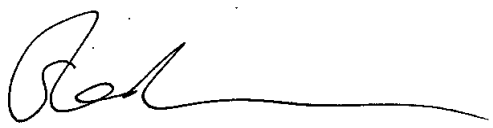
Regarding the implementation of the Report's proposed broader reform package, we acknowledge that this will require considerable effort from policy-makers, the AEMC, regulators and industry participants. We support the creation of a dedicated team to coordinate reform and an advisory panel to oversee the broader direction of reform. Jemena would welcome the opportunity to be a member of such an advisory panel, just as we have participated in the Advisory Group for the Review.

Jemena also notes the AEMC's continued assurance that it remains in close consultation with the Australian Competition and Consumer Commission (**ACCC**) as it undertakes its East Coast Gas Inquiry. As we look forward to the release of both the AEMC's Final Stage 2 Report and the ACCC's Inquiry findings, it remains important that both agencies continue to engage to ensure consistency and minimise the potential for inefficient iterations of this work.

We thank the Review team for making themselves available to discuss the Report, and we look forward to continuing to engage with the AEMC on a regular basis. As a member of the Advisory Group, we would also appreciate the opportunity to receive an embargoed copy of the final report before it is released publicly.

Should you have any questions about this submission, please contact Benjy Lee, Manager Energy Policy, on (03) 9173 7894 or via email: benjy.lee@jemena.com.au.

Yours sincerely



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East Coast Wholesale Gas Market and Pipeline Frameworks Review

Submission on Stage 2 Draft Report

Public

12 February 2016

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TABLE OF CONTENTS

GLOSSARY

ACCC	Australian Competition and Consumer Commission
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
BB	Bulletin Board
CBUN	Contracted but Un-Nominated
EGP	Eastern Gas Pipeline
GSA	Gas Supply Agreement
GTA	Gas Transportation Agreement
NGO	National Gas Objective
QGP	Queensland Gas Pipeline
STTM	Short Term Trading Market
UIOLI	Use It or Lose It

1. OVERVIEW

1.1 THE AEMC'S ROADMAP FOR MARKET DEVELOPMENT

Australia's gas markets are undergoing significant change, and new drivers of change will continue to emerge in the future as we become part of a global market. The eastern Australian market will soon be connected to the Northern Territory's, bringing new sources of supply and demand, while global events such as significant changes in oil prices, for example, now have implications for Australia's domestic gas market. In many cases, gas faces strong competition from other energy sources, including grid-sourced electricity and embedded generation, and gas consumers are increasingly exercising choice in managing their energy needs.

In the face of these changes, gas pipeline and network owners have a strong incentive to ensure gas remains a competitive fuel of choice. For example, in New South Wales, Jemena is helping facilitate better outcomes for gas customers by modifying our distribution network's retailer interface systems to encourage new entrants into the retail market, strengthening competition and consumer choice.

It is also appropriate that the Australian Energy Market Commission (**AEMC** or **Commission**) is considering whether our broader market arrangements are facilitating the efficient supply of gas to end-consumers. If certain dynamics are shown to be impacting the long-term efficient operation of the market, the AEMC should explore and consult on a range of potential solutions to the identified problem, including industry-led solutions. Importantly, the chosen solution should be proportional to the problem.[1]

Jemena welcomes the AEMC's willingness to consider and encourage market-led action and initiatives. Industry-led responses often address potential issues more quickly, effectively and efficiently than regulatory intervention can. Ultimately, these responses can keep the end-price of gas as efficient as possible—which is very important to us a gas infrastructure owner in an environment of rising wholesale prices. Accordingly, Jemena is committed to fully exploring—in close consultation with customers and other stakeholders—the implementation of key recommendations to encourage capacity trading, as outlined in section 1.2.

As the Report notes, some market participants may be seeking additional short-term flexibility in managing their gas supply arrangements. However, the pursuit of market and regulatory arrangements which facilitate such flexibility and other short-term efficiencies must be weighed up against potential impacts on efficient investment over the long-term—a trade-off recognised in the National Gas Objective (**NGO**), which is the single overarching objective guiding the Australian Energy Market Commission (**AEMC**) in the Review.[2]

In this context, Jemena is encouraged to see that the Report and other stakeholders have recognised the existence and continued importance of efficient investment in underpinning the market's development over the longer term. We have responded to the signals provided by the current transportation arrangements to make efficient investments in new capacity. In the last two years, we have expanded the capacity of our Eastern Gas Pipeline (**EGP**) and Queensland Gas Pipeline (**QGP**), and we were recently announced as the successful proponent to construct a new pipeline to connect Australia's northern and eastern gas markets, to be known as the Northern Gas Pipeline. Despite significant investment, recent analysis from the Commonwealth Department of Industry shows that transmission pipeline charges have been flat or have decreased in real terms since 2002.[3] For example, the delivered gas price for a large industrial customer in Sydney is shown in Figure 1–1.

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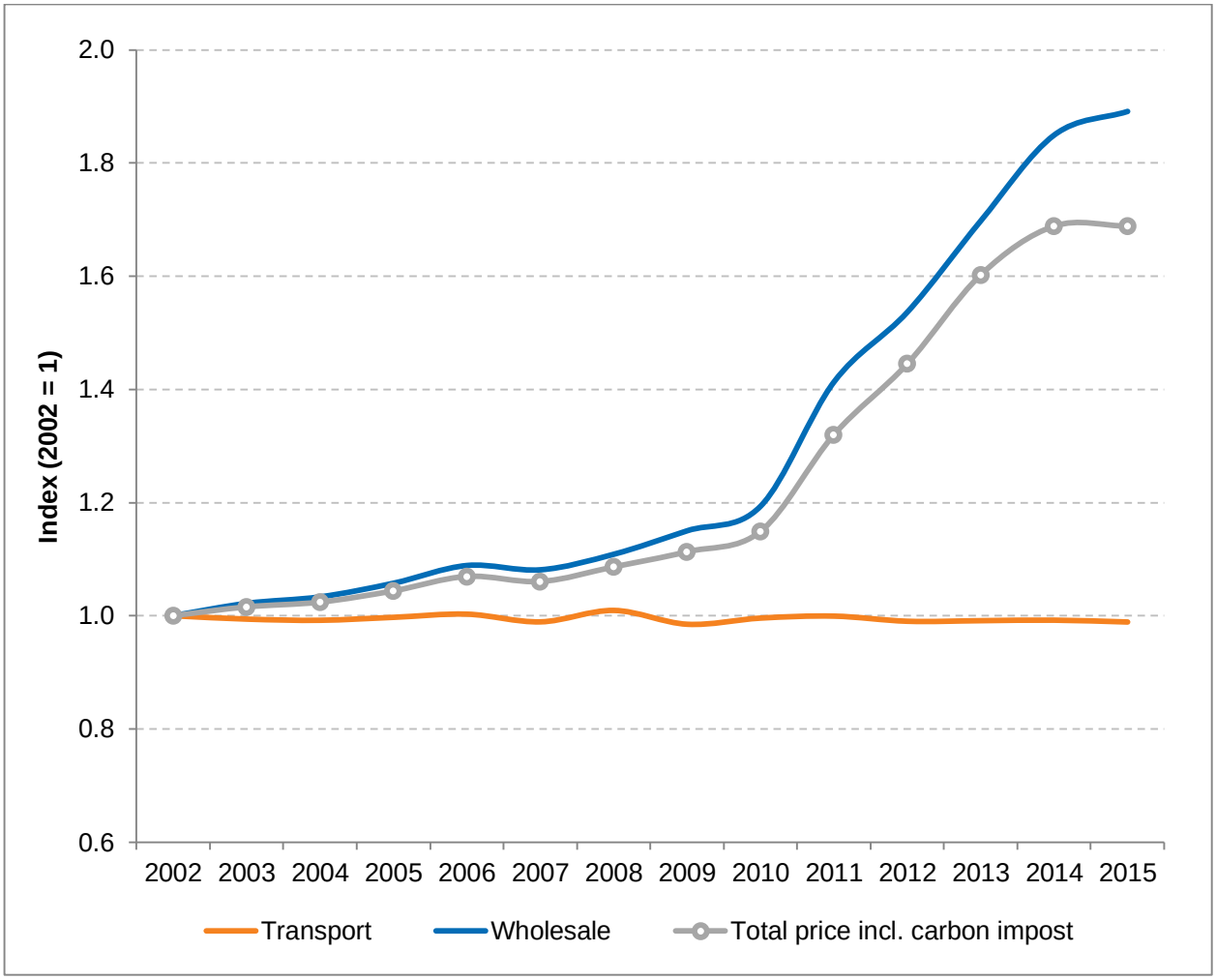
1 Council of Australian Governments, Best Practice Regulation, A Guide for Ministerial Councils and National Standard Setting Bodies, October 2007.

2 Australian Energy Market Commission, East Coast Wholesale Gas Market and Pipeline Frameworks Review, Stage 2 Draft Report, December 2015, p. 126.

3 Oakley Greenwood, Gas Price Trends Review, December 2015, p. 24.

Figure 1–1: Real movements in average gas price components for large industrial customers (>1 PJ p.a.) in Sydney or ACT, 2002 to 2015



Source: Based on Oakley Greenwood, Gas Price Trends Review, December 2015.

Jemena considers that an appropriate direction of market reform is therefore not one of complete re-design, but of incremental improvement. Maintaining the current contract carriage model for transmission pipelines will allow this efficient market-driven investment to continue due to the strong investment signals provided by this framework, a point previously raised by the Productivity Commission[4] and noted in the Report and various stakeholder submissions.[5]

[4] Productivity Commission, Examining Barriers to Efficient Gas Markets, March 2015, pp. 119-120.

[5] AEMC, East Coast Wholesale Gas Market and Pipeline Frameworks Review, Stage 2 Draft Report, December 2015, p. 3; QGC, Submission on Pipeline Regulation and Capacity Trading Paper, 2015, p. 14.

1.2 RESPONDING TO A CHANGING GAS MARKET

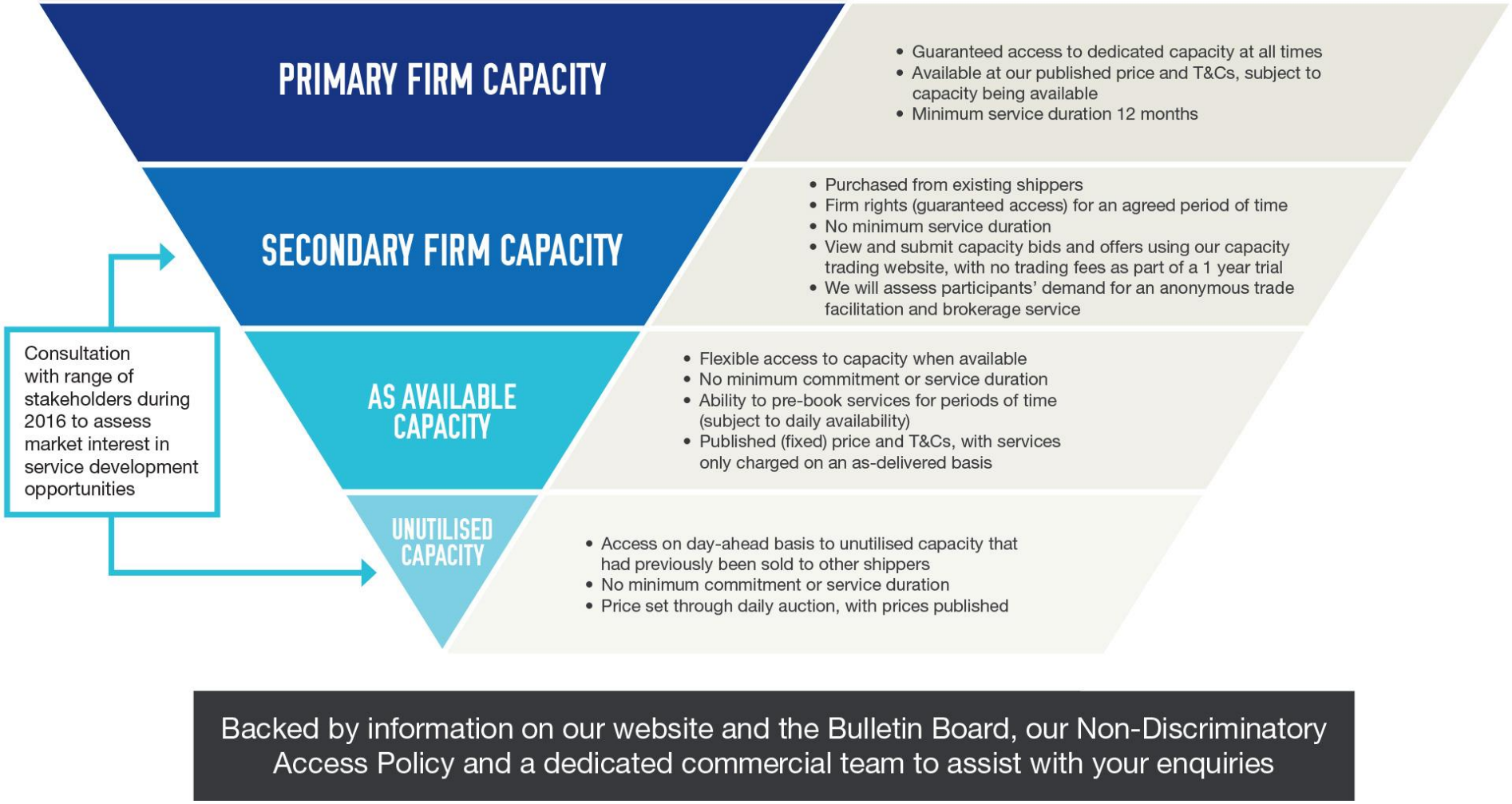
As a gas infrastructure owner, we face a strong incentive to ensure the end price of gas is efficient as possible.[6] Jemena is therefore committed, subject to sufficient market demand, to implementing the following initiatives for our pipelines in 2017:

- a day-ahead auction for contracted but un-nominated pipeline capacity
- a secondary capacity trade brokerage service allowing buyer and seller anonymity
- trialing the removal of fees related to our existing capacity trading website listing service.

These initiatives would provide a full suite of capacity products to meet a wide range of participants' needs, including demand for short-term flexibility. In turn, these arrangements could assist in the development of efficient wholesale markets, while still ensuring that signals are provided for efficient investment in the long-term. Figure 1–2 outlines key features of this suite of capacity products.

[6] Minimising the risk and maximising the long-term value of our sunk investments.

Figure 1–2: Potential future options for accessing pipeline capacity



Our approach to fully exploring and developing these initiatives throughout this year will be based on strong customer and stakeholder consultation, likely including group forums or workshops, surveys and targeted individual consultation. This engagement approach will build on Jemena's strong relationships with our customers and our recognised industry leadership in consulting with a range of parties on key issues such as future pricing structures for our regulated energy distribution networks. We will also keep the AEMC informed of developments in our initiatives through our regular engagement with them.

We strongly believe that an industry-led approach to implementing measures broadly consistent with those suggested in the Report will best promote gas consumers' long-term interests. Across the industry, this could be achieved by directing pipeline operators to implement measures within a period of time, with the threat of implementation using a more prescriptive, regulatory approach if industry-led action proved to be unsuccessful.

The sections below discuss specific aspects of the Commission's recommended roadmap for market development.

2. PIPELINE CAPACITY MARKETS

Jemena is committed to encouraging and facilitating increased secondary capacity trading on our pipelines. Doing so is in the long-term interests of both consumers and Jemena. Secondary pipeline capacity trading can provide some market participants with additional flexibility and, over time, contribute to the development of wholesale trading markets. Secondary capacity trading arrangements that are implemented in a fit-for-purpose manner where benefits exceed costs, transaction costs are low, and market-driven trading is encouraged, will best promote the long-term interests of gas consumers. Similarly, as an owner of long-lived gas transportation assets, we have a strong interest in meeting gas market participants' evolving requirements, as doing so will maximise the value and minimise the risk of our existing and new investments.

Further to our proposal outlined in section 1.2, this section provides feedback on key aspects of the Report's draft pipeline recommendations.

2.1 AUCTION FOR CONTRACTED BUT UN-NOMINATED CAPACITY

As set out in section 1.2, Jemena is committed to implementing an auction for contracted but un-nominated (**CBUN**) capacity on the EGP and QGP in 2017, subject to market demand.

In line with the Report's reasoning,[7] doing so may provide some shippers with a stronger incentive to sell any unused capacity on the secondary market—transactions which could be further aided by a potential capacity trading brokerage service. However, we do agree with the Report's suggestion that some shippers may not be selling unused capacity as it is not their core business.[8] Additionally, through our recent engagement with shippers, we believe it is important to recognise that shippers may place a high option value on their unused capacity—that is, they may choose not to sell unused capacity because the potential cost to a shipper of selling capacity but then being unable to meet an unexpected increase in gas demand can be very high, particularly for gas retailers.

In these cases, we consider that an auction mechanism for contracted but un-nominated capacity may, if carefully designed and implemented, be an appropriate way of providing access to this capacity. There are a number of key design and implementation issues to consider, each of which we have provided brief comments on below. As set out in section 1.2, we intend to consult with a range of our customers and other stakeholders in the coming months to explore these and other issues.

2.1.1 IMPLEMENTATION COSTS AND TIMEFRAME

The design, development and operation of arrangements required for a day-ahead auction for CBUN capacity could potentially involve material costs for pipeline operators. Costs may be incurred in relation to:

- design, implementation and testing and maintenance of computer systems required to conduct a daily auction, and potentially including additional staff and training to manage commercial arrangements associated with the auction
- modification of our shipper accounting system used for capacity nominations to interface with the auction system and allow the scheduling of capacity purchased through the auction
- modification of our capacity trading website to allow the publication of auction results

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7 Australian Energy Market Commission, East Coast Wholesale Gas Market and Pipeline Frameworks Review, Stage 2 Draft Report, December 2015, p. 55.

8 Ibid, p. 55.

- drafting of contractual agreements for the auction (including terms and conditions), including reviews of existing agreements with shippers to ensure consistency with new arrangements.

We consider that a market-led approach of implementing a day-ahead capacity auction will involve lower costs for all parties than would be incurred if such an approach was implemented though regulatory intervention, particularly if a highly-prescriptive approach was adopted. As explained further in relation to other issues below, there are likely to be a number of instances where individual pipelines' unique characteristics (including connected supply sources and demand markets, shipper requirements, existing contractual arrangements and potential physical limitations of the pipeline itself) would need to be taken into account when designing an auction mechanism and associated systems. Given the rapid pace of change in the market and the continued evolution of participants' requirements, the detailed specification and implementation of auction mechanisms through regulation could lead to inefficiencies that would require further regulatory intervention to rectify in the future. In contrast, pipeline operators face a strong incentive to engage with their customers and be responsive to changing market requirements, and are therefore better-placed to efficiently develop and implement auctions than an external party such as a regulator. Pipeline operators can adopt an incremental approach that provides a right-sized solution over time, with the threat of regulation remaining in place. This approach would ensure that the flow-on impact on end-prices for gas users is minimised.

Furthermore, an industry-led approach to the development of CBUN capacity auctions will likely allow them to be put in-place sooner than if implemented through a heavy-handed, highly-prescriptive approach, bringing forward the realisation of potential benefits to market participants. If considered necessary to ensure alignment with other parts of the Report's roadmap for market reform, an implementation timeframe for an industry-led approach could be specified.

2.1.2 POTENTIAL BARRIERS TO SERVICE TAKE-UP

Through our internal analysis and relatively high-level discussions with shippers to date on this proposal, we have recognised that there may be some external factors that impact the usefulness of being able to obtain CBUN capacity through a day-ahead auction for some market participants. We intend to explore these issues through engagement with our shippers and a range of other parties throughout 2016 as we work through the implementation details of an auction.

Two specific issues are outlined below. The implementation of a capacity auction in 2017 would allow us to closely monitor performance in consultation with users, providing us with a greater understanding of the level of demand for the service and these and potential other issues that may affect take-up.

The potential unavailability of gas to transport using capacity obtained through auction on some pipelines

Any party wishing to access capacity on a pipeline must provide gas to be transported. On the EGP, the vast majority of gas transported is sourced from the Longford Gas Plant, with the holders of gas transportation agreements (**GTA**) generally backing these with equivalent gas supply agreements (**GSA**) that provide daily production nomination rights. Parties must submit production nominations the day before a gas day (at 11 AM in the case of Longford), and then later that day (at 2 PM) submit nominations to us for pipeline capacity. The auction for CBUN pipeline capacity (and associated nomination process for this) would therefore need to occur after 2 PM so that the amount of CBUN capacity can be calculated. However, Jemena understands that the prevalence of intra-day production nomination rights (that is, the right to submit a nomination for supply after 11 AM on the day before a gas day) for the Longford facility is very limited. If the buyer of CBUN capacity at the auction (which would not be known until after 2 PM on the day before a gas day) is unable to submit a nomination to the Longford facility, then they may not be able to obtain the gas required to utilise the capacity they have bought. Similarly, the Short Term Trading Market (**STTM**) bid cut off time occurring prior to the time of the auction may place a limit on the attractiveness of CBUN capacity for parties who need to transport gas to the Sydney STTM.

The potential for participants to place a low value on CBUN capacity when it is available

For pipelines which serve larger retail markets, such as the EGP, it might be expected that there is a strong inverse relationship between the availability of CBUN capacity and demand for that capacity. CBUN capacity will only be available at times when contracted capacity is not fully utilised (i.e. nominations are low), which is more likely at times of low end-user demand (for example, during summer on the EGP). Although more CBUN capacity is available, low end-user demand may mean that prospective buyers place a very low value on the capacity on these days. Conversely, the days on which CBUN capacity should be most highly valued (days of peak demand) are the days on which a shipper serving a retail market would base its decision to contract its firm capacity on a pipeline—these shippers will determine the amount of firm capacity required to ensure they can meet the maximum demand from their retail customers, meaning they are more likely to fully utilise their contracted capacity on a peak day.[9] Although the auction will allow CBUN capacity prices to fluctuate in response to different levels of demand, it remains a possibility that parties may derive little value from access to this capacity for large periods of the year. We do note, however, that the interconnection of the EGP and Moomba to Sydney Pipeline in late 2015 may increase the future attractiveness of EGP capacity during times of low retail demand in Sydney.

2.1.3 AUCTION RESERVE PRICE

We consider than a relatively simple approach to setting reserve prices for CBUN auctions would be appropriate, minimising costs and administrative burdens for pipeline operators (and therefore gas users) and regulators. We do not consider that it would be appropriate for an external body such as the Australian Energy Regulator (**AER**) to be involved in the determination of an auction reserve price, either directly or through the "approval" of a mechanism.

Auction reserve price-setting is a complex area of economics. Even determining the short run marginal cost of a pipeline's services could be an involved exercise with significant information requirements. Direct AER involvement in this process could involve material costs—for example, in complying with AER-issued Regulatory Information Notices for the Jemena Electricity Network in 2014, we incurred costs of over $1.2 million.

As discussed above, pipeline owners could also incur material costs in developing and operating the systems required to hold an auction. As these systems would be maintained to provide benefits to parties that choose to participate in the auction, consideration should be given to the setting of reserve prices so as to allow the pipeline operator to recover its costs of running the auction. This could be achieved by calculating a reserve price as the operating and capital costs incurred (potentially amortised over several years) divided by the expected number of units of CBUN capacity sold.[10] Without such a cost recovery mechanism, these costs would be recovered from all holders of contracted capacity, rather than from auction participants.

As the setting of a reserve price to recover auction costs can be done in a relatively simple manner, any regulator involvement in this process should be limited to compliance monitoring. In determining the price, appropriate levels of transparency could be provided by the pipeline operator to allow market participants to understand how the reserve price was calculated. For example, the pipeline operator could publish its system costs incurred and the demand forecast used to derive a price.

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9 Additionally, as the opportunity cost to that shipper of not having access to its capacity on a peak day will be very high, they would be unlikely to sell their rights for that day on the secondary market.

10 Given the potential difficulties around forecasting demand for this service at first, it may be necessary to consider measures such as a true-up mechanism to account for differences between forecasts and actual take-up.

2.1.4 DETERMINING THE AMOUNT OF CAPACITY TO BE AUCTIONED

The Report notes[11] that there may be some complexities involved in determining the amount of capacity to be auctioned, and that it may be appropriate for this amount to be set by a third party (such as the AER) or in accordance with a regulator-approved formula or mechanism. However, we do not foresee there being significant complexities involved in determining the amount of capacity to be auctioned, and we note the involvement of an external party in this process (such as a regulator) could be costly for both the regulator (given likely additional resourcing needs) and the pipeline operator (information provision and regulatory management costs), and would be administratively complex. CBUN capacity would be calculated following the scheduling of all firm and As Available services for the next day.

Firm capacity rights apply to specified delivery paths (between particular receipt and delivery points), as the ability of a pipeline to deliver gas at a point will depend on the location of that point on the pipeline. For example, more of a pipeline's capacity is required to deliver 10 TJ of gas at a point 500 kilometres along the pipeline from the injection point than it is required to deliver the same quantity to a location 100 kilometres from the injection point.

Consideration should therefore be given to the need to calculate the amount of CBUN capacity available for delivery at different locations. At this early stage, we anticipate that it may be technically feasible to determine and auction CBUN capacity for zones that encompass groups of delivery and/or receipt points—for example, we currently apply three zones across the EGP for the pricing of our firm and as-available services. This approach could allow customers to purchase CBUN capacity for a zone (i.e. separate tranches of capacity would be offered for different zones) and then specify which delivery point within that zone they wish to use on a daily basis. The use of individual delivery points would be subject to it having available capacity for the day (which could vary where a delivery point accommodates multiple shippers), and the availability of capacity at each delivery point could be listed on the auction site when bids are submitted.

We consider that offering un-nominated capacity in this way is a relatively low-cost, low-complexity and transparent option, while still providing flexibility (to increase the value of CBUN capacity to potential buyers at auction) where possible, which should help encourage parties to use this service and strengthen the incentive for shippers to enter into secondary capacity trades themselves.

Pipeline maintenance

In the case where planned maintenance is likely to impact capacity, the calculated amount of contracted but un-nominated capacity could be reduced for each zone on a pro-rata basis. However, where possible, we plan maintenance activities that are likely to have an impact on capacity to occur at times when gas demand is low (i.e. expected nominations are low). As explained in section 2.1.2, although low nominations would result in larger amounts of capacity being available for auction, end-user gas demand and therefore demand for CBUN capacity is likely to be low at that time.[12] Furthermore, following the AEMC's recent final rule on enhanced information for gas pipeline capacity trading, market participants' understanding of the impact and timing of maintenance activities should be further improved.

Pre-sold As Available services

Depending on their needs and risk appetite, some shippers who currently use As Available services may instead rely on purchasing CBUN capacity through auction in the future. However, it is important that market participants continue to be afforded the choice in managing their supply arrangement and risks by choosing to

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11 Australian Energy Market Commission, East Coast Wholesale Gas Market and Pipeline Frameworks Review, Stage 2 Draft Report, December 2015, pp. 60-61.

12 For example, during summer periods for the EGP or at times when large industrial users on the QGP are not operating, the value of delivering gas to the locations served by the pipelines (and therefore the price that a potential buyer of CBUN capacity would be willing to pay) will be lower.

pay a known (fixed) transportation price (even if potentially higher than what could occur at an auction) and obtaining a greater degree of comfort that their services will be scheduled. Some As Available services are purchased by shippers for a set period of time. For example, a party may choose to manage its peak load requirements by agreeing to buy As Available services (subject to daily availability) up to a certain daily quantity for a number of months. As with our other services, the prices of these As Available services are published on our website.

It is important that this capacity be considered 'contracted' for the purpose of a contracted but un-nominated capacity auction. However, because our As Available services operate on an as-delivered (rather than take-or-pay) basis, we do not consider that the sale of these services would compromise the effectiveness of measures to prevent a shipper discriminating against or withholding unused capacity from another shipper (as contracted but unutilised capacity would still go to the auction).

2.1.5 PRESERVING INVESTMENT SIGNALS

Preserving incentives for pipeline investment is critical, and we consider that an auction for CBUN capacity on a day-ahead basis can be designed to do so. That the capacity being auctioned is subject to an existing contract ("contracted") but is not being used by the contract-holder on that day ("un-nominated") is very important to maintain an incentive for shippers to continue to enter into the long-term contracts that underpin pipeline investment. An auction that offered all unused capacity (i.e. even that which is uncontracted) could encourage free-riders and would be likely to have a damaging impact on pipeline investment over time if pipeline operators were unable to recover the costs of their investments, even if the auction was only undertaken on a day-ahead basis. Such an outcome would be detrimental to productive and dynamic efficiency and be inconsistent with the NGO.

As noted in the Report, it is important that pipelines which have uncontracted capacity can be exempted from a requirement to auction contracted but un-nominated capacity. When calculating CBUN capacity to be auctioned as outlined in section 2.1.4, spare firm capacity would not itself be auctioned, to avoid undermining incentives for shippers to commit to investments in new capacity. If a pipeline has spare firm capacity, the pipeline operator will face a strong incentive to sell that capacity (either as firm or As Available capacity) to recover its sunk costs, while the existence of spare firm capacity should also prevent an existing shipper from withholding access to capacity. Put another way, there should be no "problem" of contractual congestion of a pipeline or the inability of a party to access capacity where spare firm capacity exists—noting that any party can seek to have a pipeline declared at any time in the case of an access dispute.

Given that no party should experience issues obtaining capacity in this situation, the pipeline operator should not be required to auction CBUN capacity. Such an exemption is necessary for two reasons:

- it would prevent a potential buyer of the spare firm capacity from instead relying on capacity obtained through the CBUN auction (assuming there was sufficient CBUN capacity available), as this would undermine the ability for the pipeline operator to recover the costs of its investment, which would be detrimental to future pipeline investment
- it would allow the pipeline to avoid the costs of maintaining an auction for CBUN capacity. These costs would otherwise be passed through to users as higher end gas prices, which could reduce the attractiveness of gas as a fuel over time, potentially further reducing the likelihood of the pipeline operator selling its capacity and recovering its costs.

It would also be appropriate to exempt pipelines (including laterals) serving a single facility, given that there would be no demand for capacity on these pipelines other than from the owner of the facility who has contracted all existing capacity on the pipeline.

We consider that a body, such as the AER, should have the power to grant exemptions for uncontracted capacity availability and single-user pipelines on a case-by-case basis.

2.1.6 TERMS AND CONDITIONS OF CAPACITY AND SERVICE STANDARDS

Jemena is concerned by the Report's suggestion that the terms and conditions of the capacity sold through the auction would have to be set with regulatory oversight. The direct involvement of a regulator in the setting of terms and conditions for any service provided by an uncovered pipeline could be inconsistent with the policy intent of the gas access regime, as an uncovered pipeline would be expected not to satisfy the criteria required for it to be declared. We consider that an open and transparent engagement process with existing shippers, potential auction participants and other stakeholders can be undertaken on an individual pipeline basis to develop appropriate terms, conditions and capacity service standards for CBUN capacity.

Jemena agrees that it would be appropriate for contracted but un-nominated capacity sold through auction to have a lower service priority if curtailment is needed in an unplanned interruption, given that the expected value of load lost to the buyer of CBUN capacity is lower than that of other capacity holders.

As explained above, we envisage continuing to offer As Available services after the commencement of our auctioning mechanism, particularly for shippers who want greater levels of certainty around access to capacity and who may want to avoid participating in a daily auction, but who can't commit to a firm service for a longer period of time. It would therefore be appropriate that As Available (and, obviously, firm) services would rank higher than auctioned capacity in the event of operational curtailment. However, we do note that instances of service curtailment during a gas day (i.e. after nominations have been accepted) are rare. In the past 12 months, we have not had to curtail flows on the EGP and have only had to curtail flows once on the QGP.

As set out in section 1.2, we expect that parties who wish to participate in the CBUN capacity auction would enter into a standardised "zero" GTA (an agreement with no capacity rights or longer-term take-or-pay obligation) with us, as is currently the case for our capacity trading service. Issues such as potential pipeline liability to buyers of CBUN capacity through auction in the event of curtailment, fuel gas arrangements and prudential requirements would be dealt with through this GTA. To minimise transaction costs and maximise potential take-up of the auction, this standard agreement would be published on our website. Any other terms and conditions related to participation in the CBUN auction would also be publicly-available through our website.

2.1.7 TRANSITIONAL ISSUES

Over time as we work with customers and stakeholders to explore the details of implementing a CBUN capacity auction, we would need to review our existing contracts to ensure that they are not impacted by new processes or services. In the event of inconsistencies between existing contracts and desired future arrangements, existing contracts must take precedence to protect pre-existing property rights.

2.2 SECONDARY TRADING PLATFORM WITH INFORMATION REPORTING REQUIREMENTS AND STANDARDISED CAPACITY PRODUCTS

2.2.1 SECONDARY TRADING PLATFORM

As explained in section 1.2, we are committed to assessing the expansion of our current capacity trading web platform to allow interested parties to post anonymous bids and offers for secondary capacity. We will do this in close consultation with customers and other interested stakeholders. If sufficient interest from prospective users is indicated, this service could potentially be further expanded to include the brokerage of secondary capacity trades in the future.

Although we are supportive of the proposal requiring the disclosure of information about secondary trades discussed below, shippers should be able to choose to enter into bilateral capacity trades without using a pipeliner's trading platform if they wish. Shippers should also not be required to advertise capacity for sale on the website. A number of market participants appear to have been comfortable with trading capacity through

bilateral arrangements in recent times, given that secondary trading activity is occurring but the usage of our capacity trading website has been very limited. Furthermore, the AEMC's enhanced information for gas pipeline capacity trading final rule will assist in further reducing barriers to bilateral trade for parties who want to transact in this manner through measures including the publication of shipper contact details on the Bulletin Board (**BB**), which may further strengthen the attractiveness of bilateral trade for some parties.

In a situation where a CBUN capacity auction was in place, compulsory trading through a secondary capacity platform would be necessary to prevent potential discrimination in the secondary capacity market. As noted in the Report, we consider that these two measures are likely to provide non-discriminatory access to capacity in the secondary market. Moves to prohibit bilateral secondary capacity trading would need to be justified by clear evidence that market power was being exercised by shippers to prevent third parties obtaining access to the detriment of competition in another market.

2.2.2 INFORMATION ABOUT SECONDARY CAPACITY TRADES

We do not foresee any issues for a pipeline operator under the proposed requirement for shippers provide us with information about their bilateral capacity trades for publication on our capacity trading website. This information (and indeed for the most part, the existence of this trading activity) is not currently visible to us, but could assist interested parties who wish to trade secondary capacity to better understand the market.

However, we do not consider it would be appropriate to publish the names of the parties to secondary trading agreements—these confidentiality issues are discussed further in Box 2–1. During our own consultation, some of our shippers have raised concerns about their confidential usage or gas portfolio management information being disclosed and attributed to them.

Box 2–1: Assessing trade-offs between confidentiality and the value of transparency

Anonymity or the protection of individual large users' private energy consumption and cost data is important, and information should not be made public where the detriment of disclosure is not outweighed by the public benefit.

This approach is used by the AER in its handling of confidential information, and is set out in its Confidentiality Guideline.[13] Recognising the nature and importance of protecting individual customers' energy usage information, 'personal information' is one of the defined confidentiality categories in the Guideline.[14] We note that when preparing information for the AER in accordance with the Confidentiality Guideline, network businesses claim confidentiality over usage (or forecast usage) information that could be attributable to individual customers.[15] None of Jemena's claims over this type of information in relation to our gas or electricity distribution networks have been challenged by the AER to date.

In relation to the reporting of individual gas shipper or user information, as proposed by the Report in a number of areas, we do not consider that the additional benefit of attributing information to individual parties (compared to publication on an anonymous basis) has been identified. However, publishing and attributing confidential information can be detrimental to energy users. For example, a gas retailer's competitors or potential competitors may obtain a strategic benefit in retail or wholesale gas markets if key details about its market position and risk management practices are disclosed. Similarly, some manufacturing businesses could have their position in competitive markets damaged if their competitors were able to access information about the cost of a key production input—particularly if the competitor's equivalent information is not disclosed, due to the competitor is located in another country or using a different energy source to manufacture the same products.

We also note that even the publication of disaggregated but anonymous data could reveal parties' private information. By cross-checking information from other sources (such as share market announcements), it may still be possible for a party to identify individual shippers using anonymous contract information. This should be considered when weighing up the costs and benefits of potential reporting obligations.

To avoid sensitive information about shippers' facility operations being disclosed (for example, power stations or manufacturing facilities), this information should be published in a way which protects parties' anonymity. In cases where a party is identifiable due to them being the only user of a delivery point, delivery points could be grouped into zones for publication on the Bulletin Board.

2.2.3 STANDARDISATION OF CAPACITY PRODUCTS

Jemena is supportive of an industry-led approach to developing standardised capacity products to assist secondary trading that is mindful of existing contractual arrangements. We acknowledge that a large number of different products has the potential to lead to fragmented secondary markets, however we agree that it would clearly not be appropriate to interfere with or diminish the value of the rights a party has purchased under a long-term contract.

Further work will be required to fully assess the trade-offs involved in capacity rights standardisation before any work by industry on doing so is commenced. It is important to involve existing shippers in conversations about these trade-offs given the potential impacts on their property rights. As the Report notes, "it may not be necessary to standardise (in full or in part) the primary capacity market in order to facilitate a sufficiently

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13 http://www.aer.gov.au/system/files/AER%20Confidentiality%20guideline%20-%20November%202013.pdf

14 Australian Energy Regulator, Confidentiality Guideline, November 2013, p.9 – "Personal information – information about an individual or customer whose identity is apparent, or can reasonably be ascertained from the information which raises privacy considerations."

15 For example, Jemena Gas Networks (NSW) Ltd, JGN Response to Access Arrangement Regulatory Information Notice, Appendix L – Confidentiality Claims; Jemena Electricity Networks (Vic) Ltd, 2016-20 Electricity Distribution Price Review Regulatory Proposal, Attachment 1-1 – Claims for Confidentiality; ActewAGL Distribution gas access arrangement revision proposal June 2015, Confidentiality Claim.

standardised secondary capacity market"—in most cases on our pipelines, it may be possible for parties to trade secondary capacity using a standard contract without the need to standardise their primary contract.

We note that one suggestion in the Report is that industry standardisation could be voluntary, with shippers and pipeline owners able to negotiate away from a standard.[16] Jemena currently maintains an approach similar to this, with standard GTAs for both our pipelines published on our website. When commencing negotiations with a prospective buyer of capacity, the standard GTA is the default starting point, however shippers may seek to customize aspects of the agreement to better suit their own needs. Assuming that other pipeline operators may also currently adopt a similar approach (i.e. not create a new GTA from scratch for each sale of capacity), we consider that the publication of these standard GTAs on pipeline operators' websites may be a first step towards the development of standardised secondary contracts for the entire industry.

Regulated segmentation of pipelines

Jemena does not consider that the regulated segmentation of pipelines would be appropriate. This is likely to be a very costly and complex exercise, particularly given the relatively-simple characteristics of Australian point-to-point pipelines compared to the highly-meshed and significantly larger US pipeline network. On Jemena's pipelines, for example, the vast majority of gas is injected at or close to the beginning of the pipeline, and there are relatively-few major delivery points. The benefits that might be achieved by the segmentation of capacity rights may therefore be limited, particularly in cases where there is insufficient physical capacity to meet a party's desired change in delivery point.

The Report states that the US regime allows for some receipt and delivery point flexibility by requiring pipelines to permit shippers access to "secondary" points on an interruptible basis, in addition to their "primary" firm point. Jemena already essentially provides this flexibility to shippers through our standard GTAs, which allow shippers to request changes in points. We accommodate these requests unless there is insufficient physical pipeline (or delivery point[17]) capacity.

Although these changes are generally not requested or accommodated on a day-by-day basis (the specified delivery point is changed in the GTA), our engagement with stakeholders this year in relation to a CBUN capacity auction and the associated capacity zoning requirements (as explained in section 2.1.4) could assist us to develop a product providing this day-to-day point flexibility on an interruptible basis in the future.

2.2.4 FUTURE DIRECTIONS

Jemena agrees that it would not be appropriate to introduce a longer-term use it or lose it (**UIOLI**) mechanism at this time, given this would represent a significant change to the current arrangements. One significant issue that would have to be given careful consideration is that of security of supply. Gas retailers buy firm capacity rights to ensure they can meet the maximum demand of their retail customers, however if this maximum demand fails to materialise during a year the retailer may lose some of its rights under a UIOLI mechanism. If retailers were unable to access sufficient capacity to meet their customers' demand on a peak day, the security of supply to distribution networks could be compromised, which significant service delivery and cost implications for a distribution network operator.[18]

Any future consideration of whether a UIOLI mechanism is appropriate should be based on comprehensive analysis of the associated costs and benefits (including the demand for such arrangements). The potential

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16 Australian Energy Market Commission, East Coast Wholesale Gas Market and Pipeline Frameworks Review, Stage 2 Draft Report, December 2015, p. 67.

17 For example, until the recent commissioning of a second EGP delivery point into the Sydney STTM at Wilton, congestion was occurring at the existing Horsley Park delivery point.

18 For example, a supply shortfall event impacting the whole or a significant part of the Jemena Gas Network could result in customers being without gas for weeks due to the highly labour-intensive purge and re-light process that a distribution network would need to undertake to restore supply.

existence of "insufficient levels of trade"[19] in the future under the proposed recommendations cannot itself provide adequate assurance that a longer-term UIOLI mechanism would be in the long-term interests of consumers.

2.3 INFORMATION REGARDING PRIMARY CAPACITY TRANSACTIONS

Jemena does not support the Report's recommendation that the actual price of all primary capacity sales, including terms and conditions that might impact the price, be published. In light of the Report's proposals to significantly improve the availability of information about the secondary capacity market (particularly the prices of all secondary transactions), we consider that this (more current) information will have more relevance in informing perceptions around non-discriminatory pipeline access, and that the publication of primary capacity prices, particularly in the case of historic information, is not required.

In line with our non-discriminatory access policies,[20] all parties have equal opportunities to access capacity on our pipelines at our published reference tariff and on our standard published terms and conditions, subject to capacity being physically available.

The benefit to market participants of retrospective contract prices being published would be very limited, as historic information is likely to have very little bearing on the price, terms and conditions for new entrants today—for example:

- Jemena has current GTAs in place with lives of up to 25 years, and market and operational conditions have changed significantly since many of our largest agreements were signed
- the price paid for primary capacity can vary depending on the amount of capacity purchased. Larger tranches of capacity may be sold at a lower unit rate than smaller tranches, which reduces the risk of us of not fully-contracting the pipeline and being unable to recover the costs of our sunk investment
- on some pipelines, such as the QGP, which was formerly a covered pipeline, some GTAs contain legacy terms and conditions that were included by previous pipeline owners at a time when the pipeline had a regulator-approved access arrangement in place
- some GTAs have been used to underpin physical expansions in pipeline capacity, the marginal cost (reflected in the expansion shipper's tariffs) of which can, depending on the nature of the pipeline and the physical works carried out, be substantially different from the average cost of capacity on the pipeline. This is particularly the case where the construction of dedicated assets such as new connection points or laterals is required. These differences between marginal and average pipeline costs may be reflected as differences in prices between GTAs. Furthermore, in circumstances where a potential new entrant requires the expansion or extension of the pipeline, it needs to be recognised that the cost of future capital works is likely to be substantially different to those of past expansions[21], and that the ability to invest in additional compression on a pipeline is dependent on the prior commitments of other parties enabling investment in the existing pipeline assets.

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19 Australian Energy Market Commission, East Coast Wholesale Gas Market and Pipeline Frameworks Review, Stage 2 Draft Report, December 2015, p. 70.

20 EGP policy is available at http://jemena.com.au/getattachment/0dfaa659-3a44-4fd7-be9a-e6f88b8dede3/EGP-Non-Discriminatory-Access-Policy.aspx; QGP policy is available at http://jemena.com.au/getattachment/02802f56-38f7-4ad1-bf45-356076a5fc43/Queensland-Gas-Pipeline-Access-Policy.aspx.

21 As additional capacity is built into the pipeline, the marginal cost of adding further units of capacity to that pipeline generally increases, as the range of technically feasible expansion options narrows and the cost of more technically complex options is higher. There have also been significant real increases in key underlying input costs to capital works over the past two decades, such as construction labour.

- similarly, foundation GTAs (those used to underwrite the initial construction of a pipeline) are still in place on some pipelines. The prices and terms and conditions of GTAs that are negotiated as part of a greenfield pipeline development can be substantially different to those reflected in contracts for the sale or renewal of capacity on an existing pipeline, due to differences in the risk profiles faced by both parties in a greenfield development.

Additionally, any process to determine whether a GTA term has a material impact on the price agreed for capacity would be highly subjective. We also reiterate our concerns regarding shipper confidentiality if this information was to be published, as discussed in Box 2–1. We do not consider it likely that the public benefit of shippers being identified would outweigh the potential detriment to that party, and shippers have indicated to us that they remain concerned about such confidentiality issues. These confidentiality issues are likely to be amplified in the case of disclosure of historical GTAs.

We also do not consider that this information is required to "enable regulators (such as the Australian Competition and Consumer Commission (**ACCC**)) to assess the prevalence of monopoly power in the primary capacity market."[22] As the ACCC has demonstrated over the course of the East Coast Gas Inquiry, it is already able exercise extensive information gathering powers when undertaking an Inquiry under Part VIIA of the Competition and Consumer Act to allow it to consider such matters—for example, Jemena has produced over 1,486 documents to date in response to the ACCC's information requests during the East Coast Gas Inquiry. It is unclear how the publication of primary capacity price information would therefore assist the ACCC when it is able to access more detailed information[23] on an as-needed basis, and it is also unclear what other functions[24] the ACCC might exercise that require it to "assess the prevalence of monopoly power in the primary capacity market".[25]

[22] Australian Energy Market Commission, East Coast Wholesale Gas Market and Pipeline Frameworks Review, Stage 2 Draft Report, December 2015, p. 72.

[23] For example, in 2015 the ACCC required Jemena to provide all GTAs and all communications to the Board regarding GTA negotiations.

[24] Outside of those which already provide extensive information gathering powers, such a Part VIIA Inquiry.

[25] Noting that pipelines are subject to the threat of coverage under the Gas Access Regime.

3. INFORMATION PROVISION

Jemena welcomes the broad direction of moves to better-share the costs and administrative burdens that may be posed by information reporting obligations among a larger range of market participants, given that a wide range of market participants may use and benefit from this information.

We support the Commission's information provision recommendations in relation to:

- the publication of upstream information on the BB
- the creation of a section on the BB allowing pipelines to voluntarily publish primary service prices and pipeline expansion open seasons[26]
- the inclusion of planned asset expansions and retirements in medium-term capacity outlooks
- the requirement for pipelines to update short-term capacity outlooks during a gas day if affected by an unplanned outage
- changes and simplification of BB registration requirements to de-link from zones.

In relation to BB registration requirements, we consider that it would be appropriate to extend BB reporting obligations to facilities in the Northern Territory once Jemena's Northern Gas Pipeline is completed. The Northern Gas Pipeline will link the current eastern gas market with the Northern Territory's, providing participants in both markets with new demand, supply and transportation opportunities. An appropriate way of providing for the inclusion of Northern Territory facilities on the BB might be to include a specific connection trigger in the National Gas Rules.

The Report also suggests changes to simplify the BB registration requirements and strengthen the compliance framework by classifying the requirement to register a BB facility as a civil penalty provision. If penalties for non-registration are to be strengthened, then it is important that additional clarity around the registration provisions is provided, enabling market participants to better understand and comply with such obligations.

Jemena has some concerns regarding the following recommendations:

- pipelines being required to provide disaggregated receipt/delivery point information to the Australian Energy Market Operator (**AEMO**), who would aggregate the information using its own methodology to publish the next day and then publish disaggregated information several days later. Although we support AEMO using its own aggregation methodology to ensure BB information is presented in an up-to-date and useful way to market participants, we are concerned about the publication of disaggregated confidential user data on a lagged basis (refer to the discussion in Box 2–1)
- the potential exploration of the value of a trial of real-time information on the South West Queensland Pipeline or the Roma to Brisbane Pipeline. The provision of real-time pipeline information would involve high costs and yet would provide limited benefits, and therefore we do not support further work in this area.

Jemena has identified two areas of concern in relation to distribution networks, discussed in the sections below. These issues have the potential to increase the prices paid for gas by end users while providing little benefit to market participants. For customers of our gas distribution network in NSW, gas is largely a fuel of choice, and we therefore face a strong incentive to ensure that end gas prices are as efficient as possible.

[26] Noting that we already publish primary service prices on our own website.

3.1 LARGE USER AND LNG FACILITY REPORTING OBLIGATIONS

We support the Commission's recommendations concerning LNG export facility reporting obligations. It is appropriate to recognise that information reporting obligations can place a burden on market participants (particularly in the case of industrial facilities who are not active market participants) and the importance of these burdens being proportional to the benefit of information to the market. Given the significant size of the eastern market's LNG export facilities, their operations can have significant impacts on day-to-day operations and decision making throughout the eastern gas market. We therefore support the requirement for these facilities to be subject to more rigorous reporting obligations than other large users.

However, we are concerned about the potential for the reporting requirements for other large users, particularly those within distribution networks, as there is a risk that reporting obligations create a cost burden for customers that is not outweighed by the benefits derived from the information. A large user reporting threshold of greater than 10 TJ per day that included distribution-connected facilities would capture a very large number of sites—around 400 facilities on the Jemena Gas Network in NSW alone. The development and maintenance of systems required to allow daily usage reporting by such a large number of users is likely to come at significant cost. However, daily consumption data for individually-metered large users is already provided to AEMO by gas distributors on a disaggregated, day-after basis for metering settlement purposes in areas where retail competition is in place. It would be significantly less costly for the daily usage information which is already provided to AEMO to also be used for this purpose, therefore not requiring individual users to have their own systems in place for daily reporting.

Additionally, we are unsure what benefit market participants expect to derive from disaggregated usage data for distribution-connected facilities. We also cite the potential confidentiality issues discussed in Box 2–1. Given the likely large volume of data that the publication of disaggregated information would add to the BB and the potential for a corresponding detriment to BB usability, we suggest that a sensible starting point may be simply the reporting of aggregate consumption of large and small users. If there was shown to be a case in the future that more detailed information was required for participants' decision making, changes could be made to report distribution-connected large user data by facility type (similar to the categories used on the Western Australian Bulletin Board). This category of facility could be provided by the facility operator upon registration or annual reporting of their nameplate capacity.

Jemena will canvas views of some of our large gas distribution customers or customer representatives to ensure they are aware of these potential reporting obligations and ascertain whether they have any other concerns. We will keep the Commission informed of the outcomes of this through our regular engagement.

3.2 INCLUSION OF DISTRIBUTION-CONNECTED PRODUCTION AND STORAGE FACILITIES IN BB REPORTING FRAMEWORK

The Report questions what issues may need to be considered before extending any BB reporting obligations from distribution-connected production and storage facilities to also include parts of the distribution network that supply these facilities. As noted in the Report, the only instance in the eastern market of such facilities being connected to a distribution network is in NSW, with the Camden and Hexham facilities connected to the Wilton to Newcastle Trunk, part of Jemena's NSW gas distribution network.[27]

We do not consider there would be a net benefit in requiring the Wilton to Newcastle trunk pipeline to be subject to BB reporting obligations. As previously acknowledged, the reporting of information by facilities imposes a

[27] The access arrangement for the Wilton-Newcastle Trunk pipeline was consolidated with the access arrangements of three other covered pipelines owned by Jemena in NSW (now collectively the Jemena Gas Network) by the AER on 9 June 2009 – refer to http://www.aer.gov.au/system/files/AER%20Decision%20on%20Jemena%20Consolidation%20-%209%20June%202009.pdf. On 29 June 2009, the National Competition Council reclassified the Wilton-Newcastle Trunk pipeline as a distribution pipeline.

cost and administrative burden on the operator. In the case of the Wilton to Newcastle Trunk, these costs would flow through to higher gas prices for NSW gas distribution users.

There would also be complexities involved in this reporting, as the current BB reporting obligations for pipeline facilities may not be applicable (or useful) in the case of the Wilton to Newcastle Trunk. The Trunk was reclassified as a distribution pipeline ahead of the introduction of the Sydney STTM.[28] Since that time, it has not been operated commercially as a "point-to-point" pipeline—it does not have its own shippers, transportation agreements or delivery or receipt point nominations, and there is no calculation of imbalances at individual delivery or receipt points.

Furthermore, the potential usefulness of the information is unclear at best. The Report has not suggested which market participants may use this information and how it could influence their decision making. The capacity of the Hexham and Camden facilities to inject and withdraw gas from the network is more typically limited by the capacity of the physical connection rather than by characteristics of the network. A facility connection capacity constraint is information that would be reflected in the facility capacity figure that would be reported on the BB if these facilities were subject to the same reporting requirements as a transmission-connected storage or production facility. Additionally, upstream supply to the network is scheduled by the STTM as a "node" based on cheapest price—the market has no mechanism to schedule injections based on constraints within the network. As there are no commercial or market means available for this information to be applied, information about physical gas flows and capacities on the distribution network (within the STTM hub) should not be relevant to hub participants' decision making. This situation may be different if material constraints within the network emerged, but at this time Jemena is not aware of such material constraints existing in any markets. The Sydney STTM currently operates efficiently without this information and we do not consider that the benefits of this information being reported would outweigh the cost to consumers.

[28] The National Competition Council noted that "With the emergence of the STTM in particular, the Council considers the primary function of the Northern Trunk [the Wilton to Newcastle trunk] and Southern Trunk pipelines is to reticulate gas within the geographic area served by that market and should therefore be classified as distribution pipelines" – National Competition Council, Jemena Pipeline Reclassification, Final Decision and Statement of Reasons, 29 June 2009, p. 10.

4. WHOLESALE MARKETS

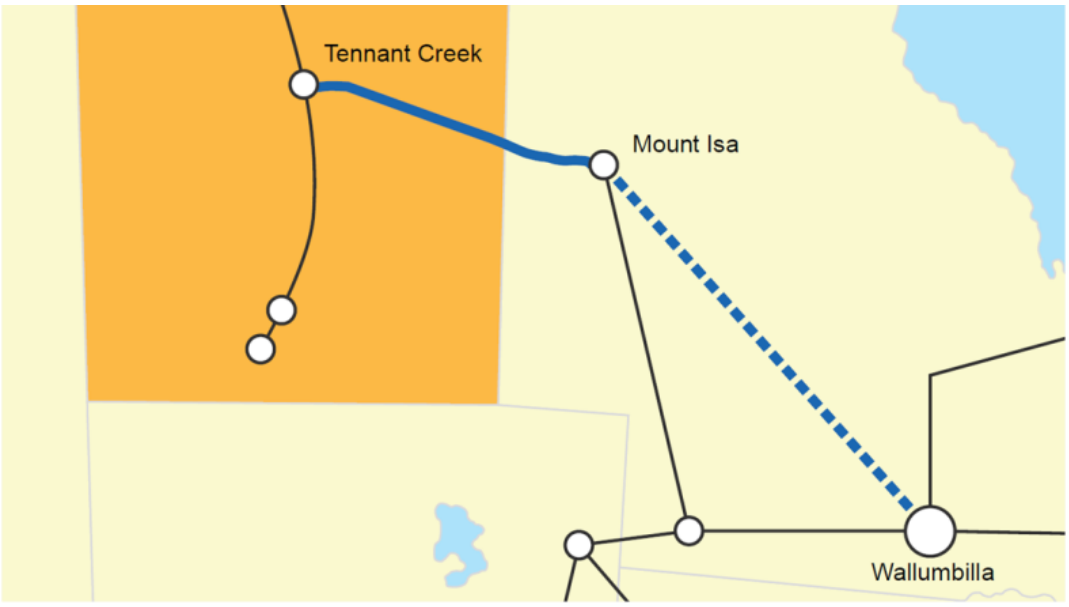
Northern physical hub

Jemena is broadly supportive of the Commission's proposed approach to the continued development of Wallumbilla, which is still in relatively early stages of its development. It is appropriate to continue building on these arrangements to ensure that reforms are proportional to the issues at hand and clearly promote the National Gas Objective.

In particular, the continuation of optional exchange-based gas trading is a positive measure—this model delivers appropriate levels of transparency while minimising costs and complexity for participants, which can encourage new participants over time. There may also be merit in exploring the harmonisation of market characteristics such as times and prudential and registration requirements and back-end systems between the northern and southern hubs, provided that this harmonisation doesn't unnecessarily override present arrangements and create additional costs for participants who rely on the current arrangements at Wallumbilla. We also support the further exploration of the Report's Chapter 4 recommendations being applied to the provision of compression and redirection services at the Wallumbilla hub if there is a clear net benefit to trading activity at the hub.

Jemena has a long-term vision to further the development of Australia's northern gas market, the first part of which involves the development of the Northern Gas Pipeline to link the Northern Territory and Queensland. We are committed to pursuing future growth opportunities, with the aim of providing a direct pipeline connection from the Northern Territory to Wallumbilla. As well as facilitating the continued development of the Northern Territory's gas resources, this pipeline link would provide make a strong contribution to the development of the northern trading hub, improving liquidity, supply diversity and competition between transportation routes.

Figure 4–1: A link between the Northern Territory and Wallumbilla could further drive development of the northern hub



Southern virtual hub

Jemena's involvement in the current Victorian Declared Wholesale Gas Market is limited, with our VicHub facility providing a gateway between the market and the EGP. We are currently uncertain as to how the proposal for the southern virtual hub might interface with VicHub. However, implementing a virtual hub with

entry and exit capacity arrangements in Victoria could involve significant costs and complexities. Further work should be undertaken to ascertain whether the benefits arising from changes to current arrangements would outweigh these costs.

Future directions

Given the unique characteristics of the eastern Australian gas market (relatively small domestic demand, long distances between supply and demand centres), efficient investment in pipeline infrastructure is critical. Efficient investment outcomes have been realised under contract carriage arrangements (and the general absence of price regulation), but have not been realised to the same extent in Victoria where regulation is necessary to facilitate investment. The implementation of future virtual hubs across large areas that require price regulation to be imposed on pipelines could carry significant costs, including negative implications for investment, service innovation and competition between carriers.

We agree that access to transportation services is important for the efficient development of physical hubs over time. However, in the context of the two-phase roadmap of market reform outlined in the Report (i.e. consideration of a virtual northern hub in the future if physical hub arrangements prove ineffective at building liquidity), it will be important to fully examine the performance of the arrangements before further changes are considered.

Over the longer term, Jemena is supportive of work to explore the simplification of the STTMs. This could help reduce costs faced by pipelines and distribution networks, which, particularly in NSW, would allow us to further improve the competitive position of gas as an energy source.

Regarding the Report's suggested measures for the monitoring of growth and market liquidity, we consider that some of the proposed measures require further detail. We are unclear how "physical players on the east coast" would be defined for the purposes of the proposed measure of participation in exchanges including participation of financial market participants.[29] We do consider, however, that it may not be reasonable to expect that all transmission-connected industrial facilities would be interested in participating in trading markets, given this is beyond their core business and many have a preference to rely on contracts for their supply arrangements. It may therefore be possible to achieve workably liquid trading markets without meeting the Report's proposed target for this measure of above 100 per cent.

[29] Australian Energy Market Commission, East Coast Wholesale Gas Market and Pipeline Frameworks Review, Stage 2 Draft Report, December 2015, pp. 97-98.