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Dear Commissioners

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AEMC 2015, East Coast Wholesale Gas Market and Pipeline Frameworks Review, Pipeline Regulation and Capacity Trading Discussion Paper, 18 September 2015

We are one of Australia's largest energy companies with over 2.5 million electricity and gas accounts in NSW, Victoria, Queensland, South Australia, and the Australian Capital Territory. We also own and operate a multi-billion dollar portfolio of energy generation and storage facilities across Australia, including coal, gas, and wind assets with control of over 4,500MW of generation in the National Electricity Market

The paper considers mechanisms to support access and trading of pipeline capacity due to limitations of the current market. The three issues identified which could potentially limit access to capacity and efficient operation of the market are

1. high search and transaction costs in the market for transmission capacity, particularly for shorter-term trades;
2. the lack of incentives to provide access by shippers that hold capacity; and
3. the lack of incentives to facilitate access by pipeline owners

There are elements of each present in the current market but we see the issue of high search and transaction costs as the most significant. We believe the most appropriate path is to progress reform which addresses trade facilitation in the first instance. A solution will not significantly impose on existing ownership structures or contracts. Incentives on holders of capacity will be much more difficult to get right and should be delayed until facilitation of trade is deemed to have failed.

We strongly support a capacity trading mechanism to increase utilisation of pipeline. The current arrangements ensure cost recovery and allocate risk appropriately. This supports new investment but may not facilitate the movement of gas to its highest value use. Principles and requirements of the pipeline regulatory framework are

- Short-term access and utilisation
- Transparent prices

- Equity between shippers
- Open to new entrants

Capacity trading

We strongly support a mechanism to trade capacity. Pipelines are often under-utilised due to high search and transaction costs to make capacity available to other participants. We suggest two methods of facilitating short-term access to capacity are investigated and tested against COAG Energy Council's Gas Market Vision. These options demonstrate that it is possible to deliver effective access to capacity without significant adjustment to underlying pipeline contracts or operation.

Gas Supply Hub spread products provide a mechanism to increase utilisation of pipelines and allow short-term access. It is non-intrusive and also allows for monthly firm capacity trades. This will however require Gas Supply Hubs at all nodes between which pipeline access is to be facilitated and may require some level of liquidity to develop in those markets. This will not facilitate access to laterals and delivery points outside of major demand/supply zones.

A matching service where holders of capacity could set a price at which they are willing to release unused capacity for the pipeline operator to make it available on a firm day-ahead basis. Bids and offers could be matched similarly to the current facilitated markets. Integrating the timing and scheduling of capacity trading with the facilitated markets will ensure gas flows to its highest value use.

Capacity hoarding

We caution against use-it-or-lose-it provisions. Shippers will contract to meet the forecast demands of customers on a peak day which may occur only on a very cold winter. The pipeline may therefore look underutilised but the spare capacity is very much needed by the shippers.

We do not consider that capacity hoarding is an issue however we do not service gas customers in Brisbane and cannot comment on participants' experiences on the Roma to Brisbane Pipeline. We do not see evidence of capacity hoarding in the markets in which we operate on the East Coast and believe that the perceived issues can be addressed by simple improvements to facilitate a secondary market for capacity trading. In our view, the best approach is to first target the pricing structures, incentives, and transaction costs and only when the issue has been identified as continuing should more interventionist methods be used.

Contractual provisions

We support a move towards standardisation of some terms and conditions in Gas Transport Agreements. This has the potential to reduce transaction costs and streamline negotiations.

Some fees and charges in contracts exist which are not based on the cost to provide the service. The Moomba to Sydney Pipeline has recently improved their renominations charges. This should be the industry standard for both pipelines and producers. Other potentially unjustified fees include backhaul charges where there is a cost saving to the pipeline due to reduced throughput, and excessive fixed charges in as available contracts.

More flexibility and alignment of nomination cut-off times and reduced charges is essential for short-term trading. Currently Market Scheduling times and Commodity Scheduling times do not match. Hence shippers are forced to put a Commodity Schedule to the Producer before

Market Schedule is known. This mismatch causes pipelines to be under or over supplied, and requires additional park/loan products. The AEMC should ensure pipeline schedules continue to support an integrated market.

Pipeline Coverage

The coverage test for pipelines should be expanded beyond the idea of downstream competition to market power on pipeline routes. There is the potential for over charging on certain routes where monopoly characteristics exist. This will not be captured by the current coverage test. Currently it is difficult to determine what prices are reasonable to pay for transport in the absence of regulation, light regulation, or some other type of transparency on pricing decisions. Shippers may have a level playing field in terms of price and conditions, but cannot always be sure that the price they pay is efficient. This can clearly have implications for the costs passed to end consumers. We encourage the Commission to consider this issue further.

Conclusion

Facilitating trade of capacity is integral to delivering the COAG Energy Council's Gas Market Vision. A mechanism which does not intrude too far into current arrangements will deliver the most benefits to the market due to the ease of implementation. A roadmap which allows for a next step after facilitation has failed to deliver benefits should be proposed.

Our experience in the markets in which we operate is that shippers mostly have equal access to pipeline capacity and that purchase of capacity beyond what is needed with the purpose of gaining an advantage in a downstream market is expensive not a significant issue.

The pipeline coverage criteria does leave open the possibility that pipeline charges are inefficient irrespective of the current environment.

If you any have further questions please contact me on (03) 8628 4518 or at Ben.Hayward@EnergyAustralia.com.au.

Regards

Ben Hayward

Industry Regulations