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Via online submission

26 March 2015

Dear Chantelle

East Coast Wholesale Gas Market and Pipeline Frameworks Review

Jemena welcomes the opportunity to participate in the Australian Energy Market Commission's (**AEMC**) review of east coast wholesale gas markets and pipeline frameworks (**the Review**).

Jemena owns and operates a diverse portfolio of energy and water transportation assets across the east coast of Australia. With more than $8.5 billion worth of major utility infrastructure, we supply millions of households and businesses with these essential services every day. Our assets include the Eastern Gas Pipeline (**EGP**), which delivers gas from Victoria's Gippsland Basin to Sydney, the ACT and regional New South Wales, and the Queensland Gas Pipeline (**QGP**), which delivers gas from the Surat/Cooper Basin to the Gladstone and Rockhampton markets. We also own the principal gas distribution network in New South Wales—delivering gas to more than 1.2 million customers—and part of the ActewAGL distribution partnership, managing the delivery of gas to customers in the ACT.

Accordingly, we have a keen interest in the Commission's Review and its implications for users of natural gas across east Australia.

Key points

- The east Australian gas market is undergoing significant changes
- We believe the current market and regulatory arrangements are well-placed to manage these changes
- As a private owner of gas transportation assets (including gas distribution assets in NSW), we have a strong incentive to ensure gas is available to the growing number of gas users in NSW
- We recognise the importance of efficient pipeline transportation services for the development of the east Australian market. We believe that our market currently provides incentives for participants to make efficient decisions

about their use of and investment in pipeline services. Additionally, measures developed through extensive consultation with market participants to encourage more efficient usage decisions around secondary pipeline capacity are currently being implemented

- We support the consideration of further measures to ensure our market arrangements encourage the efficient utilisation of and investment in pipeline infrastructure. However, any policy or regulatory response must promote the National Gas Objective (**NGO**) by being:
  - proportionate, recognising that transmission pipelines account for around five per cent of a typical residential customer's gas bill in NSW[1]
  - developed with a clear understanding of the problem with current arrangements, as well as the costs and benefits of any proposed response
  - guided by the long-term interests of customers, including consideration of the potential impact the efficiency of pipeline utilisation and investment and the allocation of risk
- Gas supply remains the most important issue facing east Australia's gas market.

This submission addresses the above points, and we would welcome the AEMC's continued engagement with stakeholders to ensure the policy and regulatory and settings continue to promote the long-term interests of our customers.

We have also contributed to and support the Australian Pipelines and Gas Association's (**APGA**) submission to the Review.

Our gas market is changing

East Australia's gas market is currently undergoing significant changes. With the development of liquefied natural gas export facilities in Queensland, the east Australian market is increasingly becoming part of the global gas market, putting upward pressure on wholesale prices. At the same time, end customers of gas are increasingly able to exercise choice around how they source energy, with the price of alternative energy sources for smaller customers—particularly electricity—expected to fall in coming years.

We are firmly committed to maintaining the competitiveness of gas as a fuel of choice for customers in NSW, and recognise the importance of ensuring the efficiency of our market in achieving this.

However, as a number of stakeholders have noted, it is disappointing that the terms of reference for the Review focus on matters which are ancillary in nature compared to that of gas supply in the east Australian market.

[1] Jemena Gas Networks (NSW) Ltd, Fact sheet: Our proposed network prices and charges for Residential and Commercial customers, 27 February 2015, www.jemena.com.au

Responding to our changing gas market

Our private ownership alongside our customers' expectations provide us with strong incentives to invest in and operate our assets efficiently and respond to changing market conditions.

The gas transmission assets owned by Jemena operate under a contract carriage model, underpinned by long-term bilateral contracts for firm capacity between us and shippers. This framework has provided strong signals for efficient investment, allowing us to invest over $450 million in new capacity since 2007 to meet shippers' needs.

By fostering competition between pipelines, the contract carriage model has also facilitated us developing innovative services to respond to shippers' requirements, furthering the long-term interests of gas users. These developments include allowing shippers to change their delivery and receipt points, and storage products allowing intra-day nominations, enabling customers to better manage their gas portfolios.

As the paper notes, 'there is now much greater interconnection across the east coast than in the 1990s,'[2]—pipeline owners have invested to respond to shippers' requirements, in turn facilitating the development of the market. We also continue to facilitate market development by offering new services for customers, including measures to streamline the trade of secondary capacity.

We believe the objectives outlined in the Gas Code are compatible with the Council of Australian Governments (**COAG**) Energy Council's gas market vision for Australia's future gas market, and we support the Council's vision. However the realisation of the Council's vision and the development of a liquid wholesale gas market will be best achieved by encouraging more supply, rather than being driven by changes to facilitated markets or transmission pipelines (the costs of which represent a relatively small proportion of the end prices paid by gas customers).

Ensuring our market continues to encourage efficient investment and usage decisions

The COAG Energy Council has identified that enhancing transparency and price discovery is a key area of work to further the development of a liquid wholesale gas market. We recognise the importance of the east Australian gas market providing efficient pipeline transportation services, and the prices of these services—including secondary capacity—being appropriately transparent (having regard to the points below) to encourage the efficient utilisation of our services.

Jemena is willing to work with the market to achieve an appropriate level of transparency which provides the best incentives for participants to make efficient decisions about their use of pipeline infrastructure. Although some stakeholders have voiced concerns about transparency around capacity trading under the contract carriage framework, a clear understanding of any potential market failure must first be developed before any policy intervention is considered. In the absence of a clearly defined market failure in relation to transparency in the transmission pipeline sector,

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[2] Australian Energy Market Commission, East Coast Wholesale Gas Market and Pipeline Frameworks Review: Public Forum Paper, February 2015, p.9

we believe the current level of transparency is appropriate, noting the measures recently implemented[3] and currently under development[4] to provide more information on the National Gas Bulletin Board (**NGBB**).

We believe that determining the appropriate level of transparency must involve consideration of current market, regulatory and contractual arrangements—including the contract carriage model which has facilitated highly efficient investment throughout the majority of the east Australian market. The costs and benefits of any proposed options to address a clearly defined market failure must also be considered, as should how those costs and benefits are likely to accrue to different market participants.

Efficient investment in pipelines

The gas market vision also outlines how responses to market signals should be facilitated by a supportive investment and regulatory environment. As a pipeline owner in a competitive energy market, it is firmly in our commercial interest to accommodate as much demand from as many shippers as possible. This encourages efficient investment in gas pipeline infrastructure, in that capacity is provided for those customers who are willing to pay for it, and the costs of providing this capacity are borne by the holders of firm long-term rights to use it.

We have made timely investments under the contract carriage model to the meet the market's requirements. In contrast, a number of stakeholders have noted issues around the investment signals provided by the Declared Wholesale Gas Market under the market carriage framework. This has resulted in inefficient delays to investments in new capacity, as shippers are unwilling to underwrite an investment where they cannot guarantee access to the capacity, therefore forcing the reliance on the five-year regulatory determination cycle to deliver investment.

Jemena maintains non-discriminatory access policies for both the EGP[5] and QGP[6]. These policies provide that where sufficient capacity is available, prospective shippers have equal opportunity to access that capacity at the applicable price as published on our website. In the event that sufficient capacity is not available to meet demand from all prospective shippers, we may allocate capacity using a competitive tender process. We also continuously evaluate options for capacity expansions where economic, including aggregating potential additional demand prior to an expansion occurring.

Efficient use of pipelines

Concerns around potential impediments to accessing short-term pipeline capacity have been raised by some stakeholders in recent years. However, we do not agree with the public forum paper's contention that capacity trade is not occurring[7]. Shippers

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[3] Including industry-led responses such as Jemena's capacity trading service for the QGP, as well as the changes to the National Gas Rules to increase the level of short- and medium-term capacity outlook information available on the NGBB, which took effect on 8 January 2015

[4] Such as the COAG Energy Council's gas transmission pipeline capacity trading work stream

[5] http://jemena.com.au/documents/pipeline/egp-non-discriminatory-access-policy

[6] http://jemena.com.au/documents/pipeline/queensland-gas-pipeline-access-policy

[7] Australian Energy Market Commission, East Coast Wholesale Gas Market and Pipeline Frameworks Review: Public Forum Paper, February 2015, p.9

with firm positions on our pipelines are able to—and do—trade capacity with third parties through bare transfer agreements and utilising flexible delivery points.

Jemena has already taken steps to improve transparency around the price and availability of secondary pipeline capacity. In 2014 we also introduced a web-based voluntary capacity trading platform for the QGP which allows parties to confidentially advertise capacity sought or available for sale, with the trading process administered by Jemena. We plan to introduce a similar service for the EGP later this year. These services complement the flexibility we provide shippers to change their receipt and delivery points.

At this stage, none of our shippers (or third parties) have utilised the QGP capacity trading service to either list capacity for sale or express an interest in purchasing secondary capacity. Additionally, our ongoing engagement with both QGP and EGP customers (and prospective customers) continues to indicate a low level of interest in measures to further assist the trade of secondary capacity.

As noted in the AEMC's public forum paper, the COAG Energy Council is currently considering the issue of secondary capacity trading. The Council's work on this issue has included the assessment of the costs and benefits of a range of potential measures to facilitate capacity trading. However, a key part of the measures recommended as a result of this work has yet to be implemented, and indeed is not expected to be fully implemented until March 2016[8].

The public forum paper questions whether improvements could be made to the information provided by the NGBB to facilitate capacity trading. Through APGA, the operators of pipelines throughout east Australia proposed in July 2014 to provide a suite of information to the Australian Energy Market Operator for publication on the NGBB to assist the trade of secondary capacity and the efficient utilisation of pipeline infrastructure. Importantly, this information would be able to be provided at a low cost (helping ensure that transaction costs for market participants are efficient) and would not compromise shippers' confidential information. We look forward to being involved in the rule change process following the COAG Energy Council Officials' request, and we do not believe it is appropriate to consider further regulatory interventions in relation to this issue until after the effectiveness of the process currently underway has been properly assessed.

[8] See http://www.scer.gov.au/workstreams/energy-market-reform/gas-market-development/gtpct/, accessed 18 March 2015

Parties can use as-available services to access unused capacity on our pipelines

When a pipeline is subject to contractual congestion but there is some spare physical capacity (due to shippers not using all of their firm capacity rights—or not selling those rights to other parties), we have a strong incentive to offer this capacity for sale to third parties on an as-available basis. We offer competitively-priced as-available services on the EGP which, given the historical daily flow patterns, have allowed buyers to access capacity on a significant number of days each year.

Times when as-available services are unable to be scheduled are likely to be peak winter days (where shippers are fully utilising their firm capacity rights) and potentially also days when significant maintenance activities (on the pipeline and/or producers' facilities) or other operational issues restrict the physical amount of gas able to be transported. We also offer as-available services on the QGP, however due to a low amount of variability in pipeline flows resulting in very high physical utilisation of the pipeline, the opportunities for as-available services to be scheduled are limited.

The prices of our as-available and firm services are also relatively comparable. Our as-available services are charged on a delivered basis while our firm services are generally charged on a take-or-pay basis. This means that although the dollar per gigajoule price of as-available services is higher than that of firm services, shippers can use as-available services to more closely match variable capacity requirements. Parties with non-constant capacity requirements that utilise as-available services on the EGP may therefore face lower overall transmission costs relative to purchasing secondary firm capacity from another party, as the shipper only needs to the purchase the capacity they actually use on any single day.

We do not believe that a lack of harmonisation in regulatory arrangements across east Australia (for example, the use of a contract carriage framework across the whole market with the exception of Victoria) represents a material issue warranting a significant overhaul of arrangements such as pipeline frameworks. Any assessment of the extent to which this issue exists would need to consider the arrangements currently in place, including the contracts and existing property rights of market participants, as well as the costs, risks and benefits to all market participants, and most importantly the impacts to end customers, of any alternative arrangements.

However, we do believe that there may be some scope for harmonisation between facilitated markets, such as the alignment of parameters such as market price caps and gas day timings between short term trading markets, as discussed further in APGA's submission.

Ensuring policy responses are appropriate

We believe the AEMC's Review should ultimately be guided by the NGO and the long-term interests of customers. In the context of furthering the Council's gas market vision, the primary focus of the Review must be on developing a clear understanding of any problems which may need addressing, consistent with COAG's principles of best practice regulation[9]. The effectiveness of current arrangements must first be assessed, including whether any market failures which may warrant a policy intervention exist and what their causes are.

If a clearly defined problem is identified, then a range of policy options to address it must be considered, including the likely costs and benefits of each response[10]. Costs and benefits need to be assessed against the long-term interests of gas users. This includes giving consideration to the impact of any proposed intervention on incentives for efficient investment in and utilisation of gas pipelines, as well as the allocation of risk between pipeliners, shippers and end customers. Furthermore, the distribution of costs and benefits must also be considered—one group of market participants should not bear the costs of measures which only benefit a small number of other parties.

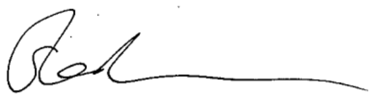
Finally, policy responses (and focus) must be proportionate[11] to the extent of any problem, and mindful of the contribution to end-user gas prices of each component of the supply chain. Gas transmission pipelines make up less than five per cent of a typical household's retail gas bill in NSW. For industrial and commercial users, the proportion of costs attributable to transmission will vary from customer to customer, however they comprise a significantly lower proportion of a total bill than the cost of gas itself.

Conclusion

Jemena looks forward to engaging further with the AEMC through the next stage of the Review to ensure our market continues to deliver efficient investment and usage in the long-term interests of gas customers. We also look forward to working with a range of stakeholders, including the COAG Energy Council, on measures to further the Council's gas market vision more broadly, including addressing the issue of gas supply.

If you would like to discuss any aspect of this submission further, please contact Benjy Lee, Manager Energy Policy, on (03) 8544 9369 or by email, benjy.lee@jemena.com.au.

Yours sincerely



Shaun Reardon
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[9] Council of Australian Governments, Best practice regulation: Guide for Ministerial Councils and National Standard Setting Bodies, 2007

[10] Consistent with Principle 2 of COAG's Best Practice Regulation guide

[11] Consistent with Principle 8 of COAG's Best Practice Regulation guide