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Via online submission

29 March 2016

Dear Tom

GPR0003: East Coast Wholesale Gas Market and Pipeline Frameworks Review – Pipeline Access Discussion Paper

Jemena welcomes the opportunity to comment on the Australian Energy Market Commission's (**AEMC**) Pipeline Access Discussion Paper (**the Paper**). Jemena has contributed to and supports the Australian Pipelines and Gas Association's submission on the Paper.

We have summarised our views on the six areas covered by the Paper below. However, we note that the Australian Competition and Consumer Commission (**ACCC**) will soon complete its East Coast Gas Inquiry, with this work potentially examining a number of areas that have also been covered by the AEMC in the East Coast Wholesale Gas Market and Pipeline Frameworks Review. Given the need for the findings and recommendations of both the AEMC's Review and the ACCC's Inquiry to be considered in totality, Jemena may need to reconsider its views in relation to the Paper as a result of the outcomes of the ACCC's Inquiry.

Implementation approach

As set out in our previous submission,[1] Jemena has a strong interest in proactively implementing key initiatives proposed by the AEMC in its Draft Stage 2 Report, including a day-ahead auction for contracted but un-nominated capacity and a secondary capacity trade brokerage service. Jemena proposed this industry-led implementation approach (in contrast to a regulatory-led approach), to be backed by consultation with market participants, given the significant benefits of this approach—allowing the implementation of fit-for-purpose initiatives in a more timely and cost-efficient manner.

[1] Jemena Limited, East Coast Wholesale Gas Market and Pipeline Frameworks Review, Submission on Stage 2 Draft Report, 12 February 2016.

However, we recognise the views of some market participants on the need for visibility, coordination and leadership of industry-led reform. We are therefore supportive in-principle of an Industry Council guiding, coordinating and leading consultation on the implementation of the AEMC's key recommendations by pipeline operators—the harmonisation of products to assist secondary trade, the refinement of capacity trading platforms and the introduction of auctions for contracted but un-nominated capacity.

Product standardisation

We consider that the standardisation of operational gas transportation agreements used in secondary capacity trades will make the most useful contribution to reducing potential barriers to capacity trading. To this end, it would be appropriate for the Industry Council to lead a process of harmonisation of gas transportation agreements across pipelines to assist capacity trading, starting with the publication of each pipeline's standard contract and development of a common structure for these contracts. However, it will be necessary for some differences in contracts between pipelines to continue to exist due to differing physical and operational characteristics and varying risk appetites of different parties. Harmonised operational gas transportation agreements could also be used for capacity purchased through the auctions for contracted but un-nominated capacity.

Capacity trading platforms and information requirements

Consistent with our previous submission, Jemena considers that the extension of individual pipeline owners' existing capacity trading web platforms is likely to be the most cost-effective approach to implementing this initiative. The proposed changes should therefore be implemented by each pipeline owner, noting that some platforms (including Jemena's) cover multiple pipelines.

This approach would allow for a staged implementation and the efficient deferral of expenditure until necessary—low-cost measures could be implemented early on, and additional functionality could be built in at a later stage if a need is demonstrated. For example, we do not agree that automated electronic exchange-based trading is necessary in the early stages of this initiative's implementation. The proposed functionality of the platforms (the ability for parties to submit bids and offers for secondary capacity and for the platform operator to match these and execute the trade while protecting parties' anonymity) can be achieved with a manual back-end process at first. This would avoid the need for potentially-significant investments in automated systems up-front where there is little certainty that market participants will trade sufficient volumes through the system that would justify such expenditure. If significant demand materialises after the initial system has been implemented, then we as the platform operator would decide whether it is more efficient for us to make additional investments in automated systems.

With regards to the information about secondary trades to be published through these platforms, we re-emphasise that some of Jemena's shippers have raised concerns with us about the publication of confidential information and attribution of this information to individual parties (whether directly or through inference). Market participants must therefore be actively involved in consideration of issues such as how anonymity can be protected, when information should be published, and whether there are any unintended consequences of publishing confidential information that adversely impact parties' operations in other (non-gas) markets. Consultation on these issues could be led by the Industry Council.

Auction for contracted but un-nominated capacity

In implementing initiatives such as an auction for contracted but un-nominated capacity, there will necessarily be trade-offs between factors such as cost, speed of implementation and service sophistication and complexity. As set out in our previous submission, Jemena considers that an auction for contracted but un-nominated capacity may best be in customers' long-term interests if implemented in a way which is cost-efficient, scalable and meets the market's needs. Allowing a less complex service to be developed initially, with scope for additional development if demand materialises in the future, is important given uncertainties which currently exist about the level of interest parties have in participating in the auction. This would involve auction systems being developed by each pipeline owner, and auctions being run for pipelines individually.

Further consideration of the auction's design elements—such as determining price paid by winning bidder or the number of rounds in the auction—could be undertaken and consulted on in greater detail by the Industry Council in the future, using the Paper and stakeholders' submissions to inform these processes.

Implementing the auction

Jemena agrees with Paper's view on the inappropriateness of auctions for contracted but un-nominated capacity on pipelines that aren't fully contracted. It is strongly in customers' long-term interests to preserve the incentives that have facilitated efficient investment in pipeline infrastructure throughout the eastern gas market to date. The auction of contracted but un-nominated capacity on pipelines that have spare firm capacity risks undermining the incentive for shippers to enter into the long-term agreements necessary to continue to facilitate this investment. Furthermore, as identified in the Paper, the reasons outlined by the AEMC in recommending the auction—to address contractual congestion and to undermine potential market power of pipeline owners in the market for day-ahead capacity—are not applicable to pipelines that are not fully-contracted, as a pipeline owner faces a strong incentive to minimise the risk its asset becomes stranded.

It is important that the interaction between auctions and existing renomination rights is managed appropriately. Further consideration should be given to this issue, however an approach that requires assumptions to be made about the probability of a renomination occurring could be very difficult and controversial in practice.
We also believe it important that some form of contribution is provided by users of the auction systems to at least assist in the recovery of costs by platform operators.

In line with our previous submission, we also agree that capacity bought through the auction should be first in the service curtailment order. However, we do not agree with suggestions that as-available rights or services should be phased out. It is unclear why this would be necessary, as the existence of these services would not detract from the auction's ability to allocate contracted but un-nominated capacity on a day-ahead basis and prevent potential discrimination in between shippers—if an as-available service is not used on a particular day, this unused capacity would go to the auction. Although a shipper may be able to have priority rights to some capacity which may otherwise go to the auction, they would only have this by virtue of their willingness to pay a fixed amount ahead of time for this right, thereby forgoing the potential upside that the auction clearing price was lower than the as-available price. Furthermore, all parties have equal opportunity to purchase as-available rights, and a pipeline operator has no incentive to discriminate between different buyers of this capacity.

Information on primary capacity trades

Consistent with our previous submission, we do not consider that the disclosure of information about primary capacity sales is likely to be useful to market participants. We also reiterate our concerns about the potential confidentiality issues the publication of this information could raise, even if the published information does not name the buyer of capacity.

Jemena thanks the AEMC for providing a range of opportunities for engagement throughout the East Coast Wholesale Gas Market and Pipeline Frameworks Review, and we look forward to the final report. 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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