

Our Ref: 57088-D15/34624
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30 March 2015

John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
Sydney NSW 1235

Dear Mr Pierce 

Re: AER submission to ECWGM and Pipeline Frameworks Review

We appreciate the opportunity to participate in the AEMC's East Coast Wholesale Gas Market and Pipeline Framework Review. We are responding to issues raised at the February AEMC Public forum and at our further meeting with AEMC staff in March. This submission centres on work the AER has done or is currently undertaking to improve the efficiency of the current market arrangements. Our response follows the structure of the public forum discussion paper.

Short Term Trading Market (STTM)

The AEMC's discussion paper asks whether the STTM hubs have delivered value to market participants and whether the design features could be improved to reduce costs and improve efficiency.

We highlight that the STTMs are relatively new markets with the Sydney and Adelaide hubs commencing in September 2010, and Brisbane being added as a hub in December 2011. The AER has initiated a number of projects to improve the accuracy and timeliness of STTM data resulting in a lower cost, more efficient market.

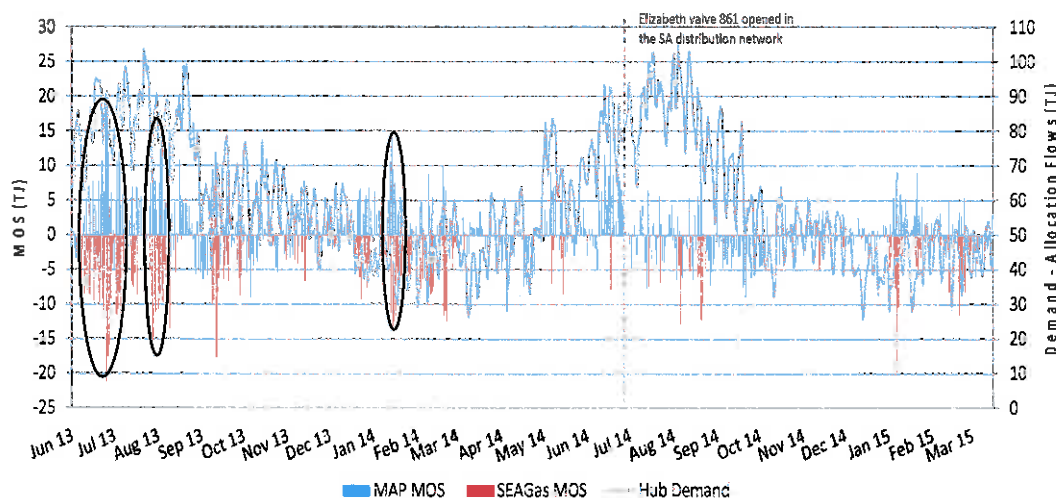
At the commencement of the STTM, pipeline capacity and allocation data errors regularly led to ad-hoc outcomes and inefficient prices. Following a compliance project to improve the

quality of this data, the AER recently reported in its December 2014 Quarterly Compliance Report that errors were near zero across last year.¹

Inaccurate and/or biased demand forecasts have also tended to increase costs and payments in the STTM. Forecast bias and the size of daily forecast errors may be inconsistent with the Best Estimate requirements of the rules and Good Gas industry practice. The AER recently reported a significant improvement in the demand forecasting of participants following our efforts to improve accuracy.²

The AER has also investigated physical network issues within the Adelaide STTM which were leading to large MOS (balancing gas) requirements. On some days, even when demand was forecast accurately, we found that counteracting MOS (CMOS) was occurring.³ We attributed this outcome in part to the isolation of part of the Adelaide distribution network – the Elizabeth zone. This isolation was removed in July 2014 at a relatively low cost. Following this, counteracting MOS decreased from the levels seen in winter 2013 and early 2014 (circled). This is shown in the figure below:

Figure: Instances of Counteracting MOS in Adelaide



Since the valve opened there has been some further, less frequent CMOS. We are of the view this is likely in part to be attributable to gas being delivered late in the day to Adelaide because of hourly gas usage restrictions and shippers diverting gas to generators outside the hub. This issue may raise design issues justifying further consideration.

The AER considers its ongoing monitoring work is lowering costs in the gas markets. Noting that a number of new participants have recently joined the Sydney hub, this hopefully contributes to greater participation in the STTM compared to STTM commencement.

A further comment specific to the Adelaide STTM hub is that day to day gas usage by generators around the Adelaide STTM hub may typically be two to three times the

¹ <http://www.aer.gov.au/node/30758>

² Ibid

³ One pipeline being backed off and the other pipeline increasing gas flows even when demand is forecast well

consumption of gas by users in the hub as currently defined. Clearly, actions of those NEM generators impacts on outcomes in the Adelaide hub, and as noted above possibly lead to additional CMOS requirements. The AER considers it is worth exploring whether the current geographical limitations of the Adelaide STTM hub are appropriate, including whether gas fired generation near Adelaide should continue to be excluded from the hub.

Gas Supply Hub (GSH) and Bulletin Board

The AEMC's discussion paper also asks what additional information could be provided to improve the accuracy and transparency of the GSH, and also raises the usefulness of the information provided on the Bulletin Board

The AER has endeavoured to improve information transparency in consultation with industry and other stakeholders by producing reports on the number of different buyers and sellers on a month by month basis at the GSH.⁴ As the market matures we would propose reporting more measures around the liquidity of the market on both the buyer and seller side.

The AER also notes that information capturing LNG export train production activity on the east coast of Australia is necessary in order for the Bulletin Board information to be useful to market participants. We engaged with CSG producers over 2014/15 to ensure gas production data is reported in accordance with the Gas Rules as new production comes on line. We consider this information is being used by participants to understand domestic gas conditions (supply and demand) and note that it is now being widely reported in other industry publications such as the ARGUS LNG daily.

Victorian Gas Market and Declared Transmission System (DTS)

The AEMC's discussion paper, along with the APA group at the public forum, raised the issue of whether investment in the Victorian DTS was occurring in a timely fashion. In particular, APA group considered that full economic regulation and 5 year regulatory cycles had meant delays in investing in the DTS. It cited that a project which was not approved during the 2008–12 regulatory cycle had to wait for the 2013–17 regulatory approval process.

The 2013 AEMC Gas Market Scoping Study report noted that there are provisions in the Gas Rules allowing a regulated pipeline owner to seek an approval binding on the regulator for a project at any time during a regulatory period.⁵ The Scoping study considered the claim that investment opportunities arising within the regulatory period tend to be deferred until the commencement of the next period, and noted that “given that there are a number of provisions in the NGR that are designed to enable investment to occur within the regulatory period, this claim was surprising”.

We note the prior owner of the DTS, GasNet, sought pre-approval of an investment under equivalent provisions in the Gas Code (which preceded the Gas Rules). In this case GasNet wanted to invest in an expansion project, the “Corio Loop”, prior to the commencement of

⁴ <http://www.aer.gov.au/Industry-information/industry-statistics/wholesale>

⁵ <http://www.aemc.gov.au/Markets-Reviews-Advice/Gas-market-scoping-study>

the 2008-12 regulatory period. An application was made in 2005 and approved by the ACCC which facilitated spending and project completion before the commencement of the 2008-12 regulatory period.⁶

This submission highlighted a number of projects the AER has undertaken or is undertaking to improve the efficiency of outcomes within the current gas market design. We hope this will aid the AEMC with its review of the East Coast Gas Market and in assessing the need for, and if so, time frame, for any design changes.

Yours sincerely



Michelle Groves

CEO

AER

⁶ <http://www.aer.gov.au/node/9041>