



Jemena Gas Networks
(NSW) Ltd
ABN 87 003 004 322

4 July 2013

Mr John Pierce
Chairman
Australian Energy Market Commission
Level 5, 201 Elizabeth Street
Sydney NSW 2000
Telephone: (02) 8296 7800

Level 20
111 Pacific Highway
North Sydney NSW 2060
PO Box 1220
North Sydney NSW 2059
T +61 2 9455 1500
F +61 2 9455 1589
www.jemena.com.au

Dear Mr Pierce,

**Draft Report - Review of Competition in the Retail Electricity and
Natural Gas Markets in NSW**

Jemena Gas Networks (NSW) Limited (**JGN**) welcomes this opportunity to provide comment on the Australian Energy Market Commission's (**AEMC**'s) Draft Report on the Review of Competition in the Retail Electricity and Natural Gas Markets (**Draft Report**) in NSW published in May 2013.

This supplemental submission focuses on whether the NSW business to business (**B2B**) system is a material barrier to entry (Section 5.3.2 and Box A.2 of the Draft Report).

Barriers to entry

Since October 2010, JGN has participated in the Australian Energy Market Operator's (**AEMO**'s) evaluation of the cost and benefits of harmonising national B2B procedures. This project was initiated by national retailers seeking economies of scale through common processes across the various jurisdictions in which they operate.

In JGN's original submission to AEMC on the initial draft of this review and then to AEMO on the market harmonisation proposal, JGN outlined the inherent flexibility of the current New South Wales (**NSW**) and Australian Capital territory (**ACT**) B2B system. This B2B system allows retailers to choose the level of automation that they wish to invest in to operate in the NSW and ACT markets.

Retailers can commence operations in these markets with only rudimentary market interfacing capability. This is fundamentally because they can manage market transactions using remote, real-time access that is provided to JGN's

IT system for managing customer sites. Equally, retailers can also establish their own automated systems to automate high-volume transactions where this is economically efficient to do so.

As such, JGN does not believe the current NSW and ACT B2B approach is a barrier to entry for new retailers.

Procedure harmonisation potential

However JGN does believe that nationally consistent market procedures have the potential to reduce the cost of retailers operating in the NSW and ACT markets. Such a benefit, if passed on to end consumers, has the potential to provide a net benefit to consumers provided the saving passed on exceeds the cost of implementing the procedures.

In this regard, the result of the cost-benefit analysis performed by AEMO's consultants, NOUS Group which was based on the form of harmonisation sought by AEMO working groups, led to a significantly negative net present value (**NPV**).

Following the delivery of Nous Group's analysis, it is understood that the AEMO board instructed AEMO to cease development of the initiative due to the lack of industry consensus, and the significantly negative NPV of the project.

Despite the outcome, JGN continues to support the principle of harmonising national procedures where a demonstrable net benefit case is made. To this end, JGN intends consulting with its network users in order to explore what common ground can be found and thereby find a form of optimised harmonisation that has the potential to lead to a positive NPV.

Transparency of analysis

Through AEMO's consultative process, JGN has actively promoted the principle that AEMO's evaluation of market harmonisation should be based on a transparent cost-benefit methodology that clearly sets out the basis on which the both the costs and benefits of any significant industry project including procedure harmonisation has been evaluated and substantiated, and how the funding of the change is linked to the beneficiaries.

JGN believes this approach is consistent with the National Gas Objective (**NGO**). The NGO will be best supported where the form of optimised harmonisation and corresponding investment satisfies a net benefit test and thereby demonstrably links the costs and incidence of associated cost recovery to achieving economic efficiency benefits for the long term interest of end-use customers in NSW and the ACT.

While the feedback was not adopted by AEMO in developing the basis under which the cost-benefit of harmonisation was to be assessed, JGN continues to stand behind its position on this issue.

In summary, JGN remains committed to supporting the principle of national procedure harmonisation provided that a net benefit to consumers who fund the change can be established objectively and transparently. While the form of harmonisation proposed by AEMO working groups to date has lead to a negative NPV, JGN intends exploring the drivers of the cost and benefit with its network users in order to seek common ground regarding what alternatives might lead to a positive NPV, and therefore enable a positive benefit to those consumers who ultimately fund the change.

Should the AEMC wish to discuss any aspect of the information presented above, please contact Gavin Morrison on (02) 9455 1686.

Yours faithfully,



David Musson
General Manager Gas Networks Commercial
Jemena Gas Networks (NSW) Limited

