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Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Lodged (by online): www.aemc.gov.au/Contact-Us/Lodge-a-submission

East Coast Wholesale Gas Market and Pipeline Frameworks Review – Stage 1 Draft Report

The Energy Supply Association of Australia (esaa) welcomes the opportunity to make a submission to the Australian Energy Market Commission's (AEMC) East Coast Wholesale Gas Market and Pipeline Frameworks Review Stage 1 Draft Report.

The esaa is the peak industry body for the stationary energy sector in Australia and represents the policy positions of the Chief Executives of 37 electricity and downstream natural gas businesses. These businesses own and operate some \$120 billion in assets, employ more than 59,000 people and contribute \$24.1 billion directly to the nation's Gross Domestic Product.

The AEMC's gas market review provides an important opportunity to investigate the challenges currently facing the east coast gas market and consider how best to facilitate continued market development. In this respect, the Association believes the AEMC's Stage 1 Draft Report provides a comprehensive assessment of the current state of play and opportunities for future market reform. But there is also merit in better defining the strategic direction for gas market development that is consistent with achieving the COAG Energy Council's Australian gas market vision. While it is understood this review is principally focused on the facilitated markets and pipeline trading, this will require the AEMC to be mindful of broader gas market arrangements.

The Association is broadly supportive of the immediate (Stage 1) and medium/longer term (Stage 2) recommendations outlined by the AEMC. The focus on reducing the costs/risks associated with participating in the facilitated markets and examining opportunities to facilitate more flexible and transparent access to pipeline capacity are highly relevant in this regard.

The esaa has provided more detailed commentary on the AEMC's recommendations in Attachment 1. In developing and pursuing these recommendations continued industry engagement is essential. Further, the decision to proceed with significant changes to current market arrangements must have regard to existing property rights and should ultimately be informed by robust cost-benefits analysis.

Any questions about our submission should be addressed to Shaun Cole, by email to shaun.cole@esaa.com.au or by telephone on (03) 9205 3106.

Yours sincerely

A handwritten signature in blue ink that reads "Kieran Donoghue". The signature is written in a cursive style with a long, sweeping tail on the letter 'e'.

Kieran Donoghue
General Manager, Policy

Stage 1 – short-term measures

Improving gas price transparency

The Association is wholly supportive of increased gas price transparency to the extent it does not mandate the provision of prices paid under confidential gas supply agreements. As the AEMC has noted, it is unclear what value could be derived from such information when published in aggregate – given the prices payable under confidential contracts are reflective of the underlying terms and conditions of supply and not simply the value of gas.

Consistent with this, the Association believes each of the light-handed options presented (i.e. survey based-gas price index or aggregating publicly available information) have merit in their own right. Key considerations for each option are provided below:

- Survey-based gas price index: There are some general limitations associated with survey-based price indexes that can give rise to misleading market expectations. These include limited participation, misreported information and difficulties in estimating forward prices in a market that is in a state of transition. Further details on how the index would be constructed and the resultant information requirements imposed on businesses is required before this option can be fully evaluated. But at a high level, the effectiveness of the index will be reliant on extensive participation from market participants, which will also assist with protecting anonymity. It is important therefore, that stakeholders are involved in the development of the index if this option is to be pursued.
- Aggregating publicly available information: This approach could potentially provide more meaningful information to market participants given it is based on prices struck, rather than businesses *expectations* of forward gas prices. The Australian Energy Regulator's (AER) Weekly Gas Market Report would also be an appropriate place to publish this information, given this is where pricing information relating to the facilitated markets is already published.

The Association is not supportive of mandating that transmission tariffs are published on the Bulletin Board, to the extent that the current regulatory framework provides limited coverage options that protect pipeline businesses from having to list reference tariffs.

Bulletin Board “one-stop-shop”

The Association agrees there is merit in consolidating available east coast gas market information for inclusion on the Bulletin Board. At present, information relating to the east coast gas market is fragmented across a number of different sources. Consolidating this information and also placing greater emphasis on the accuracy and timeliness of data provision would therefore improve the overall useability and effectiveness of the Bulletin Board as a one-stop shop for market participants.

To improve the overall useability and functionality of the Bulletin Board, the Association is also supportive of:

- including information on prices from the facilitated markets;

- developing a new long-term forecast and planning page; and
- expanding the scope of capacity listing to include a voluntary listing service for gas, transportation and storage capacity and working with Jemena and APA Group to determine whether their capacity trading sites can be linked to the Bulletin Board.

The proposed voluntary capacity listing approach should be trialled and evaluated and further industry consultation would be required before pursuing mandatory requirements for market participants to provide this information for publication on the Bulletin Board.

The AEMC also outlines a number of measures to improve the usability and functionality of the Bulletin Board. While the Association does not wish to dismiss the measures identified, it should be noted the Australian Energy Market Operator (AEMO) undertook a process to improve the overall functionality and useability of the Bulletin Board in 2014. This included redesigning the Bulletin Board interface to enhance information discoverability and the ability to submit data. It is important that any subsequent changes in this space provide a clear additional benefit.

Addressing additional information gaps

The Association is broadly supportive of enhancing information provision where it is accurate, relevant and does not reveal commercially sensitive information. Of the information gaps identified by the AEMC, it should be noted stakeholders have previously expressed varying views as to the appropriateness and relevance of some of this information. To this end, the Association considers these information gaps should not be incorporated into the Stage 1 recommendations. Rather they should be considered as part of the AEMC's assessment of *Gas Transmission Pipeline Capacity Trading: Enhanced Information* rule change.

Short Term Trading Market simplification

As noted by the AEMC, the Short Term Trading Market (STTM) is overly complicated for the purpose it is currently serving and may be imposing unnecessary transaction costs on market participants. It is therefore prudent to consider whether there are any existing issues that can be resolved with the intention of enhancing the capacity of the STTM to achieve the National Gas Objective (NGO).

Consistent with this, the Association is supportive of establishing a technical working group to examine how to transition the STTM from its current design to one focused more on balancing, since this market function may provide the most valuable benefits over time. But there is also merit in expanding the terms of reference of the working group to include examination of the Declared Wholesale Gas Market (DWGM), given it will also be ongoing area of focus for the AEMC. It is important this work serves as an input into the proposed Stage 2 analysis, which is expected to consider how to best develop the markets such that they efficiently meet the needs of participants.

Harmonising the gas day start times

The Association is supportive of harmonising gas day start times. But given the range of system, operational and contractual changes this may necessitate, additional consultation on this issue may be required. To address this, it would be more prudent for the Stage 1

report to recommend initiating a process to examine this issue in detail, rather than trying to settle on a particular gas day start time if there is no clear consensus at this time.

With respect to harmonisation of other market parameters more fundamentally linked to the overall market design, the Association agrees these should be considered as part of the proposed Stage 2 analysis.

Declared Wholesale Gas Market rule changes

The association is supportive of removing the current National Gas Law (NGL) limitation on who can submit DWGM rule changes. This change would allow any party to propose rule changes applying to the DWGM, which is consistent with arrangements applying to the STTM and the National Electricity Market.

Stage 2 – medium to long term issues

Facilitated market designs

The facilitated markets are beneficial as they provide participants with a market-based mechanism for managing short-term trading positions. But as noted in our response to the earlier Public Forum Paper, the complexities and pricing risks associated with trading in these markets may limit their overall value, particularly the STTM. Differences between the facilitated market designs also represent an added level of complexity for businesses operating across different jurisdictions.

To this end, the Association is supportive of the AEMC examining the appropriateness of the facilitated market designs. In particular:

- considering whether the original objectives of the facilitated markets remain relevant respectively and whether those objectives are being efficiently achieved;
- examining the case for redesigning the STTM design with a view to simplifying the market design and reducing costs for market participants;
- reconsidering the design of the DWGM to establish whether energy prices can be separated from balancing and uplift charges; and
- investigating how the Wallumbilla GSH can best interact with other facilitated markets in the future, with a focus on participation and liquidity.

Given the interconnected nature of the east coast gas market, the Association believes the above analysis could be incorporated into a long term strategy for the location of facilitated gas markets. This information would be particularly relevant given work currently being undertaken by AEMO as it develops a conceptual design of a potential Gas Supply Hub (GSH) at Moomba. But more broadly, it will assist with providing a more holistic and strategic view of changes required in the east coast gas market.

Consistent with this, the esaa is not supportive of trialling a simplified market design at the Brisbane STTM Hub prior to undertaking the long term strategic assessment of facilitated markets. As previously noted, the Association considers the evolution of the Wallumbilla

GSH to incorporate a single trading product and balancing services may remove the need for the Brisbane STTM hub in the future.

The Association also has some reservations over the AEMC's proposal to investigate the effects on the competitive landscape for the provision of hub services at Wallumbilla, including the possible need for economic regulation. It is important to consider how market participation and liquidity can be enhanced over time, but any consideration of economic regulation should ultimately be informed by an assessment of overall costs and benefits and have regard to existing rights.

Introducing capacity rights to the Declared Wholesale Gas Market

A lack of clarity around the definition of transmissions capacity rights in the DWGM can lead to challenges in allocating and contracting and weak incentives for infrastructure investment. This issue arises because private investors are not able to gain exclusive firm capacity rights on the pipeline they have funded. Investment decisions may subsequently be driven by the regulatory process, which may be less efficient and timely than relying on market driven investment decisions.

To address this, the Association is supportive of the AEMC examining the potential to introduce capacity rights to the DWGM with the objective of better facilitating market-led investment in network expansions, balancing the advantages of access to capacity provided by the current system. But this analysis must give consideration to the potential impact on AMDQ and AMDQCC (which provide certain physical and financial benefits in tiebreaking situations). Notably, shippers should still be able to access AMDGCC holdings they have already acquired.

Investigate measures to better facilitate pipeline capacity trading

Flexible and transparent access to pipeline capacity is important for the development of a liquid and transparent commodity market. Where access to capacity is impeded, this creates the risk that the incremental benefits of more flexible short-term trades are missed, the value of which may grow as market dynamics continue to evolve.

The Association is supportive of the AEMC investigating and considering potential measures to better facilitate pipeline capacity trading. Consideration of potential barriers to trading would be useful in this regard. But the esaa maintains an incremental approach to reform that has appropriate regard for existing contracts is the best approach to facilitating trading. This will provide a better balance of risks/benefits relative to more heavy-handed reform options and would likely be consistent with supporting industry led reform.

Strategic direction for information provision, including the Bulletin Board

The esaa is supportive of examining whether the coverage, timeliness and accuracy of information can be improved and if so, whether the benefits of any informational improvements are likely to exceed the costs. In considering where additional information could potentially be provided, it is important to note increased information is only of value if it addresses relevant gaps in the market. Information that is not appropriately targeted with respect to the type or frequency of reporting may ultimately create a reporting burden for little discernible benefit. There are also confidentiality concerns that must be considered

where the publication of highly disaggregated information risks directly revealing commercially sensitive information.