



14 June 2013

Mr John Pierce
Chairman, Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

Submitted via www.aemc.gov.au

Dear Mr Pierce

Gas market scoping study

Alinta Energy welcomes the opportunity to make a submission in response to the Australian Energy Market Commission's (AEMC) 'Gas market scoping study' (the Study) which supports the discussion held between Alinta Energy and AEMC representatives on 23 May 2012.

Alinta Energy is an active investor in the energy retail, wholesale and generation markets across Australia. Alinta Energy has around 2500 megawatts of generation capacity in Australia (and New Zealand) and a growing customer base of approximately 700,000 retail energy. Alinta Energy has significant gas interests across Australia.

Alinta Energy is the incumbent gas retailer in Western Australia and offers gas at the mass market retail level in South Australia and Victoria. Alinta Energy is also active in the gas market in Queensland and has a range of commercial interests; this includes commercial and industrial wholesale gas sales.

Alinta Energy's portfolio includes three gas-fired generation units at the Braemar Power Station facility in the Queensland region, four gas fired units which form the Pinjarra Power Station and Wagerup Power Station facilities in the Western Australia south-west interconnected system, and the Port Hedland Power Station and Newman Power Station in the Pilbara region.

Alinta Energy also is part owner of the Goldfields Gas Transmission Pipeline, and owns an approximately 150km gas pipeline in Queensland serving the Braemar Power Station facility.

Alinta Energy is a participant in the Adelaide and Brisbane hubs of Short-Term Trading Market (STTM) and the Victorian Declared Wholesale Gas Market (DWGM) (referred to in this document as facilitated markets).

Alinta supports a prudent approach to gas market development

Alinta Energy notes that in recent times a plethora of gas market studies and papers have been developed or are being canvassed by interested stakeholders, research institutes and government agencies.

Alinta Energy is supportive of further investigation and development of institutional knowledge around gas markets but notes that in many respects the current arrangements reflect decisions around development of the sector that took place a number of years ago.

In this sense, Alinta Energy cautions against any perspectives that the gas market is idling waiting for strict guidance by government or other entities. Rather, there has been a significant amount of development in the past decade which continues uninterrupted regardless of the commencement of specific studies or otherwise. This includes the servicing of major demand centres by multiple pipelines, the development of trading hubs, the growth in contractual products and interplay between gas and electricity markets.

This does not mean there is not an opportunity for further development to take place, and potentially with more singular intent, rather that such development needs to be consistent with the framework that has developed, is driven by commercial imperatives and is targeted to areas where clear deficiencies can be identified.

This means this Study, and similar work, should look to articulate more evolved market structures, backed by evidence, and the policies that are required to support existing growth and development.

Pipeline utilisation and investment

The ongoing practice for large established participants is to contract for gas supply with producers and contract for transport with pipeline operators for extended periods of time. This practice gives those participants access to secure quantities of transport and commodity, and underwrites the investments of producers and pipelines. This is an approach which has successfully supported the market.

Nevertheless, this approach creates a concern, whether real or perceived is yet to be conclusively determined, that the market will not promote dynamic efficiency as incumbent participants have locked in arrangements which they will seek to consolidate. This raises issues of pipeline investment and pipeline utilisation.

Pipeline investment

The first issue of interest is: what are the tensions around pipeline development should the market require additional pipeline investment?

Should no capacity become available, or if prices for pipeline usage reach an unjustifiable level, this would likely impede entry into retail mass markets and make haulage on the back of the existing hubs unviable. As such, in the absence of an entirely regulated gas transmission system competitive tension must continue, preferably with multiple pipeline operators serving each major demand hub.

To date, Alinta Energy is not aware of any evidence that pipeline operators have sought to misuse any dominant positions and in Alinta Energy's experience the view that pipeline operators seek to maximise trade and flows reflects market outcomes.

This is likely to be a consequence of ongoing competitive tension which it should be expected would incentivise future pipeline build as capacity is further constrained.

As to the additional build, it is not the case that the existing regulatory arrangements should automatically apply to a new pipeline. The application of alternative regulatory and carriage arrangements may be desirable to support the continued development of eastern gas markets.

For instance, if it was determined that conditions were such that a new covered market carriage pipeline was desirable along the east coast but that established participants would be unlikely to support this then a regulatory led outcome may be appropriate at some stage in the future. Alinta Energy would welcome involvement in conceptualising such an alternative approach.

An additional point is whether improved metrics are required to determine where a pipeline, or interconnection of pipelines, are constrained to the extent that it would be economic to progress with an augmentation. Such an assessment metric would assist the development process and industry knowledge.

Pipeline utilisation

Prior to further pipeline build the incentive should be to maximise utilisation of existing pipeline infrastructure. This raises two points: the pipeline operators' incentives to contracts; and the incentive for shippers to trade capacity.

Pipeline operators generally have incentives to contract spare capacity with market participants, although in some circumstances this can be undermined by minimum haulage arrangements. Alinta Energy notes this can arise due to perceived physical complexities which need to be directly negotiated with pipeline operators.

In circumstances where pipeline operators are unable to provide capacity access, to spare capacity already contracted by individual shippers is important.

Capacity trading already occurs; however, Alinta Energy shares the view that additional capacity trading is desirable. This is especially the case for pipelines that currently have very limited, if any, spare capacity up the eastern seaboard.

This may initially include steps to increase information on from whom capacity is available from; however, it is likely to need to extend to aggregated data on available capacity by pipeline and into each hub.

Inter-regional trade and facilitated markets

Alinta Energy notes the AEMC's interest in inter-regional trade and the role of different carriage arrangements in facilitating or impeding trade. In Alinta Energy's view there is no material difference for established participants in practice between market carriage or contract carriage arrangement as it pertains to inter-regional trade.

In fact, the existing arrangements have little bearing on any inter-regional trade. Trade decisions are primarily determined by the availability of pipeline capacity or value of existing pipeline capacity, and the price competitiveness of any gas that would be offered in another region along the east coast.

This means, outside of a hub, gas transportation agreements or capacity trading are required to facilitate trade with opportunistic capacity trading not considered viable on an ongoing basis.

While participants can seek to trade within the STTM hubs without contracts and do so in the DWGM without capacity rights, in both hubs, to varying degrees, those with capacity rights or contracts are at an advantage.

This means new entrants within a hub may get an initial entry mechanism by relying on market carriage without a transportation contract; however, to facilitate trade at some stage these new entrants will desire a greater degree of firmness to manage price risk and guarantee commodity delivery into the hub like their competitors.

In essence getting gas into the hub precedes any opportunity for the hub to work as a viable market overall and for individual trades to occur. Unless all participants at the hub can guarantee delivery trade will be constrained.

Mechanisms to facilitate delivery of commodity into the hub, in an environment with greater constraints on capacity, would be a new area of development in the market. It should be noted there is a limited ability to move gas into some hubs already i.e. Brisbane STTM via the Roma to Brisbane Pipeline.

Facilitated markets and ongoing development

The future growth of facilitated markets is likely to depend on the ongoing use of long-term contracts. Should there be a reduction in long-term contracts then it is possible that shorter term trading arrangements will evolve with a greater reliance on hubs. Under this scenario the development of gas derivatives may be more likely.

The open question is how an appropriate balance between long-term contracts and short-term trading can evolve.

Market parameters

Alinta Energy suggests greater alignment of market parameters between the existing facilitated markets should be considered and, in the absence of impediments to alignment, progressed.

Alinta Energy would prefer an approach which contemplated the impact of issues which impede market development, including prudentials and settlements, exposure to shortfalls caused by other participants, and management of outages at major facilities.

The justifications for the different market settings that do exist remain uncertain. In particular, the significant difference in price caps. While the market designs do differ, the rationale for significantly higher prices for the DWGM than the STTM needs clarification.

An additional issue is the use of a manifestly incorrect inputs trigger in the facilitated markets. Alinta Energy supports investigation and development of such a trigger given ongoing concern that incorrect inputs by third parties can result in significant costs to facilitated market participants.

The issue of manifestly incorrect inputs also goes to the ability to align market parameters between gas and electricity. Alinta Energy notes the National Electricity Market price cap is significantly above those for the facilitated markets and is likely to need to be increased in its own right. However, it needs to be recalled that the difference between a daily and five-minute market price provides an alternative perspective on exposure to price risk in these markets. The interaction of price and risk in each market and between the markets requires more detailed consideration to ensure the current settings are appropriate.

Alinta Energy considers this important in the medium term and notes that there is evidence of growing integration between gas and electricity.

Common gas day

The prospect of a common gas day is worthy of consideration and Alinta Energy would welcome such a proposal. As it currently stands, the mismatch between the STTM in Sydney and Adelaide, with the STTM in Brisbane and also the DWGM is less than ideal. Alinta Energy appreciates there

are valid reason for some parties to wish to retain the existing times but believe moving to a common gas day is in the markets overall interests.

Alinta Energy appreciates the view that alignment of gas days is one step in the move towards intra-day trading across all facilitated markets. Intra-day trading should be a clear objective for the STTM and a comprehensive plan for implementation developed with industry for assessment. This plan can then be actioned at an appropriate time without further delay.

Prudentials

Alinta Energy is particularly supportive of an alignment and consolidation of prudential arrangements between existing gas markets, with netting of positions and reallocations between facilitated markets as a logical first step. Over time this may suggest a preference to also consolidate gas and electricity market prudential arrangements.

The netting of gas and electricity market prudentials was considered as part of AEMO's Energy Market Prudential Readiness Review. The outcome of that process was to not proceed with a proposal to net prudential obligations across the two markets.

While Alinta Energy understands this conclusion it is suggested further analysis could be undertaken to identify the impediments to reducing credit obligations in the gas market, including through aggregation. Credit and prudential issues will continue to receive ongoing policy attention in the current environment and as such it is appropriate to revisit this issue in the near term.

Backhaul

Alinta Energy supports progressing backhaul and notes the issue of backhaul was considered as part of the consultative forum run by Australian Energy Market Operator (AEMO) but was not progressed. As such, the costs and benefits of backhaul proposal have not been considered by the AEMC despite the clearly held view that the market would benefit from its introduction.

Market Operator Services

Alinta Energy notes the additional costs to users created as a consequence of excess Market Operator Services allocation. In the Adelaide hub this was estimated at an extra \$2.8 million by AEMO in year 1 of the STTM's operation.

In general terms, the potential for positive Market Operator Services to be created on one pipeline and negative in another creating large volumes of Market Operator Services when there is actually no fundamental supply imbalance is concerning and requires correction. Alinta Energy notes that AEMO is progressively addressing this issue and supports AEMO's work in this regard.

There is a view that Market Operator Services should have a lower price cap and could be based on the cost of an alternative fuel source. As it currently stands, the high Market Operator Services gives the perception that some participants may have incentives to supply these services over gas into the actual market and that activating flows in a manner which generates Market Operator Services is therefore desirable for their commercial positions.

Alinta Energy continues to support a revision of the Market Operator Service price cap to cover associated costs but limit adverse incentives. A price of around twenty dollars a gigajoule is likely to be appropriate and adequate in this circumstance.

Further, as already expressed in other forum, Alinta Energy continues to support the provision of daily Market Operator Services.

Additional STTM Hubs

While Alinta Energy is supportive of hub development, the ability to access hubs requires further consideration. If hubs are developed to enhance gas market outcomes, gas trading and exchange needs to be able to flourish; however, if there is limited capacity and therefore an inability to get gas to or from the hub then trade cannot be maximised.

Gas market information

Alinta Energy is supportive of changes which improve the availability of gas market information. While significant developments in this area to date are welcomed, unless the public, active participants, potential participants, and affected parties are appropriately informed the market will likely provide sub-optimal outcomes.

Alinta Energy is of the view that efficiency will be maximised by appropriate information disclosure to enable transparent price discovery, true incentives to be revealed and risks to be borne by the most appropriate parties. As a general measure, the level of transparency should be at least equivalent to the National Electricity Market and in the spirit of disclosure obligations for the Australian Stock Exchange.

In short, Alinta Energy should be entitled to expect full knowledge of matters which have a direct bearing on the functioning of the market.

Alinta Energy notes: the lack of information pertaining to capacity and adequacy up to 12 months and beyond; the absence of sufficiently dynamic information in particular to respond to gas shortfalls; and the misalignment of demand zones and hubs.

The lack of information availability extends to historical data. For instance, while AEMO publishes STTM demand for the Adelaide and Sydney hubs there is no readily available total gas demand information for these locations given the level of gas delivered “outside” the hub.

Alinta Energy supports publication of gas market net system load profile information by gas network area, similar to net system load profile data for the National Electricity Market. It would be particularly useful to be able to assess and understand peakiness of gas market load by gas network area. It is not clear whether this data can be sourced at present and limited access may suppress competition in the market.

There is a view that the gas bulletin board is outdated and does not maximise information flows. One perspective, which Alinta Energy has not considered in detail, is for the gas bulletin board to be redesigned to take feeds from the STTM for pipelines with additional producer inputs. The proposal for redesign extends to common “hub” definitions across the gas bulletin board and the STTM.

Additionally, the gas bulletin board could be used as a vehicle to provide information to assist capacity trading. While this has been previously suggested it is not clear that the bulletin board has had this effect.

Medium term system adequacy

As it pertains to information usefulness, Alinta Energy retains the view that parties are best able to enter the market when they have an informed picture of supply capability.

While the perspectives of those reluctant to provide additional information are appreciated, there is little basis to suggest additional information will not assist parties at some level. Nevertheless, we agree with the view that provision of information needs to be considered in the context of the cost-benefit trade-off for the market and participants.

Alinta Energy appreciates that information that would be provided by facilities would be a “best estimate” and subject to uncertainty. But this does not invalidate its provision or necessarily suggest information will not prove a useful measure over time. On the basis of the analysis to date, Alinta Energy supports the provision of 12 month adequacy data on a weekly.

Additionally a lack of reserve or similar notice system – as produced by AEMO in the DWGM – based on medium term system adequacy updates and any other demand outlook information would be valued by Alinta Energy to clarify supply conditions.

As it relates to medium term system adequacy data, Alinta Energy believes all asset owners and operators should be captured by these obligations. This includes pipeline maintenance that may impact capacity.

Short-term information

Alinta Energy notes the current short-term capacity outlook information, aggregate pipeline flows and line-pack data provided via the bulletin board have been effective in informing participant decision-making; however, we believe there is scope for some enhancement.

Alinta Energy supports increasing the outlook to seven days from the existing three. While this may result in the provision of data that is less certain in the outgoing days it should not automatically be presumed the data will be without value.

Alinta Energy agrees a seven day outlook would align with pipeline forecasts and help provide a better overall picture of supply when making commercial decisions. Alinta Energy appreciates that capturing additional information places further obligations on facilities. As such, Alinta Energy considers the issue in terms of total impact on the market, especially at times of high demand.

On this basis, and for simplicity, a 10% or 10TJ rule appears appropriate at this point in the market’s evolution. This acknowledges that 10TJ is likely to be the primary threshold for most facilities but that some smaller facilities may report below 10TJ as a consequence of the 10% threshold. Alinta Energy makes this suggestion on the assumption no threshold would too be onerous for facilities at this point in time.

Regarding line-pack, Alinta Energy’s initial view is that line-pack data, provided by relevant zones, would be of value at the beginning and end of day; however, at this stage further clarity is required around the points on the pipeline for which this data could be provided.

Alinta Energy notes that intra-day data on capacity, flow and line-pack would better inform participant decision-making. Nevertheless, Alinta Energy acknowledges it does not have an appreciation of the cost implications or how such data would be provided i.e. via the bulletin board or otherwise.

That said, it is apparent that participants with contract positions across the market are already able to source information regarding intra-day flow and line-pack data which enables them to make commercial decisions earlier than parties with fewer or no firm contracts. On this basis, Alinta Energy considers this information being provided to the wider market may be of merit.

System security

At present gas emergency management and shortage issues are managed in a disparate fashion and at a jurisdictional level. While this is partially a product of the nature of gas, the growth in gas markets, pipeline infrastructure and the integration with electricity markets suggests this may not be optimal arrangements going forward.

System security events are of interest to all participants and as such Alinta Energy appreciates the view that such events should be the responsibility of AEMO as opposed to operators, producers and other facilities based on each jurisdiction's individual plans. Alinta Energy encourages further consideration of a coordinated proposal that still retains control at the jurisdictional level sees AEMO acting as agent.

The logic of AEMO playing a central coordinating role should also apply to ensuring there is no overlap of maintenance and outages for critical facilities across the eastern seaboard. While the provision of increased medium term adequacy information is likely to assist there seems little justifiable reason why providers, pipelines, operators and facilities should not be subject to the same rules across the STTM and the DWGM including seeking coordinating approval from AEMO before undertaking planned maintenance.

Locational incentives

Alinta Energy notes the question as to whether the existing facilitated markets themselves create incentives around locational decisions by generators, in this case gas-fired generation. Alinta Energy does not believe this to be the case except that there may be a marginal incentive to remain outside the hub for a generator.

More importantly, locational decisions are likely to be driven by trade-offs between the cost of pipeline access or construction of pipeline infrastructure and the price of access to existing transmission lines and the costs of connection and connection extensions. This is was considered as part of the Transmission Frameworks Review and Alinta Energy remains supportive of arrangements which promote locational trade-offs by new entrants.

Conclusion

Alinta Energy welcomes the AEMC Gas market scoping study and supports ongoing development of institutional understanding of gas market arrangements.

Alinta Energy remains supportive of refinement of the existing facilitated markets and investigation of matters of pipeline access and carriage. Alinta Energy supports ongoing engagement with industry to ensure gas market development needs are consistent with the market that has developed and is targeted to areas where clear deficiencies can be identified.

Should you have any queries in relation to this submission please do not hesitate to contact me on, telephone, 02 9372 2633.

Yours sincerely



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