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Chantelle Bramley  
Senior Director  
AEMC

Submission lodged electronically

Dear Ms Bramley,

### **EAST COAST WHOLESALE GAS MARKET AND PIPELINE FRAMEWORKS REVIEW**

Adelaide Brighton Cement Limited (ABCL) would like to take this opportunity to thank the AEMC for allowing it to provide input into the East Coast Wholesale Gas Market and Pipeline Frameworks Review: Public Forum Paper dated 25 February 2015.

The broad terms of reference for the Review is for the AEMC to consider:

- The appropriate structure, type and number of facilitated markets on the east coast, including options to enhance transparency and price discovery, and reduce barriers to entry;
- Opportunities to improve effective risk management, including through liquid and competitive wholesale spot and forward markets which provide tools to price and hedge risk; and
- Changes to strengthen signals and incentives for efficient access to, use of and investment in pipeline capacity.

In line with the terms of reference, COAG has also outlined its vision for Australia's future gas market, being the establishment of a liquid wholesale market that provides adequate investment signals, with particular reference to serving the best interest of participants.

Adelaide Brighton is a leading integrated construction materials and cement producer in South Australia with number one market position for cement, aggregates and ready mix concrete. ABCL is a large user of natural gas and is a participant in the Adelaide short-term trading market (STTM). ABCL, like many other large industrial gas consumers has experienced a material upwards shift in its cost of gas across all its facilities. With the linkage of domestic gas prices to international prices, driven out of a new and growing LNG industry in Queensland, there is a continuing need to explore ways to reduce costs and increase efficiencies. This upward shift in contract gas prices at the domestic level is compounded by the lack of competition between producers and a lack of price transparency at major supply hubs such as Moomba.

ABCL welcomes the development of a gas supply hub at Moomba as soon as practicable, to help facilitate gas price competition and transparency. We note that the STTM and the Wallumbilla supply hub have already provided significant benefits for those industrial customers participating in these markets. The ability to

supplement contractual gas with lower cost spot gas when it is available, has assisted in lowering the average cost of gas and therefore a continuing development of these supply hubs is supported.

The COAG Vision is supported by 4 work streams that are aimed at encouraging competitive supply, enhancing transparency and price discovery, improving risk management and removing unnecessary regulatory barriers. The Vision is also supported by the National Gas Objective as noted in the National Gas Law, being “to promote efficient investment in, and efficient operation and use of, natural gas services for the long-term interests of consumers of natural gas with respect to price, quality, safety, reliability and security of supply of natural gas”. We contend that the establishment of the STTM hubs and the Wallumbilla and Moomba supply hubs are vital in ensuring the delivery of the Objective and COAG’s Vision.

We also note that a number of large industrial gas consumers have already spent significant time and effort to establish themselves as participants in the STTM and are obtaining the benefits as envisaged in the National Gas Objective.

The Public Forum Paper has a number of issues that are noted in relation to the 3 gas market designs, being the Declared Wholesale Gas Market (DWGM) in Victoria, the STTM at Adelaide, Sydney and Brisbane hubs and the Wallumbilla Gas Supply Hub. It also notes the issues around a common and contract carriage approach to pipeline transportation. ABCL makes the following observations for consideration by the AEMC.

#### 1. Facilitated Markets

The gas markets on the east coast of Australia are still evolving and maturing, particularly the STTM and the newly created Wallumbilla supply hub. These gas hubs are providing large industrial consumers of gas access to spot gas, giving them greater access to wholesale markets in addition to the standard gas contract market. These markets assist in both the short-term and longer-term gas procurement strategies consumers are implementing and provide invaluable access to price transparency and liquidity that can assist in reducing the average price of gas for their operations.

These gas spot markets are utilised by both suppliers and users as it can assist in managing portfolio positions. Customers however are the primary beneficiary of these spot markets as it can significantly assist them in managing their gas procurement position in a market where contract prices have experienced a material uplift.

Given the 3 different market designs, there still some efficiency gains to be extracted from a uniform regulatory framework across Eastern Australia. This would allow customers with operational facilities in different regions to have a consistent regulatory framework, providing better price transparency and allowing a common mechanism for the setting of spot prices and the utilisation of pipelines.

To this end it would appear that the DWGM could function as an STTM hub, allowing for gas purchases and sales within Victoria to be consistent with adjoining gas markets in Adelaide and Sydney. The voluntary STTM supply hub at Wallumbilla and that proposed for Moomba are also assisting in providing greater price transparency and efficiencies for gas users and suppliers.

#### 2. The STTM

The STTM has provided a much valued market mechanism for large consumers of gas to get access to information that was previously not transparent. The STTM markets have been successful in delivering against COAG’s Vision for Australia’s future gas market. In particular, it has already met some of the objectives set out in the Vision work streams, i.e. most customers that partake in the STTM market

would suggest that it has encouraged competitive supply, enhanced transparency and price discovery, and has improved risk management.

Large gas users have been able to utilise these markets to reduce the average cost of gas by utilising a gas portfolio approach to procurement within an established regulatory environment. Gas suppliers may not favour this market as it provides customers with better access to wholesale markets, better price transparency, and market mechanisms through which to reduce costs.

Other evolving and maturing elements of the STTM such as intraday trading, should be considered only if it is expected to provide greater efficiencies to customers and suppliers. At present, we expect that intraday trading would be of little benefit to large customer and would likely increase the level of resources required to participate in the STTM. Most gas contracts involve daily nominations in advance and do not involve intraday nominations. Further, the structure of the STTM currently allows gas users to effectively adjust their nominations and use internal MSV's to balance out their position. This is a very effective tool and negates the need for intraday trading.

The STTM is generally seen as a balancing market for participants that are short or long gas on a day, or have issues such as the management of take or pay risk where the STTM gives them a channel to market to sell their gas. As a result pricing tends to reflect the marginal cost of gas rather than the long-term price of gas, providing significant price benefits for those large gas consumer buying gas from the STTM, rather than long-term producer based contracts. Around 85% of gas in Eastern Australia is under the control of four major producers, providing them with significant pricing power over long-term gas. It could be argued that the STTM produces price outcomes that are more reflective of the daily demand/supply conditions and cost of gas production.

The STTM provides a key role in the broader gas market framework. It provides an alternative source of supply of gas for large customers. It provides an alternative avenue to being forced to accept long-term gas supply contracts. It provides an alternative to major customers who may be under pressure by major gas suppliers to sign premium priced long-term gas deals due to the expiry of existing contracts. It provides an efficient alternative to being forced to purchase gas contract flexibility, which can be priced at a significant premium to flat load gas. Critically it provides a meeting point for all market participants to manage their daily gas requirements that produces much more efficient outcomes for all parties.

All STTM hubs are providing significant pricing benefits as compared to long-term wholesale prices, noting that STTM prices include the cost of transport to the hub. The ability of participants to manage their market deviations with other participants through MSV's has also managed to reduce risk within these markets and this has been further assisted by the recent change in the calculation of Deviation/Surplus Shortfall payments.

A key improvement in the design of the STTM would be to allow for the full settlement of MSV's through the STTM Settlement System. This would negate the need for individual parties to put in place separate documentation with every other market participant for MSV transactions. Further it would negate the need for credit checks and credit support arrangements between individual market participants for MSV's. Settling MSV's via the market would produce a much more efficient MSV process as well as reducing the barriers between market participants to freely transaction in MSV's with each other.

Overall the STTM has provided material benefits to large industrial customers such as ABCL. Customers have been the major beneficiaries of the STTM's and, as a result, we would expect major gas suppliers and retailers would probably not be supportive of the STTM.

### 3. Wallumbilla Hub

At present the Wallumbilla hub is relatively new and operates as a voluntary supply hub. It is our expectation that even as a voluntary supply hub it would provide benefits to the market in terms of providing customers with another point of access to gas. The supply hub does not have the same price clearing mechanism as the STTM hubs, but has added to the liquidity and depth of counterparties in the market.

We would encourage the continued operation of this supply hub, with a review of its effectiveness in line with the COAG Vision to be undertaken at a future point in time.

### 4. The Declared Wholesale Gas Market (DWGM)

It may be difficult to transform the DWGM into a "Melbourne STTM Hub", however this should be a consideration for the longer term efficiency of the gas markets. Presently the regulatory framework, including pipeline access, pricing, market price cap are all different to that within the STTM. More work should be undertaken to determine the cost/benefits of transforming the DWGM into another STTM hub.

At present it is difficult to physically move gas from Victoria into adjoining regions such as SA and NSW. A consistent regulatory framework may assist in the ability to purchase gas in one hub and move it for delivery into an adjoining hub.

### 5. Transmission Pipelines

The objectives of the Gas Code were to:

- Facilitate the development and operation of a national market for natural gas;
- Prevent abuse of monopoly power;
- Promote a competitive market for natural gas in which customers may choose suppliers, including producers, retailers and traders;
- Provide rights of access to natural gas pipelines on conditions that are fair and reasonable for both service providers and users; and
- Provide for resolution of disputes.

At present it could be argued that the objectives as stated are not being achieved. The ability of gas suppliers to purchase all firm capacity on a pipeline and then restrict a customer to only purchase from that one supplier is still active in the market. This creates a position of abusing a monopolistic power by forcing customers to purchase both commodity and haulage from the one supplier. The alternative is that the customer would need to build a network bypass in order to get access to competitive market pricing or to relocate to somewhere on the network where it can freely contract for both commodity and transport.

Both common and contract carriage arrangements are imperfect, but it is paramount that customers are not forced into a situation where the only way that they are capable of receiving a competitive market offer is to build its own network solution or to relocate. In order to achieve this, thought

should be given to allowing customers access to a pipeline that is fully contracted but not fully utilised. This means that if a supplier has already contracted for all of the capacity on a pipeline but does not utilise all of the capacity then they should be required to sell that spare capacity to a third party that wants to purchase that capacity without forcing the third party to also purchase the associated gas commodity.

We therefore would encourage the concept of capacity trading across pipelines so that customers and suppliers can get access to transport without also being required to purchase commodity as a bundled product. This mechanism may provide greater utilisation and efficiencies across pipelines.

Please do not hesitate to contact me on (08) 8300 0410 or email [louis.mavropoulos@adbri.com.au](mailto:louis.mavropoulos@adbri.com.au) if there are any questions relating to this submission.

Yours sincerely



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