



11 October 2012

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

Via www.aemc.gov.au

Dear Mr Pierce

Market operator service – timing and eligibility

Alinta Energy welcomes the opportunity to make a submission in response to the Australian Energy Market Commission's (AEMC) consultation paper on the National Gas Amendment (Market operator service – timing and eligibility) Rule 2012, proposed by the Australian Energy Market Operator (AEMO).

Alinta Energy is an active investor in the energy retail, wholesale and generation markets across Australia. Alinta Energy has over 2500MW of generation facilities in Australia (and New Zealand), maintains retail energy customers in Western Australia, South Australia and Victoria with a commitment to growth and is actively pursuing gas market opportunities including as a participant in the short term trading market (STTM), particularly in Adelaide and Brisbane.

We note the proposed market operator service (MOS) rule change seeks to:

- move a number of provisions dealing with the timing of MOS offers from the National Gas Rules (the rules) to the STTM procedures; and
- broaden the eligibility for MOS provision from STTM shippers that have a contract with a facility operator to an STTM shipper provided there is an underlying agreement that facilitates this.

MOS period

AEMO's discussions through the STTM consultative forum and AEMO consultations have established a strong case for reducing the MOS period. Specifically, Alinta Energy endorses the view that the MOS offer period of three months is excessive and works to restrict MOS supply, creates inflexibility, minimises competition, and hence is likely to increase costs.

However, Alinta Energy does not believe the proposal for one month, as opposed to three months, has been arrived at through any precise analytical process weighing up costs and benefits. Alinta Energy notes that many participants strongly favour a shortening of the MOS period to weekly or daily. It is not clear why a transition to a daily service should not be considered at this time.

As it currently stands Alinta Energy would be unlikely to offer a MOS service given the three month MOS period; however, a shortening of the period reduces the impediments to provision of MOS by small participants, reduces the risk to less experienced providers, and enables provisions of MOS to vary based on supply and demand constraints. In this regard, while a monthly service as opposed to three- monthly is an improvement a daily arrangement remains preferable.

Moving the rules to the procedures

At a general level Alinta Energy has a preference for matters being contained in the rules with proposed changes assessed by the AEMC consistent with the national gas objective when those matters are not primarily operational.

Alinta Energy understands the logic of moving the 'MOS process timings' to the procedures but alternatively a case could be made that matters concerning the MOS period should be contained in the rules and not the procedures.

That is, that the MOS process timings and MOS period being regulated by different instruments or the wrong instruments currently being the case does not automatically lead to the conclusion that the procedures should be favoured over the rules.

In fact, there is a strong case that the AEMC should always be favoured as the entity to conduct assessments where changes to the market parameters have an economic perspective and should be analysed consistent with the national gas objective.

For instance, an assessment by the AEMC of the appropriate length of the MOS period may conclude that daily settlement is appropriate even though as it currently stands AEMO have concluded on their own terms that one month is the favoured period.

Regarding the view that it is inefficient to have a rule change procedure followed by a procedure consultation, Alinta Energy does not believe this is an inappropriate use of resources and does not believe this is a criterion for assessment.

An independent rule-making assessment by the AEMC is by its nature different to AEMO's consultation process. If anything, where a rule change had occurred AEMO's procedure consultation can be expedited or cursory.

Interestingly, in this instance, should the rule change be made AEMO's has already flagged how its consultation process will conclude. That being with:

- a one month MOS period;
- MOS offer submissions due five days ahead of the MOS period; and
- the MOS stack published after submissions have closed.

While each of these outcomes is beneficial in Alinta Energy's view it is not apparent that these matters cannot be resolved as part of a rule change process or that AEMO consultations should be favoured over rule changes.

Interestingly, Alinta Energy was particularly disappointed with the AEMO consultation on the introduction of backhaul arrangements where despite the existence of a clear economic benefit AEMO choose not to proceed for administrative reasons. While Alinta Energy understands these administrative constraints there is a view that clear separation of decisions on market frameworks and market operation would expedite much needed reform.

Alinta Energy's preferred approach

To the extent that MOS process timings and the MOS period are interdependent Alinta Energy supports amending the rules to introduce maximum thresholds being:

- a MOS period of no greater than one month;
- submissions for MOS offers to be received no greater than five days ahead of the MOS period;
- the MOS stack to be published within 24 hours of the close of submissions; and
- AEMO to publish a notice inviting MOS offers no less than once per month where the MOS period is one month or greater.

In Alinta Energy's view, this strikes an appropriate balance without AEMO having complete discretion over determining its own obligations. AEMO would have the option and incentive to pursue procedures below these maximum thresholds but market participants would have the ability to challenge the maximum thresholds where an economic case for change can be made through a rule change process assessed by the AEMC.

MOS eligibility

Alinta Energy supports extension of eligibility to provide MOS services including through sub-contracted arrangements. Provision of MOS by a broader class of participants should increase efficiency of the market and reduce costs to participants and ultimately customers consistent with the national gas objective.

Alinta Energy is firmly of the view that extending eligibility combined with a shorter MOS period will increase its ability to be a MOS provider in the STTM. It is likely a range of smaller gas market participants will be in a similar position.

AEMO's consultation

Alinta Energy appreciate that the AEMC's decision has implications for the AEMO consultation process. In turn, AEMO's consultation process will be relevant to the draft determination. On this basis, we recommend AEMO commence its consultation at the time of the publication of the draft determination by the AEMC and that the final determination be delayed until market participants have a chance to raise issues arising from the AEMO consultation.

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

Yours sincerely,



Jamie Lowe
Manager, Market Regulation