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Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

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

GPR0002: Review of the Victorian Declared Wholesale Gas Market

Central Petroleum Limited is pleased to comment on the Australian Energy Market Commission's Review of the Victorian Wholesale Gas Market Draft Final Report.

Central Petroleum Limited (ASX: CTP) is an oil and gas explorer and producer which focuses on supplying the Australian domestic gas market. The company's conventional gas operations are located in Central Australia, around Alice Springs, where its oil and gas acreage is regarded as one of the biggest across the region.

With Bass Strait and Cooper Basin both having past their peak production coupled with the commissioning of six LNG trains, noting that one LNG train requires roughly the same amount of gas annually as NSW, the present system designed for the last century is under unprecedented stress. The current system grew out of a model of joining large producing fields to large demand centres. Further, other than winter peaks, the demand was relatively stable.

The present situation has changed dramatically and will continue to evolve. As of 2018, there will be a national grid connecting all of Australia (with the exception of Western Australia). Stable demand centres such as car manufacturing are closing. The gas shortage will put further pressure on industrial gas usage and this is exacerbated by the inflexibility of the transmission system.

With the closure of the Point Augusta Northern Power Station and the foreshadowed closure of Hazelwood in La Trobe, the gas supply system will be required to be even more demand responsive and flexible. The LNG plants are considering running at less than full capacity due to low LNG prices (see page 15 AFR 30 November 2016), which means that their requirements for natural gas will start to track LNG prices. The higher the LNG price the higher their demand for natural gas.

Already volatility in the gas market is at an historical high with increasing anxiety about future pricing. In a more normal market financial intermediaries will be able to provide hedging contracts to smooth the impact on two important classes of end-users – one being the industrial and chemical users and the other being the domestic home heating market.

Whilst the higher socio-economic sectors of society will have the capital to convert their home-heating from gas to other forms of heating, retirees and the lower socio-economic groups don't have the luxury of capital resources to do so, thus resulting in energy poverty for a large sector of Victoria. There is an urgent need for the gas supply and delivery of that supply to become more flexible and responsive to unpredictable market forces whilst allowing financial intermediaries to enter the market, particularly to encourage competition in the gas retail market.

For the reasons above, Central Petroleum supports the recommendations contained in the Draft Final Report of the Review of the Victorian Declared Wholesale Gas Market. In particular, Central supports:

1. The concept of the introduction of the "baseline" capacity;
2. The introduction of the multiple entry and exit points;
3. The anchoring of capacity using an ascending clock uniform price auction;
4. The creation of shorter-term auctions over varying durations;
5. A day ahead auctioning of contracted and unutilised capacity; and
6. The creation of Secondary Capacity Trading.

Yours sincerely



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