

4 March 2010

The Commissioners
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Dear Sir

Prioritisation of Tied Controlled Withdrawal Bids, Draft Determination

Major Energy Users (MEU) comprises more than 20 large energy users operating in all states and territories, and has affiliated representative groups based in Victoria, NSW, SA, WA and the NT.

We have reviewed the AEMC draft decision in relation to the issue of “tied withdrawal bids” at controllable withdrawal points such as the Culcairn interface between the NSW and Victoria gas networks. We disagree with the AEMC draft decision in that we consider the AEMO Rule change proposal does support the National Gas Objective.

There are four aspects of the AEMC draft decision that the MEU considers have not been appropriately addressed by the AEMC.

1. The AEMO request for a Rule change resulted from a long and intensive process which involved stakeholders representing gas suppliers, gas transport companies, first and second tier retailers, and end users of gas. The AEMO process provided all stakeholders with extensive information and the opportunity to discuss the issue at length. The request from AEMO was based on unanimity amongst all stakeholders involved for the solution proposed by AEMO. This aspect has been totally ignored by AEMC.
2. In its analysis the AEMC assumes (probably correctly) that its decision needs to be seen in light that the NSW short term trading market (STTM) will be in operation. However the AEMC fails to recognize that the NSW STTM hub operates purely at the entry to the Sydney gas market based on the Sydney gas distribution network. The transfer of gas at Culcairn does not interface the STTM at all, and for the AEMC to analyze the impact of the AEMO request in terms of the STTM, is not apposite.
3. The AEMC has also failed to recognize that the NSW gas market is based on contract carriage and that in Victoria possessing AMDQ is the market

2-3 Parkhaven Court, Healesville, Victoria, 3777

ABN 71 278 859 567

carriage equivalent of having shipping rights under contract carriage. We consider that in the case where there is a tie between bids, there should be priority given to capacity right holders.

This principle has been built into the recently designed STTM. The reason for this decision in the development of the STTM is it was considered that providing capacity right holders with priority in the case of tied bids, promotes investment in gas pipeline capacity.

The MEU notes that for gas to flow into or out off NSW at Culcairn, shippers must have capacity rights on the NSW side and therefore there exists a constraint on any gas flow through the Culcairn interconnect, that shippers must have capacity rights on EAPL. As noted having AMDQ at Culcairn is equivalent to having capacity rights under market carriage. Unless the AEMO proposal is implemented, under a tied bid, transfer rights will only be available to NSW capacity right holders.

The principle of having capacity rights on both sides of the Culcairn interconnect should have priority over having capacity rights on one side only.

The MEU considers that priority in the case of tied bids at Culcairn, should be given to those shippers that have firm capacity rights.

4. The AEMC concluded that there are market power issues involved and the draft decision gives significant weight to this aspect. Yet in the AEMC analysis it fails to recognize the materiality of the issue. The amount of gas flowing at Culcairn is less than 20 TJ/day. The NSW gas market is measured in terms of >400 TJ/day – thus Culcairn gas flow is less than 5% of the NSW gas demand. On this basis the issue of market power was not seen as material in the extensive discussions carried out under the aegis of AEMO, and the AEMC analysis needs to recognize this.

The MEU supports the AEMO Rule change requested and considers the AEMC has not addressed the issue anywhere near the extent that AEMO has undertaken. The AEMC analysis is clearly deficient in parts and because of this has reached a conclusion that is not supportable.

The MEU requests the AEMC readdress all the issues and when this is done, it should reach the conclusion that the AEMO proposal needs to be implemented.

Yours faithfully



David Headberry
Public Officer