

Australian Energy Market Commission
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5th April 2016

East Coast Wholesale Gas Market & Pipeline Frameworks Review (GPR0003)

The Australian Energy Council (the “**Energy Council**”) welcomes the opportunity to comment on the Australian Energy Market Commission’s (“**AEMC**”) East Coast Wholesale Gas Market & Pipeline Frameworks Review Pipeline Access Discussion Paper.

The Energy Council is the industry body representing 22 electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. These businesses collectively generate the overwhelming majority of electricity in Australia and sell gas and electricity to over 10 million homes and businesses.

While the Energy Council appreciates that the AEMC is working towards presenting to the COAG Energy Council on this topic in mid-2016, it is uncomfortable providing detailed comments on such an important topic less than four weeks after the discussion paper was released, particularly when, within the 78 pages of text, 124 questions have been posed of the reader.

Introduction

As the Energy Council has commented previously, it is difficult for industry to assess the net benefits of the proposals, given the lack of concrete detail about what is planned. Members would welcome more information (and worked examples) about how the different proposals would operate, so that they may best assess:

- (a) the likely benefits from a range of possible outcomes, and
- (b) the possible costs of implementation, costs which may be direct, such as IT costs, or change-related, for example by changing existing work practices, thereby affecting existing revenue streams.

While the Energy Council acknowledges that opportunities for improvement can always be found, particularly in systems as complex as the East Coast Wholesale Gas Market, we consider that market changes should be focussed on solving practical rather than theoretical problems, and such changes should be in response to genuine shortcomings identified by verifiable evidence.

Governance Approach

The Energy Council favours an industry-led approach, with a broad representation of industry participants (including those affected by the proposed changes, such as participants with gas-fired generation) on the working group. This will lead to the best balance of speed of reform and flexibility in implementation. The AEMC will need to provide overarching principles & guidelines for the working group, as well as representation in order to achieve the best outcomes and ensure that all stakeholders are fully informed throughout the process.

It is also important that the implementation of changes is staged, with periodic assessments of the efficacy of changes and their value compared with the costs incurred to that stage.

Standardisation of Capacity Products and Contract Terms

While standardisation of contracts is important to improve fungibility, it is important that doing so does not stifle the negotiation of innovative products to meet market needs. The Energy Council sees a place for products at both ends of the contracting spectrum – plain vanilla and exotic – and recommends market development such that all contract types remain available to market participants.

The Energy Council also recommends special consideration be given to the treatment of legacy contracts. It is important that legacy contracts' rights are not infringed by the introduction of new contracting regimes. In defence of the maintenance of exotic contract types, it is clear from the continuing exercise of certain rights within legacy contracts that particular key terms & conditions may continue to be required by market participants in future contracts, for example those which assist in the management of gas-fired generation assets.

Introducing greater receipt and delivery point flexibility in gas transportation requires consideration of physical flows on pipelines including linepack, receipt and delivery point pressures and compressor scheduling. Accordingly, while the provision of more flexible transportation arrangements would be helpful, such arrangements need to be offered within the technical limitations of the pipeline in question, and need to ensure that existing shippers' rights are not compromised.

Capacity trading platforms and Trading Information

Energy Council members are supportive of plans to provide more information to inform their trading decisions and recommend that steps be taken to ensure that any systems developed are common across both pipelines and pipeliners, thereby reducing the cost of industry developing systems to access this data. While providing these data sources, as mentioned in our previous submission, it is important that requirements for greater provision of information does not expose market positions, either in the gas market or the closely related electricity market, either explicitly or by deduction.

The Energy Council also recommends that an assessment of single or multiple trading platforms not only consider *prima facie* efficiencies, but also consider related issues, such as settlement risk and minimisation of credit support obligations.

Auction for contracted but un-nominated capacity

Auctioning contracted but un-nominated capacity may affect rights under existing contracts and Energy Council members are concerned that benefits under legacy contracts may be unfairly extinguished by the proposals put forward in the discussion paper. It is a particular concern that the AEMC recommends (at Section 5.2.11) that auction residues not be allocated to the incumbent shippers given, in many cases, that these shippers may have written contracts of significant term in order to underwrite either the development or expansion of a particular pipeline.

In addition, as mentioned previously, Energy Council members believe that the auction process needs to be developed by reference to the electricity market as well, and any procedures implemented need to ensure that both gas and electricity markets remain a level playing field for all participants.

Conclusion

In conclusion, the Energy Council favours implementation using a broad representation of industry participants working in collaboration with the AEMC. Such implementation should be conducted in a staged manner, with regular assessments along the way to ensure that the programme is both meeting the National Gas Objective and providing a positive return for market participants' investments.

In addition, the working group must ensure that legacy contracts are not compromised by the introduction of new market structures, and the new framework's effect on inter-related systems such as the upstream gas market and the electricity market are fully considered and treated.

Any questions about this submission should be addressed to the writer, by e-mail to kieran.donoghue@energycouncil.com.au or by telephone on (03) 9205 3116.

Yours sincerely,



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