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Swindon, 09/02/2016

**East Coast Wholesale Gas Market and Pipeline Frameworks Review**

Dear Mr Walker,

RWE Supply & Trading (RWEST) welcomes the opportunity to comment on the above review and commends the AEMC on the thoroughness and quality of its analysis. RWEST is a leading energy trading company in Europe and is following developments in Australian gas and electricity wholesale markets with interest. Like you, we recognise the development potential of East Coast gas wholesale markets. Over the coming years we hope this can be fully exploited in order to benefit Australian gas consumers and to complement the National Electricity Market.

Market development is most effective when it is done in an open and structured way, with full involvement of all interested stakeholders. Unlike a number of European regulators, the AEMC seems to have embraced this approach, which enables companies such as us to follow developments and input from afar. Whilst we are not yet in a position to provide detailed local insights, we hope that our more general observations will prove valuable. Clearly the AEMC is already aware of how wholesale gas markets have developed in Europe, and the USA, and has drawn some parallels with these markets. We hope that some of the lessons learnt in Europe can help to expedite market development in Australia and are happy to provide our views on this below.

RWEST broadly supports the AEMC's plan to develop a Northern physical gas hub and a Southern virtual gas hub on Australia's East Coast. Whilst our preference is for virtual gas hubs, as they tend to be less complex, offer more trading flexibility and have lower entry barriers, the characteristics of the pipeline network at Wallumbilla appear to justify maintaining a physical Northern hub at this stage. However, maximising the degree of contractual and procedural harmonisation (e.g. gas day, nomination times, capacity contracts, licensing and credit arrangements) between the Northern and Southern hubs (and the STTM hubs) will greatly help to facilitate future market integration and efficient arbitrage. As liquidity develops at the Northern and Southern hubs the STTM hubs and the Moomba GSH could conceivably develop as satellite hubs, where traded prices are set as a basis to the Northern and Southern hub prices.

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Non-discriminatory access to competitively priced pipeline capacity, whether it is point-to-point or entry/exit, is key to promoting competition and market development at the Northern and Southern hubs. To this extent we think it should be the foremost objective of the AEMC in the coming years, and hope that it will be possible to expedite this objective within the initial implementation plan.

To the extent pipelines are congested, a key distinction needs to be made between whether such congestion is physical (i.e. the technical capacity is insufficient for the demand) or contractual (i.e. allocated capacity that is not being used is not effectively being made available to others). Contractual congestion which is deliberately discouraging competition and market entry should be investigated and firmly acted upon. But at this nascent stage of market development we agree that introducing long term use-it-or-lose-it seems unnecessary, although it should be kept under review.

Full transparency regarding the amount of technical, contracted and available capacity, along with nomination information, will reinforce this distinction vis-à-vis congestion. And actual flow information, both ex-post and regularly within day, will enable shippers to form opinions on the supply and demand drivers underpinning price dynamics. Transparency in general helps to better inform policy options and even relatively simple measures, such as requiring pipeline operators to publish information consistently via a harmonised template, significantly help to aid shippers' understanding.

Whilst auctioning of secondary un-nominated contracted capacity on a day-ahead basis represents a positive first step towards encouraging competition, we hope that ways can be found for primary un-allocated capacity also to be auctioned before too long, for example in monthly and annual strips. To this extent, striving from the outset to introduce a centralised capacity trading platform capable of initially allocating secondary capacity, but ultimately primary capacity, may better serve to meet future market development needs. The European PRISMA<sup>1</sup> capacity trading platform is a good example of what can be achieved in a relatively short time with the positive engagement of pipeline operators. And some of PRISMA's experience and functionality may be exportable.

Non-discriminatory access to competitively priced hub services at the Northern hub will also be critical to its success. Secondary trading of hub services between shippers may help to support the transition from three trading locations to one physical hub. However, to the extent that hub services are likely to be needed by all new entrant shippers operating at the Northern hub in some form, mandatory provision of hub services by a hub operator, or the relevant pipeline operators, would be preferable.

Appointing a hub operator, possibly through a joint venture of relevant pipeline operators, to provide compression and redirection could help to facilitate mandatory provision of hub services at the Northern hub. It may also help to improve

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<sup>1</sup> <https://corporate.prisma-capacity.eu/>

delivery certainty at the Northern Hub (through the provision of back-up/back-down services), form the basis of efficient interfaces with trading platforms/exchanges and smooth the transition from a physical to virtual hub. Huber-ator<sup>2</sup>, now operated by the regulated Belgian transmission system operator (Fluxys), is a good example of a hub operator that provides hub services to all shippers, thereby facilitating both physical and virtual gas trading.

Finally, monitoring progress towards greater gas market liquidity and acting quickly and transparently to overcome any impediments, is an important role of an energy market regulator. Clearly the AEMC is aware of the work done by the Agency for the Cooperation of European Regulators (ACER) in this area, which has recently been further refined<sup>3</sup>. But its initial four chosen measures seem appropriate at this stage.

We look forward to reading your Final Report later this year, along with the conclusions of the ACCC inquiry. Should you wish to discuss our response in more detail please do not hesitate to contact us.

Yours sincerely,



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enclosure

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<sup>2</sup> <http://www.huberator.com/>

<sup>3</sup> <http://www.acer.europa.eu/Media/News/Pages/ACER-publishes-study-on-how-best-monitor-the-effects-of-the-implementation-of-the-network-codes.aspx>