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A few words.

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

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Reference GPR0003

Dear Mr Pierce

East Coast Wholesale Gas Market Review

AGL welcomes the opportunity to comment on the Australian Energy Market Commission's (AEMC) East Coast Wholesale Gas Market and Pipeline Frameworks Review Discussion Paper (Discussion Paper).

AGL is one of Australia's leading integrated energy companies and largest ASX listed owner, operator and developer of renewable generation. Our diverse power generation portfolio includes base, peaking and intermediate generation plants, spread across traditional generation fuel sources as well as renewable sources. AGL is also a significant retailer of energy, providing energy solutions to over 3.7 million customers throughout eastern Australia.

AGL has a long history of involvement in Eastern Australian gas markets and aside from delivering gas to its numerous customers, AGL also utilises gas in power generation, is a gas 'shipper' and owns gas facilities. AGL has also actively participated in the various gas market reviews and the views expressed in this submission leverage on AGL's considerable market experience and previous contributions to the policy debate.

AGL recognises the significant work completed by the AEMC thus far on enhancing access to pipeline capacity and is supportive of the AEMC's consideration of mechanisms to allow development of a liquid wholesale gas market in line with the Council Of Australian Government's Energy Council's 'Vision'.

However, specifically in relation to access to pipeline capacity, AGL considers that a step change in liquidity in the East Coast wholesale gas market could effectively be achieved through a shift to a form of regulated pipeline coverage and/or a shift away from the current contract carriage model. Nonetheless, developing a strong framework for secondary capacity trading remains worthwhile.

AGL provides the following material in support of its position.

Standardising contract terms, and improving receipt and delivery point flexibility

AGL suggests that the take up of standardised primary capacity contracts would be limited, given the bespoke nature of the service related provisions, which the AEMC has acknowledged in its Discussion Paper.

AGL sees greater benefit in developing standardised contracts for secondary capacity trading, to provide an efficient framework for these trades to take place in the short time frame of the proposed day-ahead auction model, which AGL also supports.

AGL considers that the absence of standardised primary capacity contracts is unlikely to impact liquidity in the secondary capacity market, provided the underlying framework for secondary capacity trading embeds receipt and delivery point flexibility, and a single trading platform.

AGL strongly advocates for improved receipt and delivery point flexibility to facilitate secondary trading. Primary capacity holders should be able to transfer capacity between any points, subject only to technical constraints, to maximise the fungibility of held capacity. The alternate proposal of zones covering multiple delivery points also has merit, but still limits flexibility and is not AGL's preferred option.

As the AEMC has queried, AGL notes that allocation agreements will need to change to accommodate an increase in receipt and delivery point flexibility. This is no barrier to moving to a flexible environment, as the anticipated benefits will outweigh any administrative costs that would be incurred to give effect to the new arrangements.

Capacity trading platform and the auction

AGL favours the development of a single trading platform, operated by AEMO, for secondary capacity trades. AGL considers that implementing an auction design operated by AEMO that is simple and fair will be critical to encouraging maximum participation in the secondary capacity market. However, should a pipeline owner be charged with the responsibility of such an operational role, any operational costs associated with participating in the market should be regulated by the AER.

To achieve simplicity, AGL supports a single round, day-ahead auction for the allocation of capacity across the entire East Coast pipeline network. AGL favours the allocation of rights for the full length of each pipeline to simplify auction design, but recognises this may lead to inefficiencies. If multiple segments are the preferred outcome as suggested in the Discussion Paper, these must be offered in combination so bidders are not left stranded with unconnected segments.

Further, and in order to deliver fairness, AGL considers participation should not be limited to fully contracted pipelines, as this could potentially leave the auction open to gaming. Additionally, auction residue should be allocated to the primary capacity holders and not the pipeline owner as the AEMC suggests – to avoid the pipeline owner being paid twice for the same capacity.

Additionally, AGL considers the auction reserve price should be zero, with the market left to determine the price of secondary capacity. AGL suggest that the best approach is queried in Box 6.3 of the Discussion Paper with compressor fuel being paid by the shipper.

AGL has found the most challenging aspect to consider has been determining the amount of capacity to be auctioned. Broadly, AGL would not support an auction design where existing rights, whether contractual or implied, are adversely impacted. The Discussion Paper considers the merits of five options to balance the need to make the maximum amount of unnominated capacity available at the auction with the need to consider existing capacity rights. AGL agrees with the AEMC that the third option, which combines withholding capacity with interruptible capacity, should be pursued. AGL cautions that the applicable thresholds will require careful consideration.

Information provision requirements

Price signals will be important in establishing an effective market for secondary capacity trading. As such, AGL supports reporting the price paid for primary and secondary capacity, along with key terms and conditions such as the type of service, on which pipeline, and contract duration.

AGL does not support disclosing the contracting parties' identities or specifying the receipt and delivery points applying to the transaction. While receipt and delivery points may be relevant to determining a price signal, the commercially sensitive nature of this information should preclude its disclosure.

Conclusion

AGL reiterates its view that fundamental changes to the market through pipeline coverage or a shift away from contract carriage, would best drive increased liquidity. AGL is not convinced that establishing a framework for secondary capacity trading will have much impact in this respect. However, given it is also unlikely to lead to great harm, AGL supports the AEMC's consideration of mechanisms to facilitate such trading.

If you have any queries about the submission or require further information, please contact Liz Gharghori at lgharghori@agl.com.au or on 03 8633 6723.

Yours sincerely,

Simon Camroux
Manager Wholesale Markets Regulation