

Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH
NSW 1235

15th February 2016

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

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

The Australian Energy Council (AEC) welcomes the opportunity to make a submission to the Australian Energy Market Commission's (AEMC) East Coast Wholesale Gas Market & Pipeline Frameworks Review Stage 2 Draft Report and Review of the Victorian Declared Wholesale Gas Market Draft Report.

The AEC 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.

The AEMC has an important role to play in defining the strategic direction for gas market development that is consistent with the COAG Energy Council's (COAG EC) Australian gas market vision. A critical element of this is the development of a long-term strategy for the design and location of facilitated trading markets.

The AEC considers that this strategic direction encompasses the whole East Coast market framework including the Victorian Declared Wholesale Gas Market (DWGM). Accordingly, while we have made separate submissions to this review and to the review of the Victorian Declared Wholesale Gas Market (GPR0002), we have considered them in conjunction and the two submissions are substantially the same.

The AEC appreciates the level of industry consultation which has occurred prior to the AEMC issuing the Stage 2 Reports. While we are broadly supportive of the plans to develop liquid wholesale gas markets as embodied in the reports, including harmonisation & standardisation of trading arrangements, we would like to draw attention to some potential issues, particularly in the transition between the current markets and the proposed future markets.

The COAG EC's vision is for "the establishment of a liquid wholesale gas market that provides market signals for investment and supply, where responses to those signals are facilitated by a supportive investment and regulatory environment, where trade is focused at a point that best serves the needs of participants, where an efficient reference price is established, and producers, consumers and trading markets are connected to infrastructure that enables participants the opportunity to readily trade between locations and arbitrage trading opportunities."

To the AEC, this implies that the evolution of wholesale trading markets should be tested against the COAG EC's vision at regular intervals to ensure that new reforms that have been implemented are advancing the achievement of this vision, and further regulatory intervention suspended if the tests are satisfied. It is worth noting that some key performance indicators may not be met immediately, as trading may take some time to establish.

The breadth of the COAG EC's vision means that the four liquidity measures proposed in the Stage 2 Draft Report may need expansion to ensure that all aspects of the vision are assessed, and other measures may need to be developed to test against the vision. For example, an assessment of whether market participants are unreasonably reserving capacity may need to be considered, and whether the proposed hub structure is the best mechanism to facilitate trade between regions, noting the different geographies between Australia and overseas jurisdictions where such virtual hubs have been implemented. The four liquidity measures proposed also appear to be overly ambitious when compared to the liquidity that currently exists in the forward electricity market.

The transition process is very important to the AEC's members as many have long-term, legacy contracts which will be affected by the proposed changes to market design hence their concern about proposals which may extinguish existing contractual rights without providing adequate compensation. For example, we are concerned that the proposal for a day-ahead auction for contracted but un-nominated capacity may inadvertently reduce the ability for gas fired generators to renominate on the gas day. This will significantly affect the flexibility of these generators in the electricity market.

The high-level market design proposed cannot consider the gas market in isolation. For example, gas will be increasingly required for power generation at short notice to cover shortfalls in supply from intermittent energy sources. On that basis, curtailment precedence will affect generation dispatch, and decisions about allocation of capacity on a day may rest with the hub operator who may be seeking the best return, not necessarily the best market outcome. In addition, the publication of forecast nominations, primary capacity sales, capacity trades and/or auction results on the Gas Bulletin Board or capacity trading platforms may provide signals to the electricity market on proposed generator running schedules. This may occur even if names are withheld or nominations are grouped at several delivery points. Thus, the detail of market design will need to consider these interactions to ensure that market participants are treated fairly and the competitive gas & electricity markets remain level playing fields. Detailed and timely historical data, as in the National Electricity Market, is therefore a preferred method of establishing greater transparency.

Expanding on this point, the AEC supports the publication of additional market data on the Gas Bulletin Board and suggests that thresholds be used to simplify the decision-making about whether a market participant needs to provide data or not, but with the caveat that providing such data should not unreasonably expose confidential information or market positions. We would also prefer that the Gas Bulletin Board concentrates on being a data repository, with data structure changes kept to a minimum to ensure that users are not exposed to constant IT revisions, and any analytical applications are developed either by market participants themselves or third party providers, as is the case currently with the electricity market. This will ensure the Bulletin Board, a public good currently funded by shippers, is as cost efficient as possible.

Declared Wholesale Gas Market

The AEC understands the desire to simplify the market design and achieve a consistent design across all states, and to ensure that the market arrangements continue to meet the challenges of the future. While we are supportive of simplification and improved flexibility and transparency, the substantial changes proposed will introduce new complexity and require significant, costly changes to IT systems and existing trading arrangements, which will ultimately be passed on to consumers. It therefore recommends that the proposed market design change be assessed against the overall costs to ensure a net benefit to the market.

Market participants are also very concerned about how the value of AMDQ credit certificates and related market entitlements will be assessed and compensated. To this end, the AEC would like to see a detailed cost-benefit analysis and further analysis of the cost-benefit when the proposed design is progressed.

Conclusion

In conclusion, the AEC supports the AEMC's focus on facilitating the development of liquid wholesale gas markets. However, particularly with respect to the changes proposed to the DWGM, members are cautious about whether the identified benefits will exceed the implementation costs and are concerned about the transition, including the proposed treatment of long-term legacy contracts and existing contractual rights.

Our members are keen to work with the AEMC to ensure that any transition occurs with a minimum of cost and disruption, changes are assessed for their effect on market liquidity and their support of investment and trading, and any changes in the gas markets are considered in the context of the broader energy market.

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

Yours sincerely,



Kieran Donoghue
General Manager, Policy
Australian Energy Council