



12 February 2016

Mr John Pierce
Chair
Australian Energy Market Commission
PO BOX A2449
Sydney South NSW 1235
Sent via AEMC online lodgement facility: aemc@gov.au

Re: AEMC Project Number GPR0002 – Review of the Victorian Declared Wholesale Gas Market Draft Report

Esso Australia Resources Pty Ltd (EARPL), an affiliate of ExxonMobil Australia Pty Ltd, welcomes the opportunity to provide feedback on the Australian Energy Market Commission's (AEMC) Stage 2 Draft Report on the Review of the Victorian Declared Wholesale Gas Market.

EARPL has more than 40 years of experience in the eastern Australian market. EARPL is also affiliated to companies that operate in other locations in an increasingly global gas market, including companies operating in deep and liquid markets in both Europe and the United States of America, and has incorporated insights from these organisations in its response.

EARPL supports the drive to establish a deeper and more liquid market in eastern Australia, and to deliver an effective and competitive wholesale gas market in Victoria.

We note the significant market reform being proposed by AEMC. The development of market liquidity is dependent on many factors in addition to short term trading markets and transportation access, including physical market volumes, multiple buyers and sellers and the availability of flexibility mechanisms such as gas storage. Even with the appropriate conditions in place, liquidity can take many years to develop, if at all. EARPL believes that bilateral contracts will continue to remain a key component of the market place.

In Europe, despite legislation and regulation requiring a somewhat similar framework to that recommended in Victoria, liquidity has only been established in limited locations. Whilst EARPL supports ongoing, phased implementation of reforms to enhance the market, we are concerned about the high costs that will inevitably be incurred to develop and implement such major changes. These costs will ultimately be borne by the market. It is essential that each recommendation to implement a

reform is supported by a robust cost benefit analysis. It is also essential, as the details of any reform are developed, that contract sanctity is respected.

EARPL supports the recommendations to seek to develop standardized and aligned short term pipeline capacity and gas commodity products, and to use common trading platforms to facilitate trading both in Victoria and across markets in eastern Australia.

Regarding access to transportation capacity at the proposed Southern Hub, EARPL supports interruptible entry and exit capacity being made available, at a price which is not at a premium to firm capacity, if all firm capacity has been sold.

EARPL looks forward to continuing to participate in AEMC's Review of the Victorian Declared Wholesale Gas Market. Please contact Mr Andrew Murphy on (03) 9270 3537 if you require clarification or any more information about this response.

Yours sincerely,



Stuart Jeffries
Director – Gas & Power Marketing