



A journey towards reform

2 December 2016

The Public Interest Advocacy Centre

The Public Interest Advocacy Centre (PIAC) is an independent, non-profit law and policy organisation that works for a fair, just and democratic society, empowering citizens, consumers and communities by taking strategic action on public interest issues.

The Energy + Water Consumers' Advocacy Program was established at PIAC in 1998 with NSW Government funding. The aim of the program is to develop policy and advocate in the interests of low-income and other residential consumers in the NSW energy and water markets. PIAC receives policy input to the program from a community-based reference group whose members include:

- Council of Social Service of NSW (NCOSS);
- Combined Pensioners and Superannuants Association of NSW;
- Tenants Union of NSW;
- Ethnic Communities Council of NSW;
- Physical Disability Council of NSW;
- St Vincent de Paul Society of NSW;
- Good Shepherd Microfinance;
- Affiliated Residential Park Residents Association;
- Financial Rights Legal Centre; and
- The Salvation Army.

Introduction

The Public Interest Advocacy Centre (PIAC) welcomes the opportunity to comment on the Australian Energy Market Commission's (AEMC) *Draft Final Report Review of the Victorian Declared Wholesale Gas Market*.¹ PIAC has been involved in the development of this final report through submissions to the AEMC review and participation in the working group meetings held between June and August 2016.

PIAC has consistently called for greater transparency in the domestic gas market in relation to information and price. The AEMC's final draft report has not changed significantly from previous drafts. The three major recommendations remain, and a further two have been added, one regarding market trials and the other regarding the Gas Market Reform Group's responsibilities.²

Key issues

PIAC is concerned about three aspects of the current proposals: risk allocation, transparency and accounting for the impact on consumers.

During the course of the working group meetings, a number of stakeholders indicated they were unhappy with the extent of the proposed reforms. A group of stakeholders have since contracted Seed Advisory to develop a report on alternative approaches.

¹ AEMC Draft Final Report *Review of the Victorian declared wholesale gas market* October 2016.

² AEMC see above no 1, xi-xii.

PIAC appreciates that some market participants are concerned about the complexity and costs associated with the proposed model. As outlined in the Seed Advisory presentation at the AEMC public forum³ and raised at the working group meetings, any alternative proposals should have been put forward earlier in the consultation process to enable consumer groups to assess if the alternative design would be beneficial for consumers. The opaque nature of the domestic gas market already makes it difficult for consumer advocates to be involved and to effectively assess proposals. This is exacerbated by receiving proposals late in the process.

The Victorian market is primarily a domestic residential market, and changes that are made must be in the long-term interests of consumers. The onus is not just on the AEMC to provide initial detail in an accessible manner, but that any alternative proposals from other stakeholders should also be provided in a timely and accessible way. There is insufficient detail available on the alternative proposal for PIAC to comment on it.

The reform will be should be assessed against the following principles developed by AEMC:

- **Effective risk management in the DWGM:** whether market participants are able to manage price and volume risk and options to improve the effectiveness of risk management activities.
- **Signals and incentives for efficient investment in and use of pipeline capacity:** whether investment in the DTS will occur in an efficient and timely manner and options to strengthen the signals and incentives for efficient investment.
- **Trading between the DWGM and interconnected pipelines:** whether the current DWGM arrangements inhibit trading of gas between the DTS and interconnected facilities and pipelines, and options to allow producers and shippers to effectively operate across gas trading hubs on the east coast without incurring substantial transaction costs.
- **Promoting competition in upstream and downstream markets:** whether the DWGM continues to encourage the introduction of new gas supplies to the market and promote competition among retailers for the sale of gas, and the extent to which the design of the DWGM may be a deterrent to large users participating in the market.⁴

Managing risk

No market is without risk and, therefore, there should be measures available for market participants to mitigate that risk. However, it is important that risk is allocated efficiently.

The AEMC's proposed model shifts the risk of congestion and the costs of ensuring the market is balanced from all market participants to individual participants. At the moment, the uplift charge has been smeared or socialised across all market participants. The proposed changes will shift that risk to the individual market participant who causes the imbalance. PIAC believes it is appropriate for the individual market participant to bear that risk and the participant can hedge against that risk with financial products. PIAC warns against any proposals that seek to shift that risk to residential consumers through the incorporation of uplift charges into the gas price or tariffs. Consumers should not be forced to pay for mistakes or poor forecasting by market participants.

³ Seed Advisory AEMC DWGM REVIEW Stakeholder Forum, Presentation, 14 November 2016

⁴ AEMC see above no 1, 107.

Transparency

PIAC has made a number of submissions about the importance of greater transparency in the gas market. There is great variation in the level of information available to pipeline owners and market participants. Greater transparency in the Victorian gas market will provide greater confidence in the market, allow for comparability between gas offers and pricing, and will lead to a single price point in the Southern Hub. In turn, this will lead to greater investor confidence, so that when signals are sent indicating the system needs expanding, investors and other market participants can be confident those signals are accurate and will promote efficient spending.

Impact on residential customers

PIAC's particular focus is on reducing the price increases and volatility that have occurred in the domestic gas market due to the international gas market exposure.

According to the latest tariff tracker, the price of gas increased by ~5% in January 2016 and has remained at these elevated levels.⁵ In 2014-2015, 22,322 Victorian residential consumers and 647 small businesses were disconnected from their gas supply. Gas affordability has become an increasing concern across the east coast gas market. PIAC supports the AEMC's proposal as it seeks to mitigate the price volatility that has entered the market since the domestic market has been linked with the international export market.⁶

Gas is an integral part of the energy supply system, providing gas fired generation including system stabilisation and restart generation in the event of a black start. The nature of gas supply in the electricity market is intermittent and therefore access to pipeline capacity is infrequent. This makes gas fired generation more susceptible to monopoly pricing, which has a knock-on effect in the electricity spot market. The Victorian gas market is now central to the wider energy market and as such the risks and benefits of the reform should be assessed with that in mind.

Gas market reform group

The AEMC recommends that the Gas Market Reform Group led by Dr Vertigan be responsible for designing and implementing the reform. PIAC agrees there is a need for this group to address some of the concerns raised during the latter part of the consultation process. It is particularly important that the group includes a consumer representative, to better articulate the impact on consumers.

Conclusion

PIAC welcomes the opportunity to participate in this reform and looks forward to further discussions as it progresses. All stakeholders agree that the current market has flaws and while they may disagree on the detail of the solution, there are a number of opportunities in the next six months to further develop the solutions.

⁵ St Vincent de Paul Society and Alvis Consulting, *Victorian energy prices. An update report on the Victorian tariff-tracking project*, December 2016.

⁶ AEMC see above no 1, 11.