



31 March 2016

Australian Energy Market Commission
PO Box A2449
Sydney South NSW 123

GPR002: Review of the Victorian Declared Wholesale Gas Market

The Australian Pipelines and Gas Association (APGA) welcomes the opportunity to provide comment on the Commission's Discussion Paper for the Review of the Victorian Declared Wholesale Gas Market.

Suitability of the Commission's preferred approach

Despite the further detail provided in the Commission's March Discussion Paper, APGA remains unconvinced that the voluntary balancing mechanism and entry/exit model proposed for the southern hub offers a sufficient improvement over current arrangements to justify the costs and disruption of its implementation. Whilst the Commission considers that a need to upgrade ageing systems regardless of the change serves to mitigate the costs, this is a single element of the costs facing market participants arising from the proposed change.

APGA is concerned that the introduction of an entry/exit model into Victoria moves the VTS frameworks arrangements further away from those in place elsewhere around the East Coast and Australia. This could exacerbate the existing concerns of some market participants and policy makers and lead to continued advocacy for major changes to the successful contract carriage framework. It is difficult to achieve meaningful change in line with the CoAG Energy Council's vision and the Commission's recommendations regarding pipeline access if some participants and policy makers are continuing to advocate alternatives.

Institutional roles

If the Commission's preferred approach for Victoria is pursued, despite the concerns raised by most commenters regarding the costs and benefits of such an approach, APGA questions the Commission's view that AEMO is best placed to be the system operator of the VTS. The Commission's view seems to be based on a continuing of existing roles. Given that the system itself is proposed to change, it is appropriate to question the suitability of organisations to roles for the new system.

The role AEMO currently plays as system operator of the VTS is largely linked to its role as the operator of the mandatory DWGM and the automatic aligning of commodity and capacity in the DWGM's settlements. With the proposed change in the market mechanism from a mandatory market directly linked to a market carriage framework to a voluntary balancing mechanism not directly linked

to an entry/exit model, there is little reason to assume AEMO should continue to be the system operator of the VTS.

The Commission has drawn heavily on European models in developing and proposing its preferred approach for Victoria.

APGA notes that the European entry/exit models favour, almost entirely, an approach where the pipeline owner and system operator are the same entity. The Commission, in advocating a European approach, should provide clear analysis as to why the preference to align the role of pipeline owner and system operator is not proposed for Victoria.

In APGA's view, there are two primary reasons why such an alignment seems to be optimal in the Victorian context:

- The system operator is responsible for maximising efficient use of capacity. Incentives to maximise the efficient use of capacity are best linked to revenue, which provides a greater incentive for the pipeline owner, a for-profit entity with detailed knowledge of its own assets, as opposed to AEMO, a not-for-profit entity.
- It is appropriate that the party that faces penalties for failure to manage congestion, the pipeline owner, benefits from the revenue incentives to maximise utilisation, which lie with the system operator. Even if revenue from the maximisation mechanism were to accrue to the pipeline owner, as stated above, the incentive to increase revenue is strongest with the for-profit entity. The for-profit entity can achieve the best balance between incentives and penalties, leading to the greatest efficiencies.

If you would like to discuss this further, please contact me on (02) 6273 0577 or sdavies@apga.org.au.

Yours sincerely

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