



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

via email: aemc@aemc.gov.au

1 June 2015

Dear Mr Pierce,

Subject: East Coast Wholesale Gas Market and Pipeline Frameworks Review

AGL welcomes the opportunity to comment on the AEMC's Stage 1 Draft Report on the East Coast Wholesale Gas Market and Pipeline Frameworks Review. The Review comes at a time of uncertainty for east coast gas markets, characterised by changing market dynamics driven largely by the commencement of liquefied natural gas (LNG) exports in Queensland.

As an overarching objective, AGL aims to be at the forefront of the development of liquid and transparent gas markets. While AGL supports reforms consistent with the Council of Australian Government Energy Council's (the Council) vision of enhancing transparency and market liquidity, AGL urges caution in proposing significant reform while the market adjusts to the changing environment. Where reforms are proposed, the benefits should clearly outweigh the costs.

This submission responds to specific Stage 1 recommendations, while also commenting on Stage 2 issues important to AGL.

Stage 1 recommendations

Information provision

AGL considers that gas customers are best served by efficient and effective markets, characterised by information transparency, liquidity and light-handed regulation. AGL is broadly in favour of information provision recommendations aimed at enhancing liquidity, where confidentiality considerations are taken into account.

- Gas Bulletin Board as a one-stop-shop

AGL supports initiatives to further develop the Gas Bulletin Board (GBB) as a one-stop-shop for gas market information, where the benefits outweigh the costs. As part of this review, AGL suggests the AEMC develops long-term objectives for the GBB, consistent with the Council's vision. If consistent with the longer-term objectives, AGL is comfortable with the proposed publication of information on prices in facilitated markets, planning and longer-term forecasts on the GBB. However, AGL notes unnecessary duplication associated with potential expansion of the capacity listing page, which is already available on the Gas Supply Hub.

While the GBB may benefit from further improvements to its layout and functionality, such improvements should only be done where the benefits are material. A useful example, the Australian Energy Market Operator's (AEMO) 2014 redevelopment of the GBB, which was scoped in consultation with AGL and other participants, was primarily focused on enhanced functionality within certain cost parameters.

- Aggregation of publicly-available information

AGL sees no down side to providing such information to the market. While major gas suppliers and buyers already undertake this analysis to inform their commercial decisions, this information would be useful to participants who are less well-resourced.

AGL suggests provision of such a report should be published by an independent body such as AEMO, the Australian Energy Regulator or the Bureau of Resource and Energy Economics.

- Price transparency through a survey-based index

While in favour of enhanced transparency, AGL does not support the introduction of a survey-based index on the basis that a price index should develop naturally through enhanced liquidity.

A facilitated price index may also set unrealistic expectations, would be challenging to interpret and have, in the past, brought a number of markets into disrepute due to manipulation (Libor scandal).

- Gas Transmission Pipeline Capacity Enhanced Information Rule Change

In principle, AGL supports the AEMC's recommendation to capture further information improvements in the scope of the Gas Transmission Pipeline Capacity Enhanced Information Rule Change, where confidentiality considerations are taken into account.

One such proposed information enhancement is the provision of standing tariff data for storage services. The AEMC should be aware that AGL does not have a standing tariff for its storage facilities.

Short-term Trading Market Design

AGL supports the AEMC's recommendation to establish a technical working group aimed at reviewing the design of the Short-term Trading Market (STTM) and transitioning the STTM model to a more focused balancing design. In AGL's view, the technical working group should:

- reflect on the role of the STTM in the broader east coast gas market and refocus its objectives accordingly, consistent with the Council's vision;
- streamline its market design, aimed at promoting simplicity and low-cost.

Declared Wholesale Gas Market

As noted in its submission to the Review Discussion Paper, AGL believes the AEMC should consider whether the existing intra-day trading design is fit-for-purpose given gas-fired generation has not had as significant an impact on the Victorian gas market, as was expected when these changes were introduced.

AGL also supports removing the limitation on who can submit DWGM rule changes in the National Gas Law, in the interests of openness and transparency, on the assumption there is no additional cost impact to market participants.

Stage 2 considerations

AGL welcomes the opportunity to holistically consider the role and design of facilitated markets in eastern Australia, including the need for an additional trading hub at Moomba. AGL does not favour complete harmonisation of existing east coast markets, recognising that these markets partly reflect localised physical characteristics and such harmonisation would be costly.

A consistent national framework

AGL does, however, support development of a consistent national market framework with alignment of aspects of market design where appropriate. For instance, AGL supports alignment of the gas day across markets from midnight to midnight. A 12am start time would line up with the lowest level of activity across the gas day. While AGL does not believe the costs of changing systems or meters would be material, AGL would need to further consider the contractual implications of changing the gas start day.

Further development of the Wallumbilla GSH

AGL supports further evolution of markets aimed at promoting transparency and liquidity in gas markets. As a participant in the Gas Supply Hub Reference Group AGL has engaged in recent discussions about the next stage in GSH development, focused on development of a single trading product at Wallumbilla and the proposed implementation of two GSH trading locations Moomba.

As part of its upcoming consideration of AEMO's high-level design of a single trading product, AGL urges the COAG Energy Council to continue to promote a low-cost GSH model, in which trades are voluntary. As a monopoly provider, AGL would not support a model in which APA is made the hub operator.

AGL is also interested in further analysis on the benefits of additional trading locations, including at Moomba, which may be of benefit to the east coast market as a whole. However, it may be more beneficial to the market to resolve issues with the STTM markets (primarily costs of participation) and Wallumbilla (low trading liquidity) before using limited resources to create even more trading hubs based on models that have not as yet delivered their predicted value.

Facilitating capacity trading

AGL sees capacity trading as a key constraint in developing liquidity in the market, second only to supply constraints, and agrees with the AEMC's assertion that "the ability of gas to flow to where it is most valued is inextricably linked to the conditions prevailing in the transmission segment of the supply chain. It is relevant therefore to consider whether the current regulatory and market arrangements are enabling gas to flow to where it is valued most".

AGL will undertake internal work on capacity trading in the Australian market in parallel with Stage 2, including consideration of contractual and access issues (such as grandfathering current transmission arrangements until the conclusion of their commercial terms) or the potential to shift to an open access regime.

Gas Bulletin Board

The AEMC's Stage 2 recommendations appear far-reaching with potential unintended consequences and costs. Noting that the process is still underway, AGL considers that the market will benefit from more specific recommendations that clearly identify the associated costs and benefits. Further, recommendations should clearly link to the GBB's long-term objectives, rather than be targeted at addressing short-term uncertainties while the market adjusts to changing dynamics on the east coast.

AGL looks forward to engaging with you further during the course of this Review.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Simon Camroux'.

Simon Camroux
Manager Wholesale Regulation