

**GDF SUEZ**



1 June 2015

Mr John Pierce  
Chair, Australian Energy Market Commission  
Level 6, 201 Elizabeth Street  
Sydney NSW 2000

Lodged via [www.aemc.gov.au](http://www.aemc.gov.au)

Dear Mr Pierce

### **East Coast Wholesale Gas Market and Pipeline Frameworks Review**

GDF SUEZ Australian Energy (GDFSAE) appreciates the opportunity to make a submission in response to the Stage 1 Draft Report of the East Coast Wholesale Gas Market and Pipeline Frameworks Review (the Review).

GDFSAE welcomes the Review and congratulates the Australian Energy Market Commission (the AEMC) on the significant work it has undertaken in such a short period of time. As previously indicated, the AEMC is well placed to identify opportunities to further develop Eastern Australian gas markets through the Review, especially in the context of the significant challenges facing the sector and in light of a number of structural impediments that have arisen in recent times. GDFSAE looks forward to continuing to work with the AEMC on this Review and strongly welcomes the industry engagement that has occurred to date.

While the Review is welcomed the timeframes for response are less than ideal and create the risk of issues being mischaracterised or critical issues being overlooked. GDFSAE therefore believe all substantive issues should continue to be considered in Stage 2 of the Review where the AEMC will be better placed to examine these important issues in further detail.

More broadly, GDFSAE appreciates the Review has only recently commenced and there is further time for the AEMC to clearly define the strategic objective and direction for Australian gas markets in the context of the Council of Australian Government's Energy Council vision. This should include not only ways of improving the status quo, which is effectively the perspective from which the Stage 1 Draft Report has been developed, but fundamentally challenging whether the current levels of inflexibility in the market, the reliance on opaque long term arrangements, and the way in which infrastructure is developed is in the long term interests of consumers.

These latter issues have been at the heart of a range of claims and counter-claims concerning gas markets in recent years and have given rise to numerous studies and reviews. This Review's value will be measured against its ability to assure consumers that developing open and flexible markets will best meets their needs and that those markets will appropriately incentivise market participants.

#### **GDF SUEZ Australian Energy**

Level 33, Rialto South Tower, 525 Collins Street  
Melbourne, Victoria 3000, Australia  
Tel. +61 3 9617 8400 Fax +61 3 9617 8401

[www.gdfsuezau.com](http://www.gdfsuezau.com)

INTERNATIONAL POWER (AUSTRALIA) PTY LTD  
ABN 59 092 560 793

### *Gas market experience*

GDFSAE owns and operates 3540MW of brown coal, gas fired and renewable generating plant in Victoria, South Australia and Western Australia, with its retail arm, Simply Energy, serving markets in Victoria, New South Wales, South Australia and Queensland. As well as gas fired generation and gas retailing on the east coast, GDFSAE is a gas shipper and actively participates in the facilitated hubs and in the contract market. GDFSAE also has gas interests in Western Australia.

GDFSAE perspectives on eastern Australian gas markets are also informed by the extensive experiences of related businesses within the international GDF Suez energy portfolio. This includes as a leading participant in Europe, as a buyer, transport and distribution network manager, storage operator and as the European liquefied natural gas leader. GDF Suez has more than 16 million customers in Europe. To the extent that it is possible, GDFSAE will seek to identify lessons learnt internationally to the Australian context.

### ***Improving price transparency and the Gas Bulletin Board***

The AEMC enunciates the importance of price transparency in its characterisation of well-functioning markets as follows:

Demand and supply conditions reflected in prices: markets participants should have access to a credible reference price reflective of underlying supply and demand conditions that usefully aids decision making. (Draft Stage 1 Report, Page 15)

GDFSAE agrees with this statement and therefore suggests it is against such criteria that the AEMC's draft proposals in this area be assessed.

The AEMC have proposed two specific actions to improve price transparency. Firstly, to develop a survey-based price index for short, medium and longer-term contracts for the major delivery points and secondly, to aggregate publicly available information in the form of a regular report. The AEMC have also proposed that the Gas Bulletin Board become a "one-stop shop" for market based information.

### *A survey based index*

GDFSAE is not opposed to the development of indices for major sources of supply and appreciates the value of greater transparency. Noting this GDFSAE has some specific observations.

Firstly, and based on the price transparency criteria outlined by the AEMC and quoted above, GDFSAE believes that a historical survey based price has some value but is ultimately less valuable than accurate prices that reflect present supply and demand conditions. In this regard, the value of any survey based index is secondary to a functioning market that facilitates short and medium term trades in a transparent and observable manner. To this end, the benefits of hubs which are fit for purpose and support a forward curve may largely outweigh historically based indices.

Secondly, the index needs to aid decision-making. The reason GDFSAE is focused on the development of greater trading liquidity and a forward curve is it gives a better reading of the market's future expectations than a historical survey based reference price. Historical reference prices, while valuable, require interpretation based on future expectations.

Finally, GDFSAE is aware that there are already some steps towards developing east coast gas indices based on contract and Wallumbilla Gas Supply Hub (Wallumbilla) trades. To the extent a survey based index replaces what is already occurring through processes, for instance Argus' work in this area or Energy Quest's longstanding reports, the AEMC should be cautious not to undermine private providers.

None of these points are meant to take away from the potential value of a survey based index or indices but merely cautions that the purpose of such measures needs to be clear and signed long-term contracts may not ultimately be as relevant for short term transactions and medium term flexibility as the development of a forward curve driven by 'clean' hub prices.

Additionally, the problem being solved isn't immediately apparent. For instance, if the issue is that the methodologies used by privately produced indices are not supported by stakeholders and there is an alternative agreed methodology for developing a reference price then it may be easier to release this methodology publicly for use by existing providers. Alternatively, if government wants greater control or wishes to have the market operator produce the index than this may entail a separate set of recommendations.

Should the AEMC be minded to develop survey based indices GDFSAE would recommend they:

- be implemented by way of industry agreement and not by regulatory requirement;
- be contracted through existing private providers who are already in the business of attempting to establish similar indices; and
- continue under the auspices of the AEMC's recommendation for three years, with participants being left to determine whether there is value in its continuance thereafter.

*Aggregating publicly available information and the Gas Bulletin Board as a "one-stop shop"*

GDFSAE as a general principle supports making existing information more accessible. The critical question is how will this occur and at what cost?

Presently, there are a range of information sources from the Australian Energy Regulator, the Australian Energy Market Operator (AEMO) and information on the Gas Bulletin Board. The extent to which these sources of information are fit for purpose or could be better aggregated remains uncertain.

GDFSAE would be more comfortable with the AEMC initiating a scoping study to identify relevant and meaningful market data to assist and facilitate short-term trade in gas and pipeline capacity. A scoping study working group with representatives from industry (across the supply chain), the AEMC, AEMO and government could be a recommendation of the Stage 1 Report. Specific consideration could be given to:

- provision of real-time information;
- appropriate incorporation of LNG data;
- the COAG Energy Council Rule change request;
- costs and regulatory burden on business;
- appropriate reporting platform and central repositories; and
- arrangements operating in overseas markets.

Clearly, enunciating objectives/principles would be the first step with a report provided as part of Stage 2 of the Review. GDFSAE understands that AEMO was planning to commence the next stage of the Gas Bulletin Board redevelopment. This new process would incorporate the work anticipated to be undertaken by AEMO as well as link together the Council of Australian Government's Energy Council rule change request.

This group should be canvassed as to whether any existing rule changes, or alternatively a new rule change, can be proposed to cover a wider range of issues. This approach benefits from wider industry consultation.

GDFSAE is conscious of the importance of transparent and accessible information yet notes that the value of the various information platforms in the face of mounting costs remains the subject of debate. For this reason, GDFSAE supports a holistic approach to improving information including any moves to further upgrade the Gas Bulletin Board. This includes making recommendations on the use of line pack data, storage facilities, and medium term capacity outlooks for facilities including large users, and moves to “live” data.

### ***Short-Term Trading Market Simplification***

The AEMC recommendation to refocus the existing Short-Term Trading Market hubs “specifically on balancing” is premature and requires more detailed consideration.

GDFSAE is not comforted by any recommendations which may have the effect of reducing trade through the Short-Term Trading Market. While this may suit a few large players it will ultimately undermine the development of the broader market. Encouraging more trade through the existing hubs not less should be the overall objective for the AEMC and therefore the Stage 1 Draft Report recommendation mischaracterises the problem. Hubs should be developed to maximise the value of trade. Limiting their application will not do that. Specifically, not clearing trades through hubs will undermine price signals and would be counter to Council of Australian Government’s vision.

GDFSAE understands the concern around costs for highly contracted participants who have less appetite to manage risks in the market place but this mischaracterises the drivers of costs and ignores the benefits of current arrangements. Suggesting less trade will lead to less cost suggests a view that costs are incremental based on the number of trades. Clearly, that is not the case. Short-Term Trading Market costs are driven by the market structure and governance not the amount of trades that go through the hub. Instead, the more trades, the lower the costs allocated to each participant on a per trade basis.

As such, GDFSAE is quite concerned a move to a more ‘net’ based hub will only increase costs for smaller players who are required to use the hub to enter the market. This will directly undermine the ability of participants to trade, create greater barriers to entry and increase the dominance of the largest participants. Large highly contracted participants will be better placed to dictate the terms of trade to smaller participants.

Notably, the AEMC and many participants are captured by the view that demand hubs and supply hubs need to be inherently different. In other words, debate focuses on how regulators and policy makers should ‘frame the market’ based on the type of trade that currently takes place. This approach needs to be challenged.

While the type and form of services at a hub may differ depending on whether it is primarily a demand or supply hub there is no reason a common low cost model cannot be investigated for use at each location. The gas debate too often tries to frame the market instead of freeing up the market to reach the position that best suits participants at any given hub over time. A gross market that provides accurate signals and allows all participants to manage risk and balances should be the end goal. In this regard, any learning from other countries in providing low cost hubs should be revisited.

One additional point that should also be made is that any change which best meets the needs of one group of participants, for instance large participants who want to opt out of the Short-Term Trading Market model, will directly and negatively impact those participants who have grown to rely on the current model and developed their systems and practices around it. As such, any form of change needs to consider and minimise transition issues.

GDFSAE appreciates the rationale for the formation of the technical working group but does not support the pre-emptive view on the future form of the hub which may limit trade through the Short-Term Trading Market. At this stage, it is not apparent that the AEMC have determined what the preferred common characteristics of workable hubs should be moving forward and where change to existing hubs is warranted. In that regard, making significant changes may be inopportune and it may be appropriate for this work to be conducted by the AEMC first.

### ***Harmonising gas day and other market parameters***

It is surprising that the market has been unable to progress greater harmonisation in the absence of an AEMC review. It is perhaps telling that it has not been able to do so as it is a foundation issue that has been canvassed multiple times. GDFSAE welcomes this logical proposal by the AEMC. GDFSAE supports the alignment of gas days and supports consideration of harmonisation with the electricity market also.

Aligning gas days is a change that could occur following the Stage 1 Report pursuant to a rule change. GDFSAE supports AEMO working to identify any *material* issues through the Gas Wholesale Consultative Forum and NEM Consultative Forum. Either AEMO or consultative forum members can lodge a rule change proposal for consideration by the AEMC.

There are other market parameters which GDFSAE would welcome the AEMC considering. The development of a “within day” market is a possible pathway to increasing the level of trade in physical gas (exchange and bi-lateral). The harmonisation of the gas days across the various markets is an important step, but other barriers exist including the lack of “with-in” day renomination flexibility. Extended trading hours would also assist. These points could feature more centrally in the Stage 1 Report but given limited time at least require further examination during Stage 2 of the Review and flow from any consideration of evolved market frameworks.

### ***Declared Wholesale Gas Market***

GDFSAE supports the AEMC recommendation to move the Declared Wholesale Gas Market to the open standing rule change process. This would mean any party could lodge a rule change proposal consistent with the Short-Term Trading Market and National Electricity Market. The AEMC’s recommendation should improve governance of the Declared Wholesale Gas Market.

GDFSAE appreciates that the Declared Wholesale Gas Market will be considered in greater detail at a later stage and looks forward to that more detailed discussion. In advance of that discussion, GDFSAE would like to make a number of points that warrant further consideration.

First, there is evidence that the market in Victoria facilitates trade between retailers, users and producers including notably in years where supply concerns have existed. Second, the Declared Wholesale Gas Market is actually reasonably liquid and the issue is the legacy contractual drivers and unmanageable charges which undermine prices and forward trading. Third, the forward instruments do not trade as they do not manage risk and therefore cannot be used in place of physical injection (notably GDFSAE is not aware of uplift hedges being available in the market). Finally, linkages between costs and causes is worthy of further consideration.

### ***Next steps for Wallumbilla***

GDFSAE supports the development of Wallumbilla and the work AEMO is progressing on the development of a single Wallumbilla product. As a principle, in order to support the development of a traded

futures/OTC market it needs to be recognised that any single Wallumbilla product must deliver a “firm” level of service and the market needs to capture the bulk of trades.

It is unclear at this point whether the AEMO process will achieve this desired outcome. GDFSAE encourages the AEMC to recognise these as key elements in the establishment of a well-functioning hub and secondary gas market and to engage in the AEMO process accordingly.

Policy makers need to be conscious of the importance of firmness and prices which capture actual trades. Only an ability to trade firm products will give rise to an appropriate forward curve. A 95 per cent tolerance is not acceptable and certainty is needed to back a futures market. This is a critical consideration in the development of the Wallumbilla hub. There is a perception that a best endeavours but high cost approach to hub services managing trade at the margins will grow the market. This is unlikely to be the case.

### ***Benefits of a Moomba Gas Supply Hub***

There are mixed views on the value of progressing with a Moomba Gas Supply Hub at this point in time. The two main criticisms are that it may reduce liquidity at Wallumbilla and that it may lock in market structures that are revealed to be sub-optimal following the conclusion of this Review.

GDFSAE suggests both of these concerns may be overstated and that it is just as likely new participants will enter the market pursuant to a Moomba hub. That said, and whatever the ultimate decision, any development at Moomba should be considered in the light of possible outcomes of this Review and allow for further development.

### ***Capacity trading and infrastructure services***

The Review process has only begun to delve into the issues of capacity and facilitating trade. GDFSAE is mindful of the further work that is required and is encouraged by the discussion outlined by the AEMC thus far.

GDFSAE is well aware of the benefits of contract carriage and market carriage and the challenges presented by each of these historically. As indicated previously, during advisory group meetings, the issue for GDFSAE is not which model is preferred but what is required to ensure either or both models can meet the current and future challenges facing the market. This includes ensuring the correct signals in Victoria and potentially overcoming the lumpy and potentially less than ideal long term nature of contract carriage.

To this end, GDFSAE welcomes analysis of the benefits of better defining the role of firm capacity, exploring the value of tradeable point to point services, the conditions required to deliver a traded environment, reducing the impact of infrastructure participants on trading within hubs, managing participants concerns around monopoly services, and the role of regulating pipeline investments inside hubs. Likewise, for the Declared Wholesale Gas Market the allocation of capacity rights is one approach while the development of nodal trading points is another option worthy of consideration.

### ***Market connectivity***

The AEMC is correct to note that all major southern and eastern Australia markets are now connected. Physically this is correct. Nevertheless, GDFSAE suggests Stage 2 of the Review consider the extent to which the connectivity allows for connectivity of trade. Where capacity needs to be separately reserved into each location, where gas specifications differ, and where other non-financial impediments exist it limits the interconnectivity of trade. As in the National Electricity Market where interconnector flows are


seen as facilitating functioning and tradeable markets, the importance of connections points in gas markets need to be fully appreciated.

**Conclusion**

GDFSAE welcomes the AEMC's work to date and supports Stage 2 of the Review. The initial recommendations within the Stage 1 Draft Report should be carefully progressed mindful of the more detailed work yet to be undertaken.

Should you have any queries in relation to this submission please do not hesitate to contact me on, telephone, 03 9617 8415

Yours sincerely,



**Jamie Lowe**  
Head of Regulation