

1 June 2015

**John Pierce**  
**Chairman**  
**Australian Energy Market Commission**  
PO Box A2449  
Sydney South NSW 1235



By online submission: [AEMC website](#)

Dear Mr Pierce

**EUAA response to the Stage 1 Draft Report on the East Coast Wholesale Gas Market and Pipeline Frameworks Review**

Thank you for this opportunity to respond to the Stage 1 Draft Report.

EUAA and its members have been strongly engaged with AEMC in regard to this matter since its inception in February this year and we appreciate the proactive steps AEMC personnel have taken to engage with our member base.

This submission reflects EUAA members' views on the short and long term propositions proposed in the Draft Report.

The Energy Users Association of Australia (EUAA) was formed in 1996 to provide a single national association to effectively represent and service the needs of Australian energy users. We exist to assist our members run efficient and profitable businesses as they relate to their energy use.

We look forward to engaging with the AEMC further.

Yours faithfully

A handwritten signature in black ink that reads "Phil Barresi".

**Phil Barresi**  
**Chief Executive Officer**  
**Energy Users Association of Australia (EUAA)**

## **1. Executive summary**

EUAA members are generally supportive of the Stage 1 Draft Report recommendations and we summarise below the points made in this submission.

1. EUAA supports a price transparency mechanism but the outputs are only as good as the data that goes in. It may be best served being an independent AEMO analysis, released at regular time intervals say quarterly, of a combination of survey-based and anecdotal data which will achieve the objective of price trends to inform forward procurement and risk management. The mechanism should address fundamentally different-sized markets with different commercial conditions.
2. Members are supportive of a one stop shop bulletin board and suggest there could be improvements by ensuring the following adherences:
  - (i) Provisions for no duplication.
  - (ii) Efficient bulletin board development and maintenance cost application so as not to pass through additional administration costs into the market.
  - (iii) A complete picture of the gas market including uncovered pipelines and major laterals to include all gas transported in the east coast system.
3. Members are supportive of access to pipeline capacity trading mechanisms however supportive jurisdictional access arrangements need to be developed in parallel.
4. We are supportive of development of a technical working group to make the STTM more efficient provided it makes for a more competitive gas supply market and is fairly representative of end users' interests and requirements. The Advisory Group is not balanced in its representation of stakeholders.
5. The medium to long term issues are an extension of the short term initiatives so it will be valuable learnings and a feedback mechanism into the development of issues should be assured.

EUAA seeks prudent management of this process to ensure the interests of energy users are represented fairly and transparently and the Energy Council's vision is uncompromised in its path to the "four broad policy work streams":

- (i) Encouraging competitive supply.
- (ii) Enhancing transparency and price discovery.
- (iii) Improving risk management.
- (iv) Removing unnecessary regulatory barriers.

The EUAA remains committed to supporting the COAG Energy Council's vision and a domestic market that is with deep in capacity, liquid in supply, competitive, transparent, informed and with good price discovery.

## **2. Overview**

We note under the direction of the COAG Energy Council, the AEMC's terms of reference for this review are to consider<sup>1</sup>:

- *the appropriate structure, type and number of facilitated markets on the east coast, including options to enhance transparency and price discovery, and reduce barriers to entry;*
- *opportunities to improve effective risk management, including through liquid and competitive wholesale spot and forward markets which provide tools to price and hedge risk; and*
- *changes to strengthen signals and incentives for efficient access to, use of and investment in pipeline capacity.*

The AEMC review is also to set out a "road map for the continued development of the markets in order to meet the Council's Vision."

In AEMC's draft report it has developed immediate initiatives for the gas markets namely:

1. Improving price transparency
2. A one stop shop bulletin board
3. Pipeline capacity trading improvements
4. STTM market design technical working groups focussed toward a balancing market design
5. Harmonising gas day start times
6. Removing limitations to initiate rule changes for the Victorian Declared Wholesale gas Market

We address these accordingly in this submission.

## **3. Improving price transparency**

Members differ in their support of either option proposed by AEMC. While some are indifferent that either a survey-based gas price index or an aggregate report will be of tangible use to the market, others are supportive at least of a survey-based gas price index.

Transparency in pricing through either method at least provides some price discovery and assists energy users participating in that market to at least have some preview of what the trend of gas prices might be over the procurement cycle.

The important point is the data in either option needs to be reasonably accurate for it to be effective. Feedback from members to AEMC in its presentation to EUAA's major gas users was the disparity in prices published by AEMO bears little resemblance to actual prices exchanged in the bilateral market which means if a party was to seek a gas supply contract, the data is misleading in terms of price due to much different contractual trading period and volumes.

Users need to be confident they can access sufficient gas at a competitive price and be able to manage the risk of future accessibility. At the end of the day, there can be all the transparency or insight possible but unless there is a willing buyer and a willing seller and the data is reflected on a common basis of time and term, it will be difficult to reflect the true price of gas across fundamentally different-sized markets with different commercial conditions.

Of the two options, it would seem a survey-based methodology might achieve the closest to an accurate dataset, however it is hard to see how it will be enacted to get the critical mass to make the data believable and useful to end users. The risk is AEMC develops a transparency program which achieves little more than what is already available now and so long as bilateral contracts

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<sup>1</sup> AEMC, <http://www.aemc.gov.au/Markets-Reviews-Advice/East-Coast-Wholesale-Gas-Market-and-Pipeline-Frame#>

remain the dominant transactions and not all transactions are traded through a common portal, there will always be an element of inaccuracy of prices in the public domain.

In summary, EUAA supports a price transparency mechanism but the outputs are only as good as the data that goes in. It may be best served being an independent AEMO analysis, released at regular time intervals say quarterly, of a combination of survey-based and anecdotal data which will achieve the objective of price trends to inform forward procurement and risk management. The mechanism should address fundamentally different-sized markets with different commercial conditions.

#### **4. A one stop shop bulletin board**

Members are supportive of a bulletin board with the inclusions proposed but wary of the cost of supporting another platform for information and potential duplication.

One way to manage duplication is to have simple hyperlinks to the responsible party's website referenced on the bulletin board.

EUAA members propose inclusions of additional material as follows:

- (i) Notices of planned maintenance
- (ii) Gas sale offers to sell/buy excess gas
- (iii) Historical data in downloadable format

There will be a challenge for the data completeness when the LNG plants do come on line if the pipelines supplying the LNG plants aren't covered by the bulletin board. We note all the three LNG plant pipelines were all exempted from coverage<sup>2</sup>. The dynamics of the gas flows will change completely once the LNG plants commence commercial operation.

There are also other pipelines, for example, the North Queensland Gas Pipeline from Moranbah to Townsville which are uncovered. Anecdotally, members have attempted to access capacity on this pipeline without success. This is one example, however it could include all major laterals to the major transmission pipelines as well.

In summary, members are supportive of a one stop shop bulletin board and suggest there could be improvements by ensuring the following adherences:

- (i) Provisions for no duplication.
- (ii) Efficient bulletin board development and maintenance cost application so as not to pass through additional administration costs into the market.
- (iii) A complete picture of the gas market including uncovered pipelines and major laterals to include all gas transported in the east coast system.

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<sup>2</sup> Hon Gary Gray (20 June 2013) Minister's Determination (GLNG); Hon Martin Ferguson (28 August 2012) Minister's Determination (APLNG); Hon Martin Ferguson (15 June 2010) Minister's Determination (QLNG)

## **5. Pipeline capacity trading improvements**

Members are supportive of a regime to support capacity trading improvements.

The information gaps inherent in the capacity declarations have been somewhat addressed in the “suggested improvements to the Bulletin Board”<sup>3</sup>. We look forward to these matters being addressed.

It is clear from member feedback the ability to trade and purchase capacity to transport excess gas held within current gas contracts would enable more efficient trades and more liquidity in the market if buyers can (in addition to securing gas supply) access transport capacity and at least know it is feasible to transport the gas.

In a related response by EUAA to the Eastern Australian Gas Market Study in February 2014, EUAA recognises each state has a level of regulatory access arrangements for infrastructure, however it is disappointing to see that despite the Productivity Commission stating “All state and territory governments have agreed to have their access regimes certified through the Australian Energy Market Agreement (for electricity and gas regimes)”<sup>4</sup>, no state or territory has certified their gas infrastructure access regimes. See Figure 1 which is an excerpt from National Access Regime showing no certification of gas access regimes in any state.

The lack of clear or uniform infrastructure access regulations at a national level limits the ability of parties to access gas infrastructure on a recognised basis.

Figure 1: Certification status of state and territory access regimes shows no certified gas access regimes

| <i>Jurisdiction</i> | <i>Electricity</i> | <i>Gas</i> | <i>Rail</i>    | <i>Ports</i>   | <i>Water</i> |
|---------------------|--------------------|------------|----------------|----------------|--------------|
| NSW                 | x                  | x          | x              | —              | ✓            |
| Vic                 | x                  | x          | x              | —              | —            |
| Qld                 | x                  | x          | ✓              | ✓ <sup>a</sup> | —            |
| SA                  | x                  | x          | ✓ <sup>b</sup> | ✓              | —            |
| WA                  | ✓                  | x          | ✓              | —              | —            |
| Tas                 | x                  | x          | — <sup>c</sup> | —              | —            |
| NT                  | ✓                  | x          | ✓ <sup>b</sup> | —              | —            |
| ACT                 | x                  | x          | —              | —              | —            |

✓ regime certified. x regime uncertified. — no access regime. <sup>a</sup> A certified access regime applies to the Dalrymple Bay Coal Terminal. <sup>b</sup> A certified access regime applies to the Tarcoola–Darwin rail line and the South Australian rail network. <sup>c</sup> Tasmanian rail track services are declared until 2017.  
Sources: NCC (2012a; pers. comm., 20 November 2012).

State and Territory governments must honour their commitment to the Australian Energy Market Agreement and certify their gas access regimes with a consultation process.

In summary, members are supportive of access to pipeline capacity trading mechanisms however supportive jurisdictional access arrangements need to be developed in parallel.

## **6. STTM market design technical working groups focussed toward a balancing market design**

Members are supportive of change and development in this area.

Members input includes matters such as:

1. Removal of redundancies and inefficiencies in the various structures (for example is the Brisbane STTM still necessary with the development of the Wallumbilla Hub?).

<sup>3</sup> Table 3.1, AEMC’s stage 1 draft report on the East Coast Wholesale Gas Market and Pipeline Frameworks Review, p36

<sup>4</sup> Productivity Commission (May 2013) National Access Regime Draft Report, p66

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2. General agreement the gas trading day should be uniform. This will become more influential after the LNG plants are operational and the potential demand for gas from outside the jurisdictional boundaries will mean trades between those boundaries will increase.
3. Using STTM's as a balancing mechanism without impeding long term gas contract arrangements.
4. Gas buyers need the ability to choose to manage their own commercial risk by trading large or small volumes of gas in the STTM or hedging supply arrangements under long term contracts.
5. The continued development of the Moomba gas trading hub to serve large gas users in South Australia, New South Wales and Victoria and circumvent physical constraints on the QSN link between Ballera and Moomba. Unless these constraints are overcome it will further prevent access for second and third tier producers' gas supplies entering the market to create additional gas supply competition.

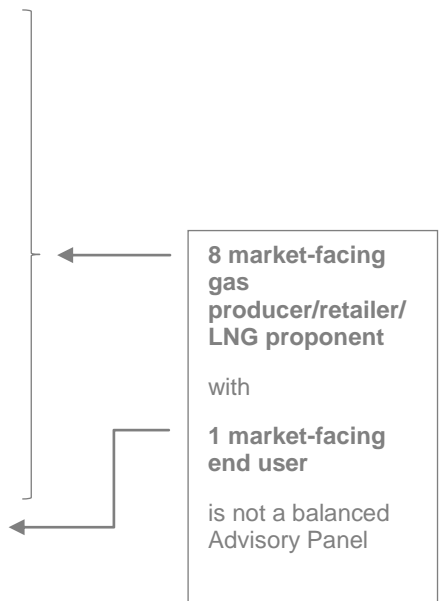
We also make the point that out of 15 members on the AEMC Advisory Panel, 9 members are market-facing (not government, industry associations or pipeliners).

Of those 9 members who are market-facing, only 1 is an end user. The rest are producers or retailers or LNG proponents with competing interests.

This is an unacceptable arrangement, we can't see how there will be fair consideration or advice to the AEMC that will address the concerns of energy users. We appreciate the EUAA and St Vinnies are on the panel but even then the allocation of fair representation of party's interests is not even. This is illustrated in Table 1.

**Table 1: AEMC Advisory Group - uneven representation**

| <b>Member</b>       | <b>Role</b>                           |
|---------------------|---------------------------------------|
| 1. AEMO             | Market operator                       |
| 2. APA              | Pipeline owner                        |
| 3. Jemena           | Pipeline owner                        |
| 4. APGA             | Pipeline association                  |
| 5. Santos           | Producer                              |
| 6. ExxonMobil       | Producer                              |
| 7. Origin           | Producer, retailer, generator         |
| 8. AGL              | Producer, retailer, generator         |
| 9. Energy Australia | Retailer, generator                   |
| 10. Simply Energy   | Retailer                              |
| 11. QGC             | LNG exporter                          |
| 12. APLNG           | LNG exporter                          |
| 13. Visy            | End user                              |
| 14. EUAA            | Energy Users Association of Australia |
| 15. St Vinnies      | Small customer representative         |



We would hope the AEMC would seek input from the 'technical working group' which fairly represents the commercial interests of all parties and is not unduly influenced by the unbalanced representation of producers on the Advisory Panel.

In summary, we are supportive of development of a technical working group to make the STTM more efficient provided it makes for a more competitive gas supply market and is fairly representative of end users' interests and requirements. . The Advisory Group is not balanced in its representation of stakeholders.

## **7. Medium to long term issues**

The medium to long term issues are an extension of the short term initiatives so it will be valuable learnings and a feedback mechanism into the development of issues should be assured.

Nobody really knows how the LNG plant demand is going to affect and how wide it will affect the individual components of the issues identified in AEMC Stage 1 Draft Report.

However it is known and agreed amongst all stakeholders the impact will be significant.

EUAA seeks prudent management of this process to ensure the interests of energy users are represented fairly and transparently and the Energy Council's vision is uncompromised in its path to the "four broad policy work streams":

- (i) Encouraging competitive supply.
- (ii) Enhancing transparency and price discovery.
- (iii) Improving risk management.
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