



4 December 2014

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

Via www.aemc.gov.au

Dear Mr Pierce,

National Gas Amendment (Contingency Gas Evidentiary Changes) Rule 2014

Alinta Energy (**Alinta**) welcomes the opportunity to make a submission in response to the Australian Energy Market Commission's (**AEMC**) current consultation paper: *National Gas Amendment (Contingency Gas Evidentiary Changes) Rule 2014*.

Alinta is an active investor in the energy retail, wholesale and generation markets across Australia. Alinta has over 2500MW of generation facilities in Australia (and New Zealand), and a customer base of approximately 800,000 gas and electricity customers in Western Australia and across the National Electricity Market. Alinta is not currently a provider of contingency gas.

Alinta understands that the rule change request, submitted by the Australian Energy Market Operator (**AEMO**), seeks to amend the National Gas Rules to facilitate proposed revisions to the contingency gas confirmation and settlement processes in the Short Term Trading Market (**STTM**). The proposed changes are intended to improve incentives for trading participants to supply gas by lowering market risks through the encouragement of more flexible pricing arrangements.

Alinta is broadly supportive of the proposed changes and appreciates the work undertaken to date by both the AEMC and AEMO to improve the operation of the emergency gas mechanism. An overview of the proposed changes along with Alinta's specific comments are provided below.

Quantity confirmation and good faith provisions

The primary objective of the contingency gas process is to efficiently facilitate the reliable provision of gas at a time when an emergency has been declared in the STTM by AEMO. While to date there has not been a need to schedule contingency gas it is important that if such an event occurs, AEMO and the market have confidence such a process will be able to effectively resolve constraints in the most efficient manner possible. Given that improving gas market transparency is a prerequisite to efficiently priced contingency gas, improving the quality of information and bids provided to AEMO is an objective supported by Alinta.

Current suppliers of contingency gas provide AEMO with several price steps for their firm contingency gas offers. However suppliers are currently only required to confirm with AEMO the total GJ quantity of contingency gas that can be firmly supplied, rather than the individual quantities associated with each individual price step.

While these separate pricing levels to a degree simply reflect the different economic opportunity costs that retailers face when curtailing select customers, Alinta does have some concerns that the current arrangements could incentivise suppliers to artificially inflate lower price bands or not make

contingency gas available due to the inability to confirm whether their higher priced bands will actually be dispatched. There may also be an incentive to “smear” margins through to the lower priced bands resulting in the prices of these bands being inflated and potentially not reflecting the true value of that gas.

While the National Gas Rule 445(2) (a) contains a good faith provision in relation to the confirmation and scheduling of the total quantity of contingency gas, these provisions do not extend to the individual price steps of contingency gas. To address this issue AEMO has proposed an amendment to rule 445 so that the good faith provisions are extended to the specific price steps within a trading participant’s contingency gas offering. Alinta understands that the intention of this reform is to provide participants greater flexibility in confirming and structuring their contingency gas bid steps appropriately.

Alinta supports the proposed changes to enable providers of contingency gas to confirm or revise individual quantities of gas in a specific price step and clarify that the good faith provisions of the rules would cover the individual price steps. Alinta considers the proposed changes are a positive development which will ensure efficient costs for contingency gas are incurred by the market as a result of:

- Allowing providers to align their specific bids and offers with their true costs, where they have multiple potential sources of contingency gas; and
- Mitigating the likelihood that price offers for contingency gas are inflated.

Alinta also considers that the additional clarity in relation to the allocation of contingency gas will result in greater certainty to both AEMO and the broader market.

Evidentiary requirements for the resettlement of contingency gas

AEMO identifies in its proposal that there are several limitations in the National Gas Rules regarding the provision and use of evidence of the delivery of contingency gas in relation to the:

- Timing of delivery of contingency gas;
- Timing of AEMO’s reporting processes;
- Inconsistencies between STTM shippers and users; and
- A lack of clarity of evidence required.

Alinta is broadly supportive of the proposed changes. Specifically, Alinta supports the proposal to increase the scope of evidentiary requirements available to AEMO with respect to contingency gas, including information about the exact period of time, location and quantity of gas that was delivered. Given the intention of contingency gas is to resolve specific constraints and demand shortfalls during a period of an emergency, it appears intuitive that AEMO should have access to information to determine what time and where a trading participant’s contingency gas was delivered and thus whether it contributed to alleviating the constraint. Alinta is broadly supportive of AEMO and the AEMC exploring practical solutions in this area, including potentially shifting such requirements away from the national gas rules and into the procedures.

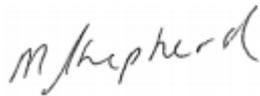
Nonetheless, to ensure that the evidentiary information requested does not become potentially burdensome in the future, Alinta supports the AEMC establishing guiding principles which AEMO must have regard to when making procedures in respect of evidentiary requirements for contingency gas. Alinta would suggest that these principles outline *what* information is required from participants, *why* the information is needed and *how* the information will be used by AEMO. This would ensure certainty for trading participants while at the same time enabling AEMO greater flexibility.

Conclusion

As outlined above, Alinta Energy is broadly supportive of the proposed changes in relation to the provision of contingency gas and welcomes the enhanced reliability and improved clarity this rule change will provide to the market place.

Should you have any queries in relation to this submission please contact Mr Anders Sangkuhl on, (02) 9375 0962.

Yours sincerely,



Michelle Shepherd
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