30 Jan 2015

Mr Chris Spangaro
Senior Director
Australian Energy Market Commission

Online lodgement

Dear Mr Spangaro,

RE: Matched allocation process in the STTM (AEMC reference GRC0030)

GDF SUEZ Australian Energy (GDFSAE) appreciates the opportunity to comment on the *Matched allocation process in the STTM Rule 2014 Consultation paper* (the Consultation paper).

GDFSAE understands that the National Gas Rules clause 26(9)(a) of Schedule 1 provides a transitional arrangement which allows for any gas purchased by Jemena Gas Networks (JGN) for operational reasons to be excluded from the Short Term Trading Market (STTM), and made subject to a matched allocation process. JGN considers that it has limited ability to manage the differences between its nominated market schedule and the actual quantity of gas it withdraws, given the characteristics of Unaccounted for Gas (UAG). JGN have argued that by not participating in the STTM, it is able to avoid STTM participation cost which in turn, results in lower charges to JGN's customers.

GDFSAE understands that the transitional arrangement was included in the rules at the commencement of the STTM and is due to expire on 30 June 2015. The rule change request seeks to amend the rules to convert the transitional matched allocation process into a permanent arrangement.

In considering whether to make permanent the current transitional arrangements, it would be interesting to understand what consideration was given to the relevant factors in 2010 when clause 26 was included into the transitional arrangements of the National Gas Rules. This was prior to the AEMC taking on responsibility for the administration of the National Gas Rules, and the change was authorised by the South Australian Parliament. It would be helpful if the AEMC could provide a description of the relevant points considered by the South Australian Parliament authorised the current transitional rule.

Set out below are each of the three questions posed by the AEMC in its Consultation Paper, along with GDFSAE responses.

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Question 1	**Given the difficulties in controlling the volume of unaccounted for gas on a daily basis and the need for unaccounted for gas to maintain the safe and reliable operation of the NSW Gas Network, is it appropriate for unaccounted for gas to be subject to the risks of deviation pricing in the STTM?**

As GDFSAE understands it, the current transitional arrangement of matched allocations requires that JGN enter into an arrangement with a shipper and a facility operator which then ensures that the quantity of UAG required by JGN is excluded from the STTM. This arrangement is made possible by the definition of UAG in New South Wales, being the amount of gas nominated in advance by JGN each day.

Since the New South Wales definition for UAG is based on the nominated quantity rather than actual quantities, it is possible to nominate a value for UAG which is not subject to change, and can then be precisely excluded from the STTM. However, the actual gas used by JGN each day may differ from this nominated amount, and ultimately this difference must be made up somehow. The mechanism for dealing with this inevitable difference is not transparent.

The principle of the STTM is that participants are subject to deviation payments to create an incentive to manage gas delivery and usage to match nominations as closely as possible. It seems to GDFSAE that the matched allocation process is made possible in NSW only through a quirk of the UAG definition (being based on nominations and not usage), which relieves JGN of the need to manage its gas usage, and leaves other gas participants the task of making up the difference in a non-transparent manner.

GDFSAE would prefer that all STTM participants be subject to the same set of market rules and information to ensure consistent commercial drivers and efficient outcomes including responsibility for managing deviations and own gas usage.

Question 2	**Would requiring Jemena to procure unaccounted for gas through the STTM lead to improved efficiency of the STTM? Are there any benefits to STTM participants if unaccounted for gas for the NSW Gas Network is procured through the STTM?**

The COAG Energy Council Gas Market Vision[1] includes a specific work stream focused on enhancing transparency and price discovery by continuing to aggregate existing market information and improve its accessibility.

GDFSAE believes that STTM transparency would be enhanced by managing a greater proportion of all gas transactions at the hub through a consistent and transparent set of arrangements, and where participants are encouraged to respond to market signals as they arise and manage the risks they face efficiently. Any arrangement that allows primary transactions to take place outside the STTM weakens transparency, mutes price signals, and undermines each participant's incentives to make efficient commercial decisions.

[1] See https://scer.govspace.gov.au/files/2014/12/COAG-Energy-Council-Australian-Gas-Market-Vision-Dec-2014-FINAL1.pdf

GDFSAE would strongly prefer that to the extent practicable, participants be encouraged to trade all gas through the STTM hub with consistent scheduling and pricing arrangements to ensure optimum transparency and price discovery. JGN's transitional arrangement is inconsistent with this preference.

GDFSAE agree that since the amount of UAG is small, the overall efficiency gain of the STTM would not be large. Nevertheless, this is the case with many elements of energy market reform and therefore it is important to take a principled approach that all participants impacting on STTM hub transfers and deviations be exposed to the price signals and efficiency incentives.

Question 3	**Is there material benefit for retailers and distributors from harmonising the treatment of unaccounted for gas across STTM hubs? Will making the matched allocation process permanent in the NGR act as a barrier to harmonising the treatment of unaccounted for gas? If so, would only extending the matched allocation process for a further 5 years be appropriate?**

GDFSAE is conscious of the inconsistency between the various gas markets designs; STTM's, Wallumbilla supply hub and Declared Wholesale Gas Market (DWGM). The current mixture of gas market trading arrangements imposes a level of complexity on gas trading in Australia which increases operational costs and acts as a barrier to entry. Therefore, reducing inconsistency is an issue that requires further attention. While this should encompass all hubs over the medium term, steps to harmonise STTM hubs should be progressed initially.

Making the matched allocation process permanent in the National Gas Rules would in GDFSAE's view, act as a barrier to harmonising the treatment of UAG across the STTM's and DWGM, and would not be supported. Nevertheless, GDFSAE would support temporary extension of the current transitional matched allocation in view of other possible reforms.

Additionally, the Consultation paper indicates that AGNL is considering lodging a proposal to amend the Retail Market Procedures for South Australia and Queensland to make retailers responsible for providing UAG. This would more closely align with the Victorian DWGM, and would ensure accounting of UAG in a more transparent manner through existing STTM arrangements.

Although further consideration would need to be given to any specific proposal, GDFSAE suggests managing UAG through the STTM mechanism rather than a separate process would be preferable to JGN's proposed solution.

Ultimately, GDFSAE believes that whatever arrangement is in place, there needs to be a discipline on the network businesses to ensure that there are not excessive gas leaks, operational usage or meter errors causing unnecessary amounts of UAG. While there exists a range of options to encourage discipline, being exposed to market arrangements is considered the most appropriate.

Should you wish to discuss any matter in relation to this submission, please do not hesitate to contact me on, telephone, 03 9617 8331.

Yours sincerely,

C Deague.

Chris Deague
Wholesale Regulations Manager