NATIONAL AGAS AMENDMENT (GAS DAY HARMONISATION) RULE 2016

AEMC REFERENCE: GR0036

QGC welcomes the opportunity to provide comment on the National Gas Amendment (Gas day Harmonisation) Rule 2016 (**the Rule Change**) Consultation Paper, released by the Australian Energy Market Commission (**AEMC**). We recognise this is one step towards developing a truly national gas market and over the longer term will assist in promoting trading and liquidity across the integrated system. We note the Rule Change request seeks to achieve this by amending the National Gas Rules (**NGR**) to align the start time of the Short Term Trading Markets (**STTM**), Declared Wholesale Gas Market (DWGM) and Gas Supply Hub (GSH).

The start time is proposed to be 6:00am EST, which is currently in place in the DWGM. In principle, we support the proposal to align the gas days across the East Coast Gas Market. In terms of our business, it is uncertain whether the benefits would outweigh the direct costs incurred in making the necessary changes. In this regard, we strongly suggest the AEMC:

1. Consult with industry on the costs and the appropriate national gas day start time;

2. Re-evaluate whether this remains a priority issue for the reform of the East Coast Gas Market and focus on other proposals that will advance short-term market liquidity;

3. If changes are recommended liaise with industry regarding an appropriate led time for introduction.

Each of these is expanded below.

1. HAVE THE COSTS AND IMPACTS BEEN FRAMED APPROPRIATELY?

According to the Rule Change Proposal, submitted by the COAG Energy Council Senior Committee of Officials (SCO), the rationale for the choice of a 6:00am EST gas day start is outlined in the following statement:

> *The proposed changes have no impact on the DWGM, the facilitated market which supports the greatest number of participants and hosts significant metering infrastructure. Aligning the STTM and GSH gas day start times with that of the DWGM, while disruptive to participants and infrastructure operators in these markets, minimises the costs and impacts associated with metering and contractual changes across the eastern market*.

It is unclear how the COAG Energy Council SCO formed this view and to what extent the costs and level of disruption to Queensland based participants was considered in the overall assessment. These cover contractual / operational changes and metering.

Broader "gas day" alignment

We recognise that under the proposed change, there is no statutory obligation to adjust the "gas day" start time that applies to arrangements outside the Wallumbilla GSH and the other markets. Practically, however, we consider the "gas day" will need for change for shippers and users on pipelines that interconnect with Wallumbilla; and therefore all Gas Transport Agreements (**GTA**) and Gas Sales Agreements (**GSA**) on these common pipelines.

Market participants could potentially be operating across two different gas days, which is not workable as it creates significant and complex scheduling and balancing issues (and likely metering changes across QGC's pipeline network). With respect to bi-lateral contracts, this would require contractual changes and there is no certainty that all parties will agree (creating further issues). Furthermore, to enable orderly allocations, we would expect the pipelines would need to shift to a single time. In summary, if the gas day were to be aligned across all east coast gas markets, it would be necessary to also align the gas day for all of our existing operations and contracts

Metering Changes

We consider the proposal would have flow-on effects for the reporting of information on the Bulletin Board (BB). To ensure that BB information is meaningful to the market, we expect the reporting timeframes would also need to change. The combination of this change, in addition to the broader commercial implications of changing the time of the gas day, would trigger large scale adjustments to metering equipment and hydrocarbon accounting systems for projects such as QCLNG.

Given the nature of Coal Seam Gas (**CSG**) production (i.e. extensive upstream facilities), the metering infrastructure and systems could potentially equal (if not exceed) levels in place in Victoria and elsewhere across the east coast. QGC's metering extends from the well head to the QCLNG facility at Curtis Island and we expect metering across the supply change would need to be modified.

Our preliminary cost estimates to align to a new Bulletin Board (**BB**) start time, are likely to well exceed those suggested by one APA (for the comparable direct costs) in their submission to the AEMC Stage One Draft Report. These costs are in addition to the general internal costs associated with restructuring our trading and scheduling operations and other legal costs incurred in amending contracts etc.

At the time this recommendation was being developed as part of the Stage One Report, QGC was developing and commissioning its upstream facilities and at that point the overall costs were not necessarily well understood.

If there is no one clear gas day start option that minimises the overall costs (i.e. the costs are substantial under all available options), we consider some form of compensation would be appropriate for those incurring the costs and significant lead times provided to allow participants to incorporate these changes as part of their other maintenance/upgrade programmes. It would be inappropriate to arbitrarily impose significant costs on one set of market participants.

Whilst QGC acknowledges that there are likely to be benefits from harmonising gas days across the East Coast market, we would find it difficult to conclude, at this time, that the anticipated benefits would outweigh the significant estimated costs for our business.

2. GAS DAY HARMONISTION AND - THE LEVEL OF PRIORITY

While we are strongly of the view that "gas day" harmonisation is beneficial in the longer-term, it is unclear whether it is materially impacting the level of current trading (and impacting the development of financial risk management products) and as such whether it would deliver immediate net benefits. Therefore, we do not believe that this should be a priority issue for the AEMC to be presently progressing. We are unaware that there have been clear examples provided regarding the impacts.

QGC is an active participant in the broader East Coast Wholesale Gas Markets and Pipeline Frameworks Review (**the Review**) and through this process indicated priority should be placed on implementing initiatives such as the auction for contracted, but un-nominated capacity. We have provided examples of the impacts of the current arrangements and consider it is the principle measure (that if designed appropriately) will likely unlock significant net market benefits enabling gas to move to where it is needed most and promote liquidity. It should address the major impediments to secondary capacity trading being the lack of incentives on incumbent shippers to release short-term capacity and for prices to reflect outcomes expected in a "workably competitive market". Although QGC is not currently a regular participant in trading activities outside of Queensland markets, we have not seen any evidence to suggest that misaligned gas days is truly a barrier to trade across jurisdictions

Following on, in relative terms the proposed pipeline access reforms will assist further in supporting the development of financial risk management products than harmonising the gas days. As such we have a clear preference for resources (industry and government) to be directed to progressing changes that will deliver obvious net benefits.

While we understand the AEMC has commenced a consultation process which is underpinned by certain statutory process, we consider there is basis for combining this matter as part of any changes proposed as an outcome from the Wholesale Markets Workstream as part of the Stage Two Review recommendations.

Overall QGC considers this issue is more complex than initially considered and requires further industry consultation before a decision made regarding the start time and whether it remains a priority issue for the AEMC. QGC would welcome the opportunity to discuss any of the matters raised in this response and in particular, we would appreciate the opportunity to discuss our costs estimates in more details. Any enquires can be directed to Ms Erin Bledsoe erin.bledsoe@bg-group.com (07) 3364 2621.