



26 March 2015

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

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

Dear Mr Pierce

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

Alinta Energy (**Alinta**) welcomes the opportunity to make a submission in response to the Australian Energy Market Commission's (**AEMC**) East Coast Wholesale Gas Market and Pipeline Frameworks Review (**the Review**).

Alinta is an active investor in the energy retail, wholesale and generation markets across Australia. Alinta has around 2500 megawatts of generation capacity in Australia (and New Zealand) and a growing customer base of approximately 800,000 retail energy customers. Alinta's portfolio includes three gas-fired generation units at the Braemar Power Station facility in the Queensland region, four gas fired units which form the Pinjarra Power Station and Wagerup Power Station facilities in the Western Australia south-west interconnected system, and the Port Hedland Power Station and Newman Power Station in the Pilbara region.

Alinta is a participant in the Adelaide and Brisbane hubs of Short-Term Trading Market (**STTM**), the Victorian Declared Wholesale Gas Market (**DWGM**) and the Wallumbilla Gas Supply Hub (these markets are collectively referred to in this document as facilitated markets). Alinta is also part owner of the Goldfields Gas Transmission Pipeline, and additionally owns an approximately 150km gas pipeline in Queensland serving the Braemar Power Station facility.

Alinta's submission should be read in conjunction with the industry co-developed principles "*Industry Statement to Support the Council of Australian Government's Energy Council Gas Market Development*", of which Alinta is a signatory. Alinta is of the view that these principles are complementary to the development of a long term energy vision for Australia and will provide a good reference point to measure progress, throughout the duration of the reform process.

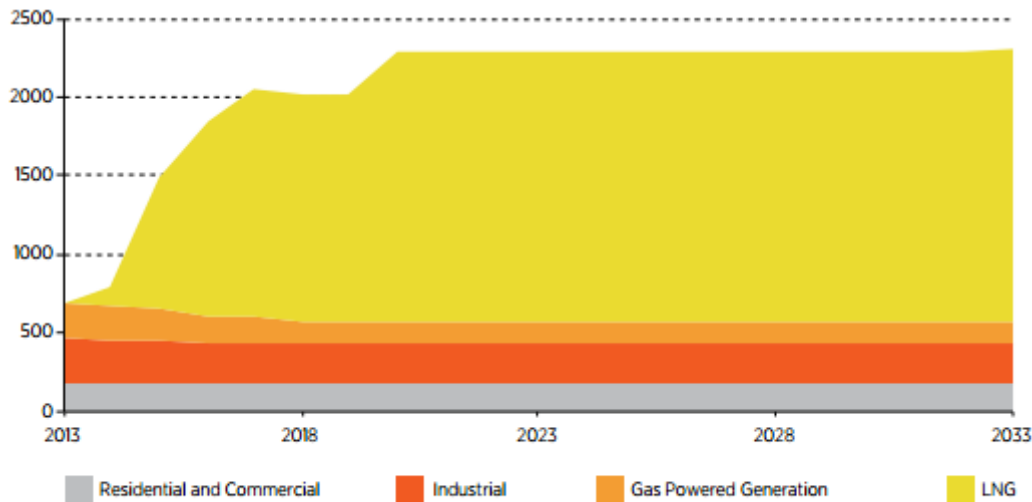
### **Alinta supports the increased focus on gas market development, however caution should be exercised**

In recent times gas market issues have increasingly come to the forefront of government policy priorities. This is in part a reflection of the increased media focus on rapid east coast gas developments, in a market which has historically undergone only incremental change.

While supportive of further development of east coast gas markets Alinta would strongly caution against any perception that the gas market is waiting for guidance by Government or other entities. Rather, there has been a significant amount of development in the past decade which continues uninterrupted. By way of example, Queensland LNG exports have now begun operation with trains having begun exporting gas to international markets. The scale of gas production required to service these projects is unprecedented in the East Coast of Australia (see diagram below), and yet the

market has arguably absorbed the increased demand almost faultlessly. This is the largest structural change that the market has faced, and the existing market dynamics have endured.

*Diagram 1: Projected East Australian Annual Gas Demand*



Source: Core Energy Group (2013)

Additional organic development of gas markets in Australia includes the servicing of major demand centres by multiple pipelines, the development of new trading hubs such as Wallumbilla, the growth in contractual products and interplay between gas and electricity markets, along with a magnitude of other incremental reforms.

This does not mean there is not an opportunity for further developments to take place, in fact there are several areas of reform which could benefit market participants which are further outlined in the submission below. Nonetheless, any proposed market reforms should be developed in close conjunction with industry. There are no obvious major issues of concern which require addressing at the present time, rather any potential reforms should be consistent with the framework that they were developed within, and subsequently targeted to areas where clear deficiencies can be identified.

As a consequence Alinta considers that the current review should look to articulate policies that are required to support existing growth and development. Additionally regulatory authorities should acknowledge when necessary, where the market is in fact be working efficiently and no reform may actually be required.

Given this, Alinta is of the view that the AEMC's work can be best focused on the following areas:

1. Improving gas market visibility:
  - a. Medium term capacity outlooks in relation to LNG
  - b. Short term information
2. The ongoing development of facilitated markets:
  - a. Market parameters
  - b. Common gas day
  - c. Prudentials
  - d. Creation of other hubs

- e. Inter-regional trade
- 3. Pipeline capacity utilisation and reform:
  - a. Pipeline utilisation
  - b. Facilitating additional capacity trading
- 4. System security

The remainder of this submission draws out Alinta's specific views on each these issues.

## 1. Improving gas market visibility

### *Medium Term Capacity Outlooks in relation to LNG*

Alinta is of the view that efficiency will be maximised through appropriate information disclosure to enable price discovery. As a general measure, the level of transparency should be at least equivalent to the National Electricity Market (**NEM**) and in the spirit of disclosure obligations for the Australian Stock Exchange.

The establishment of Liquefied Natural Gas (**LNG**) export facilities has caused several unintended short term issues for market operations.

The review should be concerned that select market participants have prior knowledge of the longer term gas capacity before the rest of the market, allowing them to take commercial positions in the market (including electricity) up to 18 months before other market participants. For instance, should a participant (presumably who owns or operates a LNG facility) know that the commissioning of their LNG facility has been delayed and is now coming online substantially later than what is publicly known, they subsequently have the ability to forward sell electricity (either via over the counter trades or the futures market) knowing that due to the delay there will be significantly more gas in the market than expected. Much of this gas will be burnt through power stations leading to much lower spot electricity prices than would have occurred had the LNG facility been commissioned to the publically known timeframe. Information asymmetries give select participants a large commercial advantage in both gas and electricity markets.

While Alinta accepts the reluctance of some parties to provide additional information, as there could be commercially sensitivity issues, this should not act to stymie potential improvements and create exemptions from public reporting requirements. In Alinta's view there are significant benefits to all parties at some level through increased information disclosure and the removal of information assymetries. Additionally, there is a comparable scenario currently practised under the National Electricity Laws and Regulations that is of relevance. In particular, market generators selling electricity into the NEM are expected to publicly notify the market operator of a generator outage as soon as is reasonably practical and are expected not to take commercial positions which could attribute them undue benefit from the prior knowledge of the generator outage.

Given that currently select participants have prior knowledge of the capacity of production facilities (particularly those producing ramp gas which is being supplied to the domestic market) this has implications for local gas prices and subsequently electricity prices in the Queensland NEM region. Given the clear connection between gas production, gas prices and electricity generation, there is a compelling argument that a similar compulsory reporting obligation should be required for upstream gas producers with respect to any medium term changes in the capacity of their production facilities. As such, Alinta is of the view that a medium-long term capacity outlook reporting scheme could be implemented along with historical capacity volumes within the NEM.

With the massive increase in demand from LNG train facilities which have begun coming online this year, significant coal seam "ramp gas" has begun flowing as producers begin escalating their operations, pushing large quantities of gas into local markets. This rapid increase in ramp gas has

had the effect of significantly reducing spot prices in the region (gas prices clearing at 0\$/GJ has occurred at the Wallumbilla and STTM hubs). In itself, this price volatility is only a function of the supply and demand conditions in the market, and is not a problem. However, the ability of market participants to anticipate and plan for such rapid increases in gas flows is significantly reduced due to a lack of market transparency.

It should be noted that such a reporting obligation already exists under the Western Australia Gas Bulletin Board (**GBB**), administered by the Independent Market Operator. The GBB provides historical capacity volume data as well as a medium term capacity outlook for pipeline operators, gas producers and storage facilities which covers a 12 month period. This information includes planned service notifications which identify specific pipelines, production facilities and/or storage facilities which will be undergoing planned maintenance or will be subject to a capacity constraint/augmentation that could impact on the facilities capacity, along with the reduction in capacity and the relevant timeframe over which this will apply. The medium term capacity outlook is updated by relevant participants monthly, for the next 12 months, and adjusted accordingly if there is any material<sup>1</sup> change in operations; this obligation is a civil penalty provision. Given such an arrangement already exists within Western Australian, a compelling case could be made to expand such operations within the NEM, especially considering the significant issues currently affecting the market as a by-product of LNG operations.

Alinta considers that this issue should be assessed as a specific matter of priority within the review. The existing GBB requirements in Western Australia could be used as a model for such a scheme, as the presence of a medium term capacity outlook in the NEM in conjunction with historical capacity flows being available, would alleviate the issues currently facing market participants as a by-product of LNG operations.

*Alinta considers that transparent and freely available market information is imperative for creating an efficient energy sector and that the development of a regime to require medium term capacity reporting in the gas market would be consistent with long term objectives of the energy sector.*

#### *Short-term information*

The current short-term capacity outlook information, including aggregate pipeline flows and line-pack data provided via the gas bulletin board has been effective in informing participant decision-making. There is however further scope for enhancement.

While, Alinta appreciates that capturing additional information places further obligations on facilities, this initiative should be considered in terms of total impact on the market, especially at times of high demand.

Regarding line-pack, Alinta's initial view is that line-pack data, provided by relevant zones, would be of value at the beginning and end of day; however, at this stage further consideration by the review should be given to the points on the pipeline for which this data could be provided.

Alinta notes that intra-day data on capacity, flow and line-pack would better inform participant decision-making. An assessment of mechanisms for providing data and associated costs should be investigated by the review.

Presently it is apparent that participants with contract positions across the market are already able to source select information regarding intra-day flow and line-pack data which enables them to make commercial decisions earlier than parties with fewer or no firm contracts. On this basis, Alinta considers this information being provided to the wider market may be of merit.

---

<sup>1</sup> A material change is defined as being a change to capacity that is greater than 10% of nameplate capacity or 10 TJ per day.

## 2. The ongoing development of facilitated markets

Given the relatively small size of Australia's facilitated markets, a number of participants have previously raised the idea of consolidating the AEMO administered facilitated gas markets into a single Australian gas market. Hypothetically there could be administrative, operational and prudential benefits from such a potential integration.

Broadly Alinta is supportive of the review investigating what benefits could be revealed through longer term options such as increased integration between facilitated markets and whether three distinctly separate gas markets remains fit for purpose given the relatively small volume of gas traded. Alinta would welcome the AEMC's focus in this area.

Nonetheless, regardless of a potential hubs merger in the future there are several various components of facilitated markets Alinta considers are currently worthy of resolution. These are outlined below.

### *Market parameters*

Alinta suggests greater alignment of market parameters between the existing facilitated markets the STTM and DWGM should be considered and, in the absence of impediments to alignment, progressed.

The justifications for the different market settings that do exist remain uncertain. In particular, the significant difference in price caps. While the market designs differ for various reasons, the rationale for significantly higher prices for the DWGM than the STTM needs clarification, and ultimately should be aligned.

### *Common gas day*

The prospect of a common gas day across facilitated markets is worthy of consideration and in the absence of material obstacles progressed. As it currently stands, the mismatch between the STTM in Sydney and Adelaide, with the STTM in Brisbane and also the DWGM is problematic for the coordination of trading operations and inhibits inter-state trading. Whilst appreciating that there are valid reasons for some parties to wish to retain the existing different time frames, Alinta is strongly of the view that moving to a common gas day is in the markets overall interests.

Alinta is of the view that alignment of gas days is one step in the move towards intra-day trading across all facilitated markets and is supportive of the review considering this feature of the market.

### *Prudentials*

Inefficient prudential arrangements which do not have the ability to net off, comprises real costs which are ultimately passed on through to consumers. Alinta is strongly supportive of an alignment and consolidation of prudential arrangements between existing gas markets, with netting off positions and reallocations between facilitated markets as a logical first step. Over time this may suggest a preference to also consolidate gas and electricity market prudential arrangements.

The netting off gas and electricity market prudential obligations across the DWGM and STTM was recently considered within AEMO's Gas Wholesale Consultative Forum. The outcome of that process was to not proceed with a proposal to net prudential obligations across the two markets.

Credit and prudential issues will continue to receive ongoing policy attention in the current environment and as such it is appropriate to revisit this issue in the near term.

Intuitively, it appears hard to justify having three distinctly separate prudential arrangements across three markets, all of which are operated by AEMO and where trade is undertaken by the same participants. Alinta would welcome the reviews consideration in this area and is supportive of prudential alignment across markets.

#### *Additional Hub Development*

While Alinta is supportive of hub development, the creation of additional hubs is ultimately a second best option for market development and subsequently requires further consideration. If hubs are developed to enhance gas market outcomes, gas trading and exchange needs to be able to flourish; however, if there is limited capacity and therefore an inability to get gas to or from the hub then trade cannot be maximised.

As such, Alinta does not expect the construction of additional hubs such as Moomba to materially change the nature of trading activity in the area, rather additional hubs will simply create another avenue for participants to facilitate additional trade and manage their positions in all east coast locations more effectively. Nonetheless, initial indications from AEMO are that the costs of the Moomba trading location will be low and implementation costs do not therefore represent a concern to Alinta at this time. As such, an additional hub may provide participants with an ability to buy gas at Moomba which could be used support market entry into the Sydney and Adelaide markets.

However, at a high level, Alinta considers that a question worth posing is whether establishing an extra trading hub is actually required at all? There is some contention that trading hubs may not actually be needed if existing transport costs were not so excessive or if alternate market structures such as a carriage arrangement were in effect (further outlined below). With this in mind, Alinta would be interested in the AEMC assessing whether an additional trading hub may actually mask the real inhibitor to trade – the inability to transport gas within east coasts market at a reasonable price.

#### *Inter-regional trade*

Alinta notes the AEMC's interest in inter-regional trade and the role of different carriage arrangements in facilitating or impeding trade. In Alinta's view trade decisions are primarily determined by the availability of pipeline capacity or value of existing pipeline capacity, and the price competitiveness of any gas that would be offered in another region along the east coast.

This means, outside of a hub, gas transportation agreements or capacity trading are required to facilitate trade with opportunistic capacity trading are not considered viable on an ongoing basis.

While participants can seek to trade within the STTM hubs without contracts and do so in the DWGM without capacity rights, in both hubs, to varying degrees, those with capacity rights or contracts are at an advantage.

This means new entrants within a hub may get an initial entry mechanism by relying on market carriage without a transportation contract; however, to facilitate trade at some stage these new entrants will desire a greater degree of firmness to manage price risk and guarantee commodity delivery into the hub like their competitors.

In essence getting gas into the hub precedes any opportunity for the hub to work as a viable market overall and for individual trades to occur. Unless all participants at the hub can guarantee delivery, trade will be always to a degree remain constrained.

#### *Relevant considerations for the review*

Alinta strongly supports initiatives which increase liquidity and transparency in east coast gas markets. We note that the Wallumbilla Supply Hub has been beneficial in this regard and would welcome further work which increases liquidity at this hub. Nonetheless, the development of multiple



hubs doesn't necessarily address the underlying issue of restricted transport. There is a concern that select participants with large capacity holdings may (at certain times) have the ability to control gas flows and subsequently ensure that low/high prices do not pass through from one trading location to another.

As a way of resolving this issue, Alinta is interested in exploring (as a long term policy option) a market carriage type arrangement with a single gas market with regional nodes. This would not be dissimilar to the power market in that you can purchase/sell anywhere in the NEM and loss factors apply dependent on where in the network you are, and similar to the NEM a single interconnected gas hub (or market) could operate based on constraints within the network and thereby sending appropriate market signals as to what pipelines require investment in upgrading to alleviate constraints. Further work which conceptualised such a potential arrangement would be welcomed by Alinta.

### **3. Pipeline capacity utilisation and reform**

The ongoing practice for large established participants is to contract for gas supply with producers and contract for transport with pipeline operators for extended periods of time. This practice gives those participants access to secure quantities of transport and commodity, and underwrites the investments of producers and pipelines. This approach has successfully supported the market to date.

Nevertheless, this approach creates a concern that the market may not promote efficiencies as incumbent participants have locked in arrangements which they will seek to consolidate. This raises issues of pipeline investment and pipeline utilisation.

#### *Pipeline utilisation*

In theory, pipeline operators generally have incentives to contract spare capacity with market participants, although in some circumstances this can be undermined by minimum haulage arrangements. Alinta notes this can arise due to perceived physical complexities which need to be directly negotiated with pipeline operators.

Presently circumstances exist where pipeline operators are unable to provide access to capacity which is contracted but currently unused. Whilst capacity trading does already occur; Alinta is strongly of the view that additional capacity trading is desirable as the existing arrangements are inadequate. This is especially the case for pipelines that currently have very limited, if any, spare contracted capacity up the eastern seaboard.

Alinta would encourage the review to consider steps to increase information from whom capacity is available from; this could include aggregated data on available capacity by pipeline and into each hub.

#### *Facilitating additional capacity trading*

Historically capacity trading has been industry led, developing incrementally over time. Notably the APA group has recently completed a capacity listing service.

Careful consideration should be taken before any reform programme can be endorsed and it is necessary to ensure any response is consistent with existing market frameworks. Nonetheless, Alinta is of the view that capacity trading in the east coast gas markets is currently less than ideal. In Alinta's experience this is driven by the conditions listed below. Whether or not any or all of these conditions justify reform is open to review.

1. Information on available capacity in the forward period is limited to select listing services and is often illiquid.

2. The market does not cater to short-term trades.
3. Transactions costs are high due to contractual and administrative burdens associated with all trades involving gas pipelines.
4. Exposure to additional pipeline charges is unknown at time of capacity trade and can be difficult to manage.
5. Marginal benefits of increased pipeline trade may be dwarfed by more significant benefits in retail gas markets.

Pipeline owner's capital structures demand that they primarily deal in long-term contracts for large volumes of gas as opposed to short-term deals for small volumes. As a result, increased capacity trading is, to a degree, undermined through the significant transaction and administrative costs associated with small short-term deals, which reflects lower value benefits for pipelines. Collectively these impediments act as a barrier to greater utilisation in some circumstances. By way of example, as a new entrant second tier participant in gas markets, Alinta has faced several barriers to trade due to a variety of factors including:

- Alinta has previously sought access to Vic Gas storage facilities, however only minimum 20TJ parcels were offered by the market, acting as an obstacle to trade for new entrant retailers<sup>2</sup>.
- Similarly in South Australia, Alinta sought access to the SEAGAS pipeline in order to move gas into the Adelaide STTM, however in doing so Alinta would be subject to a substantial monthly lateral charge on flows, which whilst not always a realised cost, acts as a substantial risk for Alinta which ultimately acted as a barrier to the transaction.
- The RBP queuing system in Brisbane means that new entrant participants are disadvantaged as they are required to face an expansion tariff (used to fund the construction of future infrastructure investments). Expansion tariffs are 40% more expensive than prices faced by existing contract holders, effectively pricing out any new trades by new participants on the RBP pipeline.

Given the above examples, Alinta believes there is a case for change through industry led and government supported market evolution, not significant and abrupt reform. While the case for change still needs to be developed one option Alinta would be supportive of for further consideration is standardised trade arrangements. Such a potential framework could include the following components:

- A defined exchange which contains a range of standardised contracts, covering different trade types.
- The ability for participants to develop stand-alone contracts.
- A capacity listing service which matches participants and conforms to existing hubs.
- Clear pre and post trade processes including nomination timing procedures, revision of nominations and on-day process requirements.
- Clear settlement and billing arrangements.

Alinta notes some of this work is already being undertaken in the context of the Wallumbilla supply hub. Pending this work, Alinta sees potential value in applying the aforementioned framework components on an expanded basis.

---

<sup>2</sup> This has since changed, as 10TJ parcels are now available, which is more acceptable to new entrant retailers.



#### 4. System security

At present gas emergency management and shortage issues are managed in a disparate fashion and at a jurisdictional level. While this is partially a product of the nature of gas, the growth in gas markets, pipeline infrastructure and the integration with electricity markets suggests this may not be an optimal arrangement going forward.

System security events are of interest to all participants and Alinta appreciates the view that such events should be the responsibility of AEMO as opposed to operators, producers and other facilities based on each jurisdiction's individual plans. Alinta encourages further consideration of a coordinated proposal that still retains control at the jurisdictional level but results in AEMO acting as the agent in charge of managing technical operations.

The logic of AEMO playing a central coordinating role should also apply to ensuring there is no overlap of maintenance and outages for critical facilities across the eastern seaboard. While the provision of increased medium term adequacy information is likely to assist there seems little justifiable reason why providers, pipelines, operators and facilities should not be subject to the same rules across the STTM and the DWGM including seeking coordinating approval from AEMO before undertaking planned maintenance.

Alinta would welcome the review further considering these governance arrangements for managing system security events.

#### Conclusion

Alinta welcomes the east coast wholesale gas market frameworks review and supports the ongoing development of greater institutional understanding of gas market arrangements.

Alinta remains supportive of any refinement to the existing facilitated markets and investigation of matters of pipeline access and carriage. Alinta supports ongoing engagement with industry to ensure gas market development needs are consistent with the market that has developed and is targeted to areas where clear deficiencies can be identified.

Should you have any queries in relation to this submission please do not hesitate to contact Mr Anders Sangkuhl on, telephone, 02 9375 0962.

Yours sincerely



**Michelle Shepherd**  
General Manager Regulatory and Government Affairs