AGL Energy Limited
ABN: 74 115 061 375

Level 22, 120 Spencer Street
Melbourne VIC 3000

Locked Bag 14120 MCMC
Melbourne VIC 8001

T: 03 8633 6000
F: 03 8633 6002
www.agl.com.au

19 January 2015

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

Project reference: **GRC0030**

National Gas Amendment (Matched allocation process in the STTM) Rule 2014

Dear Mr Pierce

AGL endorses the above NGR rule change request submitted by Jemena Gas Networks (NSW) Ltd ("**JGN**").

By way of background, AGL, along with other retailers and shippers involved in the STTM design and rules development processes back in 2009 and 2010, supported the introduction of a matched allocation process for JGN. It did not appear to make sense back then to have operational gas subjected to short-term market price volatility, and we still subscribe to that view today. Operational gas demand is driven by factors that are not responsive to price — that being the case, it is far more preferable to have price certainty around gas procured for operational reasons, which the matched allocation process permits by bypassing AEMO's STTM settlement process. This was the prime motivation behind retailers' and shippers' support for the concept.

AGL supports the retention of the matched allocation process for the Sydney STTM, as proposed by JGN, for the following reasons:

- Subjecting UAG to market price volatility achieves little in terms of economic efficiency or meaningful price signals that can be acted on by the procuring party (JGN, in this instance). We agree with JGN that, because they forecast UAG demand based on operational conditions, they are not in a position to respond to price signals provided by the STTM.

- In the absence of a matched allocation facility, Jemena would have to procure gas from the STTM, either directly as a User or indirectly through another User registered in the STTM. If the former, JGN would need to register with AEMO, pay AEMO fees, set up a physical gas trading team, pay prudentials to AEMO, and be exposed to deviation charges (which will be higher as a result of a rule change which came into effect on 1 November 2014) as well as to settlement shortfall allocations. This is getting removed from JGN's core business and is likely to result in uncertain and potentially higher procurement costs.

Our support for the retention of the matched allocation concept is qualified on the condition that the Matched Allocation Agreement ("**MAA**") be pipeline-neutral. The MAA is a three-way agreement between JGN, the shipper that is the successful tenderer of UAG, and the operator of the transmission pipeline used by that shipper. A pipeline operator needs to be a party to the agreement in order that it knows to exclude matched allocation quantities from the pipeline allocation it provides to AEMO each day. The shipper tendering for the right to supply UAG should be able to elect to deliver the nominated quantity at either Wilton off the MSP or at Horsley Park off the EGP. Pipeline flexibility results in a diversity benefit for both the buyer and seller of UAG. JGN do acknowledge this in paragraph 21 of their application to the AEMC.

AGL fully supports the retention of the Matched Allocation provisions in the rules and this would apply, at the very least, for the five-year duration of JGN's access arrangement commencing 1 July 2015.

The AEMC is also seeking views on the desirability of limiting the period of this extension in order to allow for potential harmonisation of UAG arrangements subsequently across jurisdictions. We make the observation that the volume of gas required for unaccounted-for-gas purposes (generally between 2% and 3% of withdrawals in the network) is such that it makes UAG process harmonisation a lesser order issue for future gas market reform. AGL would suggest there may be more pressing issues around MOS, for example, to be tackled from a rules or market harmonisation perspective.

Please refer any questions to George Foley (03) 8633 6239 or at gfoley@agl.com.au.

Yours sincerely,

Duncan MacKinnon
Manager Wholesale Markets Regulation