



10 April 2014

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

Dear Mr Pierce

Portfolio Rights Trading

Alinta Energy welcomes the opportunity to make a submission in response to the consultation paper on the proposed *National Gas Amendment (Portfolio Rights Trading) Rule 2015* (the proposed rule or the proposal) lodged by the Australian Energy Market Operator (AEMO).

Alinta Energy is an active investor in the energy retail, wholesale and generation markets across Australia. Alinta Energy has around 2500 megawatts of generation capacity in Australia (and New Zealand) and a growing retail customer base of over 750,000.

Alinta Energy is a gas retailer and wholesaler in South Australia and Victoria and as such actively trades in the Victorian declared wholesale gas market (DWGM) and is interested in proposals that impact the holding or availability of authorised MDQ and authorised MDQ credit certificates (together referred to as AMDQ from herein).

In summary, Alinta Energy supports additional trading of AMDQ; however, it is not clear that the development of an additional instrument or a mandatory system administered by AEMO is the only approach and that alternatives may be preferable.

Discussion

Perspectives on the proposed rule

Alinta Energy welcomes efforts to improve trade of the benefits of AMDQ. Alinta Energy can see a number of potential benefits in line with the National Gas Objective as set out below.

- Alinta Energy notes the proposal may increase its ability to acquire and trade hedging instruments in the short term and as such may facilitate greater levels of trade and competition. This includes Alinta Energy's ability to better manage market risk and mitigate potential charges in the market that result from uncertain supply.
- If the proposal leads to increased trade and competition this should benefit consumers by increasing the ability of smaller participants to offer retail products and this includes Alinta Energy's ability to grow its existing portfolio. Additionally, consumers may benefit from a delay in pipeline investment as a consequence of better utilisation of existing capacity.
- These potential improvements may result in a more efficient allocation of gas as participants can trade with greater certainty and manage risk exposures while customers will face a more competitive market for supply.

These perspectives accord with the rationale for the proposed rule outlined in the consultation paper. Where Alinta Energy's perspective differs slightly from the proponent is that it is less clear that the proposed rule will increase transparency significantly, if at all.

While increased trade is desirable, the manner in which the AEMO has sought to facilitate trade for tariff V and tariff D customers appears potentially more complicated than required. Complication inevitably leads to less transparency especially for new entrants seeking to come to terms with a market, in the DWGM, which is already overly complex.

First, it is not clear to Alinta Energy why the decision to restrict the ability of tariff V customers to trade AMDQ cannot be revisited. If all AMDQ was able to be freely traded there would be less need for the proposed approach. While this may reduce AEMO's role in allocating AMDQ, outside of regular auctions, it needs to be considered whether such an arrangement would be more desirable.

Second, as the proposal relies on bi-lateral contracts, for a new instrument, it is unclear how this will guarantee a transparent or liquid market. While the differences may be marginal the existence of multiple forms of instrument may not be ideal.

Third, it is unclear to Alinta Energy how the proposal may impact scheduling, for example Authorised Maximum Interval Quantity. While Alinta Energy is not proposing limits on the terms of trading under the proposal it is not necessarily the case that market impacts will be understood or immediately appreciated by participants.

Fourth, the potential to be exposed to increased ancillary payments for market participants who do not hold AMDQ or portfolio rights under the proposed rule is of concern and does not contribute to transparency.

These issues aside, Alinta Energy supports improved trading of AMDQ where the costs of implementation are proportionate and a net benefit can be demonstrated. The implementation costs for AEMO of around \$500,400 are quite significant and it needs to be certain that AEMO's proposed approach is the least costly of all available options.

Alternatives to the proposed rule

AEMO's proposal appears to assume that a narrower set of rights will be more easily and readily traded if conducted through a centralised system managed by AEMO. Alinta Energy believes these assumptions should be tested.

Additionally, Alinta Energy is of the view that a number of alternatives warrant further consideration.

The most obvious alternative would be to allow the sale of all existing AMDQ, through bi-lateral contract. This would mean the existing limitations on AMDQ trade for tariff V customers would be lifted and allocation of AMDQ would be primarily derived from exchange on the market.

This would assume that where the benefits of purchasing AMDQ for one participant exceed the benefits of retaining unused AMDQ over a set time for the existing holder that the two parties would be able to undertake a mutually beneficial exchange. This seems a reasonable expectation.

As such, Alinta Energy suggests the Australian Energy Market Commission consider the potential merits of a preferable rule change for the purpose of freeing up the ability to trade all existing AMDQ, including that held by tariff V customers.

A further alternative would be regular auctioning of a greater proportion of AMDQ covering fixed periods into the future for the purposes of encouraging more active use of AMDQ. In this manner, there will be increased opportunities to purchase AMDQ and once AMDQ has been purchased pursuant to an auction where a participant does not utilise that AMDQ it will have a greater incentive to trade to recover paid costs.

Conclusion

Alinta Energy appreciates the opportunity to comment on the consultation paper and the work of the proponent, AEMO, in developing the proposal. Alinta Energy supports the principle of maximising opportunities for trade and notes the issues identified.

Alinta Energy suggests a number of matters require further consideration and the value of alternative proposals should be investigated before the rule can be fully supported.

Should you have any queries in relation to this submission please do not hesitate to contact me on, telephone, 02 9372 2633.

Yours sincerely,



Jamie Lowe
Manager, Market Regulation