

1 June 2015

Paul Smith  
Australian Energy Market Commission  
PO Box A2449  
Sydney South NSW 1235

Lodged electronically

Dear Mr Smith,

### **East Coast Wholesale Gas Market and Pipeline Frameworks Review (GPR003)**

Hydro Tasmania welcomes the opportunity to provide comments on the East Coast Gas Market and Pipeline Frameworks Review. We are particularly well placed to comment as we are a second tier player in the market with an expanding gas retail business.

#### **Current Situation**

Hydro Tasmania considers that the development of the Short Term Trading hubs (STTMs) and the Victorian Declared Wholesale Gas Market (DWGM) has delivered some improvements in managing volume risk and inflexible term contracts through imbalance trading but note that the STTM and DWGM structure and practices are cumbersome and inefficient.

Of more importance to an efficient gas market, is the underlying wholesale market. We believe the wholesale market lacks efficiency, transparency and liquidity. This leads to poor price discovery which is both unreliable and costly. This environment will not encourage the development of a broader and more diverse participant base. In years to come the trading hubs, or yet to be developed financial exchange platforms, may be the principal means for trading, but for the foreseeable future Hydro Tasmania expects bilateral contracts to be a fundamental trading instrument. As such a review of net imbalance market in isolation of a holistic view of ideal structure of the wholesale markets is unlikely to deliver any material benefits.

## **A blank sheet approach**

Hydro Tasmania regards recent reforms as tinkering around the edge of the gas market and not addressing the core issues. We propose that AEMC should have a “blank sheet” approach to market design. This would involve taking the existing gas assets in eastern Australia and designing an ideal market arrangement without any recognition of the current ownership or the long term contracts which exist.

This “ideal” market would then become an objective to be reached in the long term and it should provide a guide for the decisions which need to be made in the shorter term. We acknowledge that the current ownership and contractual arrangements will inhibit rapid progress towards a utopian market design.

The COAG Energy Council’s Vision for Australia’s future gas market is:

“The Council's vision is for the establishment of a liquid wholesale gas market that provides market signals for investment and supply, where responses to those signals are facilitated by a supportive investment and regulatory environment, where trade is focused at a point that best serves the needs of participants, where an efficient **and transparent** reference price is established, and producers, consumers and trading markets are connected to infrastructure that enables participants the opportunity to readily trade between locations and arbitrage trading opportunities.”

Hydro Tasmania supports this vision but would like to suggest a small addition (shown in red) to emphasise the need for transparency. It can be implied in “efficient” but we consider that an explicit reference would be beneficial.

It is apparent that most of the actions highlighted in Stage 1 of the review focus on improvements in the current imbalance markets. This implies that the original

objectives and council's vision are not the focus of the proposed actions which is a missed opportunity.

One of the clear issues for a "blank sheet" redesign to resolve is the development of a competitive market for gas transportation, to ensure efficient and transparent operation of this critical infrastructure.

The AEMC's draft report has a list of the attributes of a competitive market (Page 14). The table in Attachment 1 shows Hydro Tasmania's assessment of the East Coast gas market against these criteria. It shows that the current arrangements rate very poorly against these attributes. The NEM scores far better on all these attributes. It should be possible for gas, with the right reform, to perform equally as well.

These characteristics, if in place, would form a strong foundation for facilitated gas markets and transportation arrangements in eastern Australia to promote the National Gas Objective and achieve the Energy Council's vision.

In the report, the AEMC note on page 7 when reviewing previous work on the gas market:

"Notably, most papers identified the need for a further strategic review into east coast gas market arrangements"

Hydro Tasmania believes that another strategic review is **not** required but an exercise to create a "blank sheet" market design is an urgent imperative.

One of the lessons from the successful NEM implementation was the benefit of having a dedicated team to manage the work. This work should not be entrusted to existing energy institutions, who have other ongoing commitments. It should be undertaken by a taskforce commissioned by the COAG Energy Council.

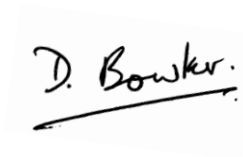
### **The Short term**

The draft report suggests a number of incremental changes to the operation of the imbalance market and synchronisation of regional markets and time zones. Some of these changes will improve the efficiency of the operations of the current imbalance markets.

However, we believe that they should be held off until the “blank sheet” design is completed. This will allow changes to be made which support the long term direction.

Please contact the undersigned on 0418136493 if you require any additional information.

Yours sincerely

A handwritten signature in black ink that reads "D. Bowker." followed by a horizontal line underneath.

**David Bowker**  
**Manager Regulation**

## Attachment 1 Assessment of Competitive Market Attributes

Competitive Market Attributes	Hydro Tasmania Assessment
1. Demand and supply conditions reflected in prices: markets participants should have access to a credible reference price reflective of underlying supply and demand conditions that usefully aids commercial decision making.	Lack of forward market transparency
2. Timely and efficient investment in infrastructure: efficient additions to, and expansions of, infrastructure enable supply to meet demand while minimising the cost of excess capacity.	Little public information to assess this (cf NEM transmission investment)
3. Readily available market information: efficient outcomes are likely to be achieved when participants (current and potential) have access to clear, timely and accurate information about prices and factors driving prices, such as supply and demand conditions.	No reliable data available on underlying bilateral wholesale transactions
4. Price and volume risks can be managed and are appropriately allocated: participants being able to manage operational risks to delivery of physical gas while maintaining safe operating parameters, as well as being able to insure themselves adequately against financial risks.	Little ability to manage price or volume risks due to lack of liquidity and transparency
5. Minimised barriers to entry: barriers to entry (and exit) can be a function of market structure, government regulation, industry-specific sunk costs or geography, and certain barriers have the potential to detract from the ability of markets to deliver efficient outcomes.	High barriers due to lack of liquid and transparent market
6. Minimised transaction costs: efficient transaction costs support timely and efficient investments in infrastructure and encourage competition.	High transaction costs due to lack of transparency and consistency (cf ISDA for electricity)