

Mr Daniel Hamel

Australian Energy Market Commission  
By web submission [www.aemc.gov.au](http://www.aemc.gov.au)

Friday 14 June 2013

Dear Mr Hamel,

### **Gas Market Scoping Study Terms of Reference - AEMC Ref GPR0001**

GDF SUEZ Australian Energy (GDFSAE), formerly International Power-GDF SUEZ Australia, appreciates the opportunity to provide this submission to the AEMO gas market scoping study terms of reference. GDFSAE is wholly owned by GDF SUEZ S.A. and a business line of GDF SUEZ Energy International. In Australia, the company owns and operates 3,500MW (gross) of renewable, gas-fired and brown coal-fired plants in Victoria, South Australia and Western Australia. Our retail business, Simply Energy, has more than 320,000 electricity and gas accounts in Victoria, South Australia, New South Wales and Queensland.

GDFSAE welcomes the AEMC initiative in carrying out this gas market scoping study into options for optimising the operation and efficiency of the east coast Australian gas market. GDFSAE supports the objective of achieving consistent gas market arrangements across the east coast of Australia providing transparent market signals, which allow participants to manage their operational and financial risks effectively.

In summary, GDFSAE supports:

- developments that will increase competition and participation in the buying and selling of gas in both the short and long term
- transparent, efficient and open allocation of gas transport capacity including gas storage, and
- removal of barriers to intrastate and interstate trade in gas and reforms for third party access to gas transmission

Below GDFSAE provides an outline of our view on issues with the current arrangements, and key elements for consideration in the development of the east coast gas market.

### **Gas Market Design**

The key deficiencies associated with the multiple current gas market designs are:

- Multiple market designs that make market trading complex and inefficient for national participants:
  - three Short Term Trading Markets (STTM) based on a contract carriage model in South Australia, New South Wales and Queensland
  - the Declared Wholesale Gas Market (DWGM) in Victoria, and
  - the pending supply hub market at Wallumbilla
- Non uniform gas days, trading periods and "within day" price signals across each market
- Limited ability to transact gas over short periods and forward trading is highly illiquid

- Mismatch of firmness of contractual supply between gas and electricity<sup>1</sup>
- No forward price signals to support long term trading
- Lack of secondary market trading activity. (We note that the UK NBP has a large secondary market where traded volumes are significant multiples of the underlying supply and demand)
- Inadequate market data provision, with fragmented information systems and some data not available at all
- Predominately only retailers participate in the gas markets. Gas producers and pipelines are outside of the market arrangements, and intermediaries choose not to participate
- No framework to enable key decisions of producers and pipelines to respond economically to market processes. For example, decisions by pipeline businesses to undertake maintenance impacts the market, but the pipeline business is not impacted by market outcomes

In order to address these deficiencies, GDFSAE recommends:

- A single market design with consistent rules across the east coast of Australia. This will assist businesses operating in multiple jurisdictions and ensure optimal economic use of gas across the interconnected market. GDFSAE considers that the STTM model should be pursued nationally, because this provides the closest fit to market principles that GDFSAE believe are desirable
- A mechanism to deliver clear market price signals for both the short term and the longer term, which facilitate competition and efficient market outcomes
- Market pricing and settlement arrangements which facilitate secondary markets. The secondary market should, however, be developed by participants, not central agencies
- Transparent information on all significant market data, including supply, transport and demand, available freely through the market operator
- Market arrangements that encourage the participation of a wider range of market participants, including producers and pipelines

## Gas supply

GDFSAE considers the key issues to be:

- Lack of competition – particularly in Victoria. (The largest source of supply in Victoria has over 65% of gas sales). This level of concentration would not be acceptable in electricity supply
- Uneven supplier playing field with legacy value<sup>2</sup> favouring contracts with Longford
- Processing facilities are typically highly concentrated geographically (e.g. Longford and Moomba)
- Contracts are typically long term and inflexible to meet the needs of the dominant supplier, which results in uneconomic pricing and does not support market evolution
- Contract price reviews are very costly and disruptive to the market and typical dispute resolution processes are highly intrusive, and reveal commercially sensitive data to market participants and advisors
- No contract standardisation which impedes liquidity and the emergence of a forward market

In order to address these deficiencies, GDFSAE recommends:

- Remove unnecessary barriers to entry to encourage new entrant on east coast to improve competition
- Develop consistent market terms and contract standardisation
- Gas producers and pipelines to be more closely aligned with gas market outcomes

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<sup>1</sup> Electricity financial contracts are “firm” and operate notwithstanding spot market outcomes. Gas contracts are generally physical, and as a result of concentration in upstream supply, contain force majeure provisions for non-delivery.

<sup>2</sup> For example, Victorian retailers are allocated a share of Longford pipeline capacity, whereas rights to other pipelines need to be purchased.

## Gas Transmission

GDFSAE considers the key issues to be:

- Different transmission regulatory regimes across the market – open access and contract carriage; covered and un-covered - creating uncertainty and inefficiency
- Open access gas transportation arrangements in Victoria act as a disincentive to pipeline augmentation
- Insufficient gas transmission interconnection between the states
- Virtually no short term capacity trading is occurring

In order to address these deficiencies, GDFSAE recommends:

- Development of a consistent gas transport regulatory regime for all major east coast gas transmission
- Progressive change towards firm transmission access arrangements, with tradeable rights

## Australian Regulation

GDFSAE considers the key issues to be:

- Continually changing regulatory environment acts as impediment to investment and market participation
- Uncertainty over the Clean Energy Future and related legislation including the Renewable Energy Target Recommendations

In order to address these deficiencies, GDFSAE recommends:

- The continued<sup>3</sup> promotion of a nationally consistent regulatory regime, delivering a stable “light-handed” approach, and balance between the needs of investors and consumers

GDFSAE hopes that these comments are helpful to the AEMC in finalising the terms of reference for the gas market scoping study. Please feel free to contact me on 03 9617 8410 if you would like to further discuss our views on these issues.

Yours sincerely,

Mike Downey  
Senior Trading Originator & Gas Regulatory Specialist

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<sup>3</sup> GDFSAE acknowledges that the Standing Committee on Energy and Resources has been engaged on a program of progressive alignment of transmission infrastructure regulation, and its placement under the Australian Energy Regulator.