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10 September 2015

Mr Paul Smith
Chief Executive
Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

RE: Project number GPR0003 (Wholesale Gas Markets Discussion Paper)

Dear Mr Smith,

Esso Australia Resources Pty Ltd (EARPL), an affiliate of ExxonMobil Australia Pty Ltd, welcomes the opportunity to provide feedback on the Australian Energy Market Commission's (AEMC) Wholesale Gas Markets Discussion Paper.

EARPL supports the drive to establish a deeper and more liquid market in eastern Australia, however it notes that it may prove more challenging to build this liquidity when compared to other markets, such as the United States, United Kingdom or the Netherlands.

After the start-up of the LNG projects, eastern Australia market volumes will be comparable in size to the United Kingdom and the Netherlands. However, due to the market being characterised by long-distance transportation, it may not be cost effective to aggregate demand into large virtual hubs, as is the case in these countries. The development of two eastern Australian virtual supply hubs therefore has the potential to create significant complexity but with uncertain costs/benefit.

The US market on the other hand is characterised by point to point transportation. This has led to development of a number of physical hubs, which range from fully liquid to illiquid, despite having similar regulatory frameworks. This demonstrates that the development of market liquidity is based on a number of other factors, as well as the existence of short-term trading markets. These other factors include transportation access, underlying physical market volumes, the number of buyers and sellers and availability of gas storage.

Therefore EARPL believes that eastern Australia could achieve an increased level of short term trading and liquidity over time with the right supporting policies, but that long-term bilateral contracts will remain a key component of the market place.

Some level of virtual market development in eastern Australia will still have benefit in that it aggregates trading volumes of a number of physical points, which in turn helps liquidity development, if the individual physical points do not have sufficient critical mass. Physical hubs have the benefit in that they are much lower cost to implement as transitioning an existing point-point system into a virtual hub requires substantial changes on the transportation side in addition to the establishment of a common market platform.

In Victoria, a virtual market is already in place, so the focus should be how liquidity can be improved while leveraging the demand aggregation. In EAPRL's view, the next step would be to complement the Victoria Declared Wholesale Gas Market (DWGM) by creating a Victorian virtual gas supply hub. The Wallumbilla Gas Supply Hub design model has proven to be successful with bi-lateral trades between market participants on a common platform for daily, weekly and monthly products under standard terms and conditions, with participation on a voluntary basis. This framework can be applied in an amended form to virtual hubs. The DWGM could, possibly in a simplified form, continue to play a role as markets for daily imbalances. For this to be achieved it will be important to ensure that the interface with the Victoria DWGM does not create inefficiencies, and that the markets can work independently.

In other eastern Australian locations physical hubs are expected to better provide costs/benefit compared to new virtual hubs as the implementation costs are significantly lower by avoiding the need to:

- Restructure existing gas transportation agreements from point to point to entry-exit
- Agree common entry/exit terms and income distribution between pipeline companies
- Invest in new pipelines, if the entry and exit points of the virtual hub are not well physically connected

Therefore EARPL supports the creation of an additional gas supply physical hub at Moomba, based on the Wallumbilla Gas Supply Hub framework as proposed by AEMO, rather than creation of very large virtual hubs.

This would provide eastern Australia with a limited number of Gas Supply Hubs (Wallumbilla, Moomba and Victoria) where the same products are traded. New arbitrage opportunities will likely open up and provide opportunities to market participants if unutilised transportation capacity between those hubs can be accessed at attractive terms. The standardization of terms and conditions between those hubs and use of common trading platforms should provide further opportunity to reduce ongoing transaction costs. All these factors should help to attract new market participants. Existing interoperability issues between market and contract carriage models need to be addressed in order for this model to be successful.

EARPL is not in a position to offer a view on the value of creating a new virtual gas supply hub covering the existing Wallumbilla gas supply hub, the Roma to Brisbane pipeline and the Brisbane STTM. However, EARPL believes that any development of new hubs should have detailed cost/benefit assessment by AEMC.

EARPL looks forward to continuing to participate in the AEMC's East Coast market review. Please contact Mr Andrew Murphy on (03) 9270 3537 if you require clarification or any more information about this response.

Yours sincerely,



Stuart Jeffries
Manager – Australia Gas Marketing