LUMO ENERGY

29 January 2015

Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Submitted electronically

Dear Ms. Papas,

Re: GRC0030 Matched allocation process in the STTM

Background

Lumo Energy welcomes the opportunity to comment on the Australian Energy Market Commission's (the Commission) consultation paper that considers a rule change request by Jemena Gas Network's (Jemena) regarding the arrangements for the procurement of gas for the operation of its gas network.

We are 100% owned by Snowy Hydro Limited. We sell gas and electricity in Victoria and New South Wales and electricity in South Australia and Queensland. We are currently one of the largest second tier retailers.

Currently Jemena has a "matched allocation" arrangement in place that allows it to procure its unaccounted for gas (UAFG) requirements for its distribution system from outside of the Short Term Trading Market (STTM). The process allows gas purchased by Jemena to be excluded from STTM settlement even though it is transported through STTM pipelines. This arrangement allows Jemena to avoid direct involvement in the STTM.

Jemena's "matched allocation" arrangement, which is a transitional agreement in its nature, expires on 30 June 2015.

As a direct response to this development Jemena has lodged this rule change proposal to make permanent the current "matched allocation" arrangement that it currently has in place.

If the rule change is accepted by the Commission in its current form it will allow Jemena to continue to procure its UAFG requirements for its distribution system in a manner outside of the STTM for an indefinite period.

If the Commission decides to reject the rule change then it will force Jemena to procure the UAFG it requires for its distribution system directly from the STTM.

In order to assess this rule change the Commission is required to determine whether it is consistent with the National Gas Objective (NGO). It has already argued that the relevant aspects of the rule change are the efficient use of natural gas services plus the reliability of supply of natural gas.

Key recommendation

Lumo Energy supports this rule change submitted by Jemena.

The rule change is consistent with the National Gas Objective (NGO).

If the rule change is approved by the Commission in its current form it will allow Jemena to continue to procure its UAFG requirements for its distribution system from outside of the STTM. This will ensure that the current efficient method of procuring UAFG will continue for Jemena for an indefinite period.

Jemena's current access arrangement (AA) includes an incentive for Jemena to source its operational gas requirements at or below an UAFG benchmark. This benchmark represents an efficient range of the cost of sourcing UAFG on Jemena's distribution network taking into account the characteristics of the distribution system.

If Jemena is able to procure the UAFG requirements for its distribution system at levels below the efficient benchmark rate in the AA, then in effect it over recovers on its UAFG allowance. It is important to note that this arrangement incentivizes Jemena to procure the UAFG that it requires at an "efficient" cost. As such we consider this arrangement is consistent with the NGO.

If the Commission rejects this rule change then Jemena will be forced to procure the UAFG gas requirements for its distribution system directly from the STTM leading to an inefficient outcome that is inconsistent with the NGO. Jemena will be forced to pay to register with AEMO, incur prudential fees and be exposed to deviation charges. This would be inconsistent with Jemena's core business and would result in higher procurement costs compared with the current arrangement.

Harmonizing regulatory frameworks in the treatment of un-accounted for gas

The Commission is required to determine whether it would be detrimental to the harmonization of the UAFG arrangements in the STTM and the Declared Wholesale Gas Market (DWGM) if it accepted this rule change in its current form.

The Commission notes that Australian Gas Networks Limited (AGNL) is considering a proposal to amend the Australian Energy Market Operator's (AEMO) procedures that currently apply to the procurement of UAFG for both the Adelaide and the Brisbane STTM hubs. Under the AGNL proposal retailers would have the responsibility for the physical and financial procurement of UAFG.

If the Commission has serious concerns that the approval of this rule change could have a potential impact on the harmonization of the UAFG procedures that apply in the STTM and DWGM - especially given the procedure change proposed by AGNL - then it has the option to make a preferential rule.

The preferential rule could involve extending the current arrangements relating to the "matched allocation" process for a further 5 years. This would give the industry sufficient time to consider the issues raised by AGNL in any procedure change that considered harmonizing the UAFG arrangements.

If the Commission determined that it would be detrimental to AGLN's procedural change if it approved this (Jemena's) rule change in its current format then we would not object to it making a preferential rule that restricted the application of the current "matched allocation" process to the next five years.

We would like to thank the Commission for the opportunity to provide comments on this rule change. Should you have any further enquiries regarding this submission, please call Con Noutso Wholesale Regulatory Manager on 03 9976 5701.

Yours sincerely

Con Noutso
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Lumo Energy Australia Pty Ltd