

10 September 2015

Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Lodged electronically

**Project Number “GPR003” – East Coast Wholesale Gas Markets and Pipeline Framework Review –
Wholesale Gas Markets Discussion Paper**

Hydro Tasmania welcomes the opportunity to provide comments on the Wholesale Gas Markets Discussion Paper regarding the Australian Energy Market Commission’s (AEMC) East Coast Gas Markets and Pipeline Review. As a second tier participant in the wholesale market and a growing retail business we are well placed to provide comment.

As outlined in our previous submissions to the AEMC (including *East Coast Wholesale Gas Market and Pipeline Frameworks Review (GPR003)* dated 1 June 2015 and *National Gas Amendment Rule 2015* dated 13 August 2015) Hydro Tasmania is supportive of a more transparent and efficient gas market. We also welcome the continued steps taken by the AEMC to address the current challenges regarding the wholesale gas supply and transportation as outlined in the Stage 1 Final Report.

Hydro Tasmania acknowledges the work completed by the AEMC to present the three scenarios for discussion and welcomes the opportunity to comment on each. We understand that the outcomes from this discussion paper will be considered when completing the Stage 2 Draft Report and encourage that an in-depth analysis of the costs and benefits is completed.

Firstly, it is widely understood that there are existing inconsistencies within the east coast market including the different facilitated markets as well as market carriage and contract carriage transportation arrangements. Hydro Tasmania welcomes this review as an opportunity to remove some of those inconsistencies and create a uniform east coast gas market. With this in mind, it appears that Concept 2 does not achieve this; the mix of virtual hubs connected by contract carriage transmission pipelines does not significantly change the current inconsistencies in the market. Hydro Tasmania therefore believes that Concept 2 is not an optimal solution.

Hydro Tasmania supports further analysis on both Concept 1 and Concept 3 and requests the AEMC to continue the investigation by completing a comprehensive and competitive cost-benefit analysis to better understand the optimal structure.

Hydro Tasmania believes such an analysis would include the potential limitations that may arise with Concept 1 by setting fixed physical hubs. The design of such a market should take into account the potential long term changes to supply and what impact that may have on the supply proximity to the

defined physical hubs. Another potential challenge may be the relatively small market with few participants which could lead to some of the physical trading hubs being illiquid.

The Concept 2 market design would represent lower barriers to entry for suppliers and users as well as developing uniformity of market structure across the east coast gas market. This option involves a significant change to the current market operation and may potentially involve increased implementation costs. Such a change to the east coast wholesale gas market should be carefully considered and ensure that the benefits will outweigh the initial implementation costs. Having said that, Hydro Tasmania believes that fundamental change is required to achieve a transparent and efficient market. Significant changes to the structure of the market should not be ignored on the sole basis that it may be cumbersome to implement such changes and should be decided on a carefully completed long term cost-benefit analysis. Given that this would be a significant change, a staged approach may be an appropriate option to transition to such a design.

Hydro Tasmania continues to advocate for market changes that will increase the transparency of the east coast wholesale gas supply and transportation markets. We acknowledge and appreciate the continued work by the AEMC to achieve this result. Hydro Tasmania looks forward to the results of this discussion paper leading to an in-depth analysis of both Scenario 1 and Scenario 3 to allow for a well informed decision.

Please contact Jordan Beckerleg on 0419 234 326 if you require any additional information.

Regards,



David Bowker
Manager Regulation