alintaenergy

1 June 2015

Mr John Pierce
Chairman, Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

Submitted via www.aemc.gov.au

Dear Mr Pierce

East Coast Wholesale Gas Market and Pipeline Frameworks Review

Alinta Energy (**Alinta**) welcomes the opportunity to make a submission in response to the Australian Energy Market Commission's (**AEMC**) East Coast Wholesale Gas Market and Pipeline Frameworks Review Stage 1 Draft Report (**the report**).

Alinta is an active investor in the energy retail, wholesale and generation markets across Australia. Alinta has around 2500 megawatts of generation capacity in Australia (and New Zealand) and a growing customer base of approximately 800,000 retail energy customers. Alinta's portfolio includes three gas-fired generation units at the Braemar Power Station facility in the Queensland region, four gas fired units which form the Pinjarra Power Station and Wagerup Power Station facilities in the Western Australia south-west interconnected system, and the Port Hedland Power Station and Newman Power Station in the Pilbara region.

Alinta is a participant in the Adelaide and Brisbane hubs of Short-Term Trading Market (**STTM**), the Victorian Declared Wholesale Gas Market (**DWGM**) and the Wallumbilla Gas Supply Hub (these markets are collectively referred to in this document as facilitated markets). Alinta is also part owner of the Goldfields Gas Transmission Pipeline, and additionally owns an approximately 150km gas pipeline in Queensland serving the Braemar Power Station facility.

Reform of the STTM

The AEMC draft report correctly notes that the STTM market contains various complexities which may at times act to impose unnecessary costs on transacting trade. The report goes on to note that "*it would appear inevitable that the design of the STTM will need to evolve…..we are therefore suggesting the formation of a technical working group led by the AEMC and others that will be tasked with scoping how to transition the STTM from its current design to a simple balancing market*."

Alinta broadly agrees with the proposition that the design of the STTM is overly complicated and imposes unnecessary operational and administrative requirements on participants, adding a level of complexity for participants whom operate over multiple jurisdictions/supply hubs. As such, Alinta agrees that the STTM could significantly benefit from greater operational consolidation with the other facilitated markets.

It is not the case, however, that these improvements can only be gained from transforming the STTM into a voluntary balancing market. In fact the introduction of a voluntary balancing market would be a regressive step on the path of market reform.

Replacing the STTM with a voluntary balancing market will reduce overall liquidity in the region to the detriment of trade. Moreover, a balancing market would remove a transparent wholesale trading

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reference price point, which the various STTM hubs currently provide. A new entrant retailer or existing second tier retailer will find a balancing market inadequate to their business needs and will have the subsequent effect of diminishing overall competition in the region.

To summarise, Alinta considers reform of the STTM an important step in market development, however, the automatic presumption the STTM can be aptly replaced by a voluntary balancing market cannot form part of the AEMC's no-regrets considerations at this stage. Additionally, Alinta is strongly interested in being part of the technical working group being formed by the AEMC.

Harmonising facilitated markets

Given the relatively small size of Australia's facilitated markets, Alinta's previous submissions raised the notion of broadly consolidating AEMO's facilitated gas markets into a single Australian gas market, or at least in the interim seek to gain administrative, operational and prudential benefits from a closer integration of existing arrangements.

As such, Alinta is pleased to see the draft report has broadly embraced the concept of integrating and consolidating operational arrangements of the existing distinctly separate gas markets. Alinta notes that the AEMC has proposed that stage 2 of the review process will address the following points of interest:

- Market parameters – consideration of alignment of the market price cap parameters between the existing facilitated markets the STTM and DWGM.
- Common gas day – harmonising the start of gas days across the DWGM and STTM.
- Prudential arrangements – consideration of greater alignment and consolidation of prudential arrangements between existing gas markets. Alinta suggests the review could move one step further and implement the netting off of gas positions across facilitated markets immediately.

Broadly, Alinta welcomes the above considerations and is of the view that reforms in this area would deliver tangible administrative, operational and prudential benefits. As such, Alinta strongly supports the AEMC recommending reforms in this area and looks forward to ongoing consultation with the AEMC on developing a consolidated long term strategy for facilitated markets.

Strategic direction for the provision of information

The draft report's recommends the establishment of a Bulletin Board as a "one-stop-shop" for all gas market data, including the potential enhancement of any compliance obligations. Given improving gas market transparency is a prerequisite to efficiently price markets Alinta considers that improving the quality of information provided on the Bulletin Board to interested parties is a worthwhile objective.

Alinta has previously offered broad support to Bulletin Board arrangements which can provide consolidated short-term capacity outlook information, including aggregate pipeline flows, line-pack data and facility outage information. Additionally, the intra-day capacity data could be contained within the Bulletin Board.

Moreover, as outlined in Alinta's previous submission the establishment of Liquefied Natural Gas (LNG) export facilities has raised several short term issues for market operations. Primarily, a concern exists that some participants may possess prior knowledge of the capacity of LNG production facilities, particularly those producing gas which can be sold into the domestic market. Compulsory reporting obligations should be required for upstream gas produces with respect to any medium term changes in the capacity of their production facilities. These reporting obligations should be provided to the Bulletin Board in a similar fashion to how Medium Term Projected Assessment of System Adequacy (MT PASA) forecasts are provided to the Australian Energy Market Operator (AEMO) within the NEM. Additionally, these obligations should contain comparable civil penalty obligations. This would harmonise reporting requirements across both gas and electricity markets on the east coast. This would alleviate concerns associated with information asymmetry, whereby some participants may have possession of information not yet available in the market place including information about available capacity or maintenance outage schedules. It is worth nothing the work the AEMO has recently been progressing in this area.

Whilst an assessment of the associated costs of improving the functionality of the Bulletin Board is to be undertaken in stage 2 of the AEMC's review, Alinta is of the view that reforms in this area would be beneficial in informing participant decision making and the benefits are likely outweigh the costs of improving the Bulletin Board. Alinta would welcome further work in this area and is broadly supportive of the further development of the Bulletin Board.

Hub Development and Capacity Trading

Alinta is supportive of additional hub development if the benefits of doing so clearly outweigh the costs of establishment. However, establishing a Moomba trading Hub should not be seen as a substitute for addressing the lack of a transparent pipeline capacity market.

Alinta has previously outlined the view that if hubs are developed to enhance gas market outcomes, there needs to be adequate liquidity for gas trading to flourish; however, if there is limited transport capacity available then there is likely to be an inability to get gas to or from the hub, inhibiting efficient trade.

Whilst in theory, pipeline operators generally have an incentive to contract spare capacity with market participants, in some circumstances this can be undermined by minimum haulage arrangements, a lack of a standardised capacity contract for small parcels of capacity, as well as a lack of clear settlement, nomination and other billing arrangements. Nonetheless, despite these barriers, incremental industry led capacity trading reform has occurred over time and continues to do so. Notably, the APA group has recently completed a capacity listing service.

Given the above, Alinta would be interested in the stage 2 report assessing whether the development an additional trading hub may actually mask the real inhibitor to trade – the inability to transport gas within east coasts market at a reasonable price. As a general rule the development of multiple hubs doesn't necessarily address the underlying issue of restricted transport.

Going forward, Alinta's preferred approach would be one that conceptualised an arrangement in which both additional hub development and capacity trading can be developed in tandem. Alinta would welcome further work in this area.

*C***onclusion**

Alinta welcomes the east coast wholesale gas market frameworks draft report and supports the ongoing development of institutional understanding of gas market arrangements.

Should you have any queries in relation to this submission please do not hesitate to contact Fiona Wiseman on, telephone, 08 9486 3009.

Yours sincerely

M Shepherd

Michelle Shepherd
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