

10 April 2014

Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Submitted electronically

Dear Sir/Madam,

Re: Portfolio Rights Trading in the Victorian Gas Market

Lumo Energy welcomes the opportunity to comment on the Australian Energy Market Commission's (AEMC) Consultation Paper National Gas Amendment (Portfolio Rights Trading) Rule 2014 (Consultation Paper).

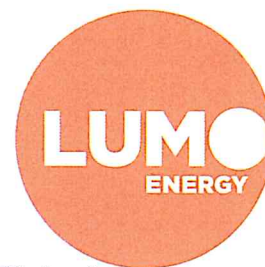
Lumo Energy is 100% owned by Infratil Limited, a company listed on the New Zealand and Australian Stock exchanges. We sell gas and electricity in New South Wales and electricity in South Australia and Queensland. Lumo Energy are currently one of the largest second tier retailers.

The AEMC has commenced consultation on a rule proposal which was submitted by Australian Energy Market Operator (AEMO). AEMO recommends new arrangements to facilitate the financial trading of access transportation rights, including Authorised Maximum Daily Quantity (AMDQ) and AMDQ credit certificates (AMDQcc) in the Victorian Declared Wholesale Gas Market (DWGM).

AEMO proposes to introduce a Portfolio Rights Trading system (PRT) that would enable the market benefits (e.g. injection tie breaking rights and uplift hedge) of AMDQ & AMDQcc to be transferred between participants injecting gas at close proximity points, without affecting the permanent ownership of the AMDQ. This would enable under-utilised AMDQ rights to become available to participants who currently do not have enough AMDQ or AMDQcc to cover their available gas injections.

Lumo Energy supports the rule proposal submitted by AEMO. The rule proposal promotes the more efficient utilisation of the available transportation capacity ultimately deferring new pipeline capacity and leading to lower transportation tariffs in the long run.

Lumo Energy considers the rule proposal is consistent with the National Gas Objective (NGO) and should be progressed because it:



1. Provides net market benefits to the market by promoting more efficient utilisation of existing pipeline capacity and defers the need for more costly augmentation of the Declared Wholesale Transmission System (DWTS)

AEMO adopts a high level cost benefit analysis to justify the investment in the PRT. To evaluate the net benefits of PRT, AEMO compares the Net Present Value (NPV) of the PRT system implementation costs with the benefits resulting from an avoided system augmentation. The AEMC includes the results of this analysis in its Consultation Paper.

AEMO assumes the PRT would cost around \$500,400 and would be implemented over a five year period. The real value of this investment when discounted at a rate of return of 8.5% over a five year period equates to \$453,424.

In terms of the benefits, AEMO's analysis indicates that total net benefits in the PRT of up to:

- \$27,000 can be realised the total traded quantities were equal to 10TJ each year;
- \$508,000 can be expected if the total traded quantity increases to 20TJ each year;
- \$1.47 million can be expected if the total traded quantity increases to 40TJ each year.

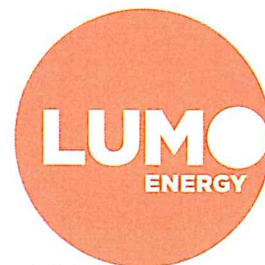
In Figure 3.1 of the AEMC's Consultation Paper, AEMO indicates that the trading quantities of AMDQ and AMDQcc are likely to be between 15 to 20 TJ each year. Lumo Energy considers that this scenario is quite conservative and we would expect to see higher trading quantities in any given year. In fact, Lumo Energy believes that the possible trading range identified by AEMO of up to 30 TJ per year is more realistic. For this reason, Lumo Energy strongly agrees that PRT will deliver a "net benefit" to the market over its life which is assumed to be five years.

2. Promotes competition in the DWGM by providing smaller market participants like us and new entrants with a mechanism to access AMDQ and AMDQcc

PRT improves the ability of smaller market players to access AMDQ and AMDQcc to help manage their short term exposures.

This will make the market for smaller market participants more attractive. It will provide the market with a mechanism that allows them to access to manage their transportation rights when they are required.

Smaller market participants without a spread of injection sources will be able to sell their transportation rights when their contracted capacity is not required.



Alternatively, these smaller players will be able to sell their transportation rights when they have too much AMDQ but not enough injection capacity.

3. Improves our ability to manage risk

PRT increases the certainty of our supply under adverse circumstances.

It will improve our ability to access AMDQ and AMDQcc which will provide us with greater flexibility to optimise our scheduled injections and uplift hedges to mitigate their risk of uplift payments resulting in a more efficient allocation of gas.

4. Improves transparency

PRT improves the transparency in the trading of AMDQ and AMDQcc on the DWTS by:

- allowing authorised MDQ assigned to tariff V sites to be transferred allowing participants to sell unused market rights associated with their tariff V customers;
- establishing a liquid market for the transportation rights as PRT should provide more flexible trading arrangements and lower the entry costs associated with standardised contracts already developed by market participants.

Overall, PRT allows market participants to make use of the existing the financial rights associated with AMDQ and AMDQcc which should defer augmentations in the long run leading to lower gas prices for consumers. Therefore, the rule proposal is consistent with the National Gas Objective (NGO).

Lumo Energy thanks the Commission for the opportunity to make a submission in response to the Draft Report. For any enquiries regarding this letter, please contact Con Noutso Wholesale Regulatory Manager at Lumo Energy on 03 9976 5701.

Yours sincerely,

Justin Mulder
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Lumo Energy Australia Pty Ltd