Response to East Coast Wholesale Market and Pipeline Frameworks Review
Stage 1 Draft Report

QGC welcomes the opportunity to provide comment on the East Coast Wholesale Gas Market Review (the Review) Stage 1 Draft Report ("the Draft Report") which was recently released by the Australian Energy Market Commission (AEMC). We provided a detailed response to the first round consultation and support the overall approach and recommendations outlined in this Draft Report. There are, however, a number of key points we wish to raise including:

1. *General Comments*

- We consider the **AEMC has appropriately identified** the following four key focus areas for the next phase of the review including:
    - Development of a liquid wholesale gas market delivering an efficient reference price;
    - Appropriate market information;
    - The ability to effectively trade pipeline capacity in response to price signals; and
    - Addressing pipeline investment in the Declared Transmission System (Victoria).

- **Inclusion of gas market operations as a key focus area**. The arrival of the LNG export industry changes the nature of the market from a small and stable demand base where the current day ahead balancing approach was appropriate to one which will see "within-day" demand changes larger than the size of the domestic Queensland gas market.

  The establishment of "within-day" trading flexibility is essential to allow further balancing, increase liquidity and the overall development of a well-functioning east coast gas market. QGC considers this is a gap in the AEMC Review process and needs to be a central feature of Stage 2. This capability is necessary to enable participants to respond to "within-day" changes in supply and demand. For example, an unplanned LNG facility outage could result in excess gas being made available to the market. "Within-day" renomination capability could enable a gas-fired generator to respond to higher than expected evening peak demand by sourcing this additional gas. Furthermore, establishing a "within-day" market is central to the effectiveness of other market development initiatives (including a potential capacity trading regime).

  We do note some market operational issues are touched on in various aspects of the Draft Report, but combining them into a single area would focus attention. A dedicated work stream would consider the impediments to and options for creating a viable intraday gas market. Specific aspects include extended trading hours, harmonising the "gas day" and improvements to the operation of the Short-term Trading Markets (STTM) (which are already contemplated) and importantly facilitating intraday renominations.

While intraday renominations are a feature of mature overseas gas markets (such as the UK), there has been little real discussion on why greater flexibility is not available within the east coast gas market. While QGC is led to believe that, under many Gas Transportation Agreements, renominations are cost prohibitive, it needs to be fully explored by the AEMCas part of this process and inappropriate non-cost reflective charges are avoided in the future.
With respect to the start of the gas day, QGC supports harmonising the "gas day" across the interconnected Eastern Australian gas markets. Maintaining an 8am commencement would be reasonable as the majority of gas east coast market volumes already flow on pipes supplying markets with this start time. We acknowledge that market commencement could be linked to related markets such as the National Electricity Market (NEM) and see merit in exploring the costs and benefits further.

- **Addressing the lack of access to short-term competitively priced pipeline capacity is the priority issue**. QGC acknowledges this as a Stage 2 deliverable, however, note that the AEMC needs to ensure the process from here results in meaningful outcomes and targets. While we appreciate the complexities surrounding this issue, given that some form of policy action is clearly required to address market limitations, QGC anticipated that the AEMC would have reached a more defined position on the barriers to the secondary trade in capacity and expressed views on potential solutions. The impacts associated with the inadequacies of the current regime are increasing as the gas industry transformation progresses (two of the six LNG projects will be operational shortly).

  We are pleased that the Stage 1 Draft Report has identified this as a key focus area and it provides a platform to work towards identifying appropriate solutions. The Stage 2 process must deliver specific recommendations, a defined set of reform milestones and a timely implementation plan. Otherwise the potential benefits of creating the conditions to develop a liquid and transparent market will be further eroded the longer the issues remain unresolved. Unless there is clear direction, businesses will look to make long-term decisions based off market arrangements which will then limit effective market development.

  Taking this forward, early on in Stage 2, the AEMC should outline and consult on its overall approach to understanding the issues and assessment framework to test options. Central to examining this issue is gaining an understanding of any contractual impediments to shippers/pipelines offering-up unutilised capacity. Anecdotally, we understand that provisions may exist that restrict the price at which pipelines can offer capacity to the market (i.e. if secondary capacity is offered to the market at prices below the long-term contract price, existing shippers are also entitled to adjusted pricing for shipped volumes). This should be an important element of the overall approach to this issue.

  QGC is undertaking further work on the factors limiting the secondary trade in capacity, the pipeline regulatory regime and potential market design changes (including the Oversell and Buyback (OSBB) scheme). Underpinning this and taking account of current market frameworks, we will develop a set of specific market design principles to guide the consideration of potential capacity trading options with the aim of recommending an overall preferred solution(s). We anticipate working with the "Group of Leading Energy Companies and Major Users" through this process to develop a broad consensus.

2. *Stage 1 Recommendations for immediate consideration – market information*

The Draft Report recommends improving price transparency through:

- Either a survey-based gas price index and or aggregation of existing publicly available information;
- Establishing the Bulletin Board (BB) as a one-stop shop for all gas market data;
- Enhancing compliance; and
- Assessing the degree to which additional informational gaps fall within the scope of the Gas Transmission Pipeline Capacity Trading.

Whilst we support improvements in price and information transparency, QGC is not convinced progressing the first two recommendations as outcomes or "quick wins" from Stage 1, is in the best interest of participants and the market generally. We are unclear of the value in creating and publishing an additional price index when the market is already fulfilling this function - Argus currently reports a Wallumbilla Hub index and the Australian Energy Market Operator (AEMO) publishes an end-of-day benchmark price for Wallumbilla. Rather, the focus should be on developing the market frameworks that will support increased trade and as such the reliability of the ready quoted prices.

The suggestion of collating information in one place, while also helpful, will only have minor effect on overall market efficiency and trading. Most participants already maintain records of (or can easily access) pubic information releases outlining the terms of new contracts etc.

Alternative, we would prefer the Stage 1 Report recommends a scoping study (supported by a working group) be initiated to identity relevant and meaningful market data to assist and facilitate the short-term trade in gas and pipeline capacity. A Scoping Study Working Group would consist of representatives from industry (across the supply chain), the AMEC, AEMO and provided a Terms of Reference covering:

- Provision of real-time information vs following day;
- Appropriate incorporation (and granularly) of LNG and demand-side data;
- The COAG Energy Council Rule change request;
- Costs and regulatory burden on business of data reporting;
- Appropriate reporting platform and central repositories; and
- Relevant arrangements operating in overseas markets.

Clear objectives/principles should be established as the first step and a report provided to COAG at the end of the year on recommended changes. This process would incorporate AEMO's forthcoming Stage 3 of the BB redevelopment and the COAG Energy Council rule change request.

3. Gas Supply Hub

QGC views the Wallumbilla Gas Supply Hub (GSH), operated by AEMO, as central to promoting liquidity in the east coast gas market and supports its development including the work AEMO is progressing on the development of a single Wallumbilla hub product. In moving to Stage 2, we note the AEMC is having regard to this work. As a principle, in order to support the development of a traded futures/Over-the-Counter (OTC), market we recognise the importance of developing a single Wallumbilla product underpinned by a hub design that delivers a "firm" level of service. It is unclear at this point whether the AEMO process will reach this outcome. We encourage the AEMC to recognise this as key element when forming its recommendations and identify if further work is necessary to deliver the necessary outcomes.

With respect to a new pricing location at Moomba, QGC supports the active encouragement of new participants/customers into the Wallumbilla GSH (as opposed to creating a new pricing point). Moomba is an obvious delivery point for southern based end-users to access supply or supply from Gippsland/Bass Strait Basins. There are, however, a range of factors that have not necessarily been considered in sufficient detail to enable policy makers to endorse the introduction of a new trading location at this point. While a Moomba hub may appear a simple, logical and appropriate response for increasing participant's access to supply, it does change the nature of the market and trading dynamics. The recent AEMO consultation process was useful in understanding physical hub design it also raised important strategic questions that were "outside" scope of its consideration, particularly the liquidity impacts and the role Moomba plays in the overall COAG Energy Council Vision for the east coast gas market.

Building liquidity is not straight forward and AEMO has surveyed participants to gain some insight. While this is helpful, we are not convinced that sufficient work has been undertaken to fully understand the short and long-term impacts and a much deeper independent study is necessary. As such we welcome the AEMC's proposal to consider these issues as in Stage 2. We are, however, concerned the recommendation is too narrowly defined in that it will only consider "how and when such a design will best fit into the wider east coast framework". This appears to be based on a view that there is "general" consensus regarding establishing a second GSH at Moomba and the issue is about timing and near-term liquidity impacts. QGC considers that if other aspects of market development are adequately addressed (e.g. access to competitively priced short-term capacity) the necessity for a new hub reduces and there might be other design options that lift the overall level of liquidity at Wallumbilla (which has the potential to develop into the key physical and financial trading point). In framing Stage 2, the AEMC should give consideration to the following principles:

First address the lack of access to short-term competitively priced pipeline capacity

- Addressing the fundamental issue of hoarding pipeline capacity is likely to remove the need to introduce alternative design mechanisms, such as new trading hubs, that are not necessarily the optimal long-term solution for the east coast gas market.

- Enabling more capacity trading (at floating prices more reflective of dynamic short-run supply and demand conditions), would likely support this important development by encouraging greater participation and liquidity at the Wallumbilla GSH (including involvement from those from participants in southern markets who may not currently hold long-term firm capacity). Natural trading hubs will then have an opportunity to develop.

The importance of concentrating liquidity

- Given the limited size of the east coast gas market, there is significant benefit in concentrating liquidity at one trading point (e.g. Wallumbilla)[1]. This will provide sufficient depth to enable the establishment of an efficient reference price, which is necessary if the Australian Stock Exchange (ASX) futures contract is to be successfully traded. Increased trading at one point narrows the bid-offer spreads and the overall price ticks between trades, which is a standard indicator of liquidity. Developing an effective futures market is in the long-term interest of consumers providing instruments to hedge risk and underpin long-term security of supply.

- The Wallumbilla GSH has only been operating for a little over 12 months and both traded volumes and prices have fluctuated over this period with variability in the bid-offer spread. A significant proportion of the trading was concentrated activity in Q3 last year and variable outside these periods. The number of registered participants has remained relatively unchanged since the market commenced. The current nature of trading and participation will not necessarily bring about an underlying reference price which will necessarily enable participants to comfortably enter in futures contracts.

- Central to growing liquidity in the east coast gas market is a well-functioning Wallumbilla GSH. Introducing additional trading hubs offers a short-term solution, but will split market liquidity at the Wallumbilla GSH and create greater price volatility (particularly when exacerbated by capacity constraints). Furthermore, in considering the expansion the GSH, there is significant benefit in exploring options that enhance and concentrate liquidity.

- From past experience, once implemented, these types of facilitated markets become embedded as elements of the market and require substantial efforts to change even if they are no longer contributing to the effectiveness of the overall market (or are being unhelpful) following other developments such as capacity trading. Furthermore, proceeding with the implementation of Moomba distracts from addressing the central issue of capacity and is at odds with addressing this fundamental issue. Before any further consideration of Moomba takes place, more works is required to define the role Moomba plays in contributing to achieving COAG Energy Council's Vision for the gas market.

- QGC has outlined an alternative model where Moomba would be considered a receipt point for the Wallumbilla GSH. Trades would be based off the Wallumbilla price ex transport. While, implementation would require a number of issues to be worked through, development of concepts such as this demonstrates that there are alternative mechanisms that could enhance overall market liquidity while meeting the needs of players in the southern markets. This could be implemented prior to capacity trading being introduced as an interim solution and is likely to be a far simpler feature to remove if no longer assisting the market.

[1] As interim liquidity goal for example could be 200TJ/day traded at the Wallumbilla GSH with small movements ($0.5) in price.

Summary of QGC Recommendations

1. The overall approach and recommendations outlined in the Draft Stage 1 Report are appropriately targeted and it provides a platform to address the key issues in Stage2 of the process.

- The list of key focus areas should be extended to include a dedicated work stream on the impediments to and options for creating a viable intraday gas market. Establishing an intraday market is central to the effectiveness of other market development initiatives (including a potential capacity trading regime).
- Addressing the lack of access to short-term competitively priced pipeline capacity is the priority issue. While we acknowledge it is a Stage 2 deliverable, the AEMC needs to ensure the process results in meaningful outcomes and targets.

2. There is more benefit in immediately commencing a scoping study on gas market informational requirements than progressing proposed “shorter-term wins” such as undertaking new price surveys. The focus should be on delivering change that directly supports increased trade and as such the reliability of existing quoted prices.
3. Fundamental to considering the introduction of a Moomba trading location the principle issues of the lack of access to short-term competitively priced pipeline capacity and the importance of concentrating liquidity need to be addressed. Narrowing the AEMC’s consideration to “how and when such a design will best fit into the wider east coast framework” may limit consideration of these more strategic questions that are central to the COAG Energy Council’s Vision for the gas market.