Australian Pipelines
& Gas Association
T 02 6273 0577
F 02 6273 0588
W www.apga.org.au
A 1st Floor,
7 National Circuit
Barton ACT 2600
PO Box 5416,
Kingston ACT 2604

14 May 2020

Via AEMC Website

SUBMISSION: 2020 BIENNIAL REVIEW INTO LIQUIDITY IN WHOLESALE AND GAS PIPELINE TRADING MARKETS

The Australian Pipelines and Gas Association (APGA) is the industry body representing the owners, operators, designers, constructors and service providers of Australia's high-pressure gas transmission infrastructure. APGA's members build, own and operate the gas transmission infrastructure connecting the disparate gas supply basins and demand centres of Australia, offering a wide range of services to gas producers, retailers and users.

Thank you for the opportunity to comment on the draft report of the 2020 Biennial Review into Liquidity in Wholesale and Gas Pipeline Trading Markets.

Overall, APGA agrees with and welcomes the conclusion in the draft report that gas market liquidity has improved over the past two years. We also strongly support the AEMC's statement in the draft report that *"…a number of regulatory changes to gas markets are still too recent to thoroughly assess their effectiveness and that others are yet to be implemented. As such the Commission considers it is too early to consider further major reforms"*.

Tables 8, 9 and 10 in the Appendix to the draft report clearly illustrate the enormous scale of reform that has occurred in recent years. As existing Gas Transportation Agreements (GTAs) expire and are replaced by updated GTAs in coming years, the impact of these reforms on the market will continue to increase.

The key issue in the draft report that APGA would like to focus on is the Day-Ahead Auction.

Day-Ahead Auction (DAA)

The draft report acknowledges that the DAA has successfully contributed to liquidity growth in capacity and wholesale markets, while noting that it has had much greater uptake on some pipelines than others. It also states that the ACCC has found certain factors that it thinks could be causing the lack of DAA trading in some facilities.

Once factor cited by the ACCC as potentially limiting DAA trading in some facilities is *standardisation charges*. The draft report states that standardisation charges "may be deterring shippers from entering into the contractual arrangements required to use the capacity procured through the DAA in these facilities" [p.76]. It also notes that "some stakeholders suggested to the ACCC that facility operators reduce their fixed charges and/or that consideration be given to amending the cost recovery provisions in the NGR" [p.77].

APGA acknowledges that standardisation charges may be one of several factors rightly taken into account by shippers when deciding whether to participate in the DAA; but the overall significance of these is questionable. For example, the Australian Energy Regulator's (AER) February 2020 report on the *Operational Transportation Service Agreement (OTSA) Compliance Review* concluded that standardisation charges "are unlikely to represent a barrier to secondary capacity trading" *[AER; OTSA Compliance Review report, p.20].*

Standardisation charges reflect the incremental costs incurred by pipelines when establishing and maintaining transportation and other agreements, systems and processes needed to facilitate capacity trading and the DAA. Because these charges reflect an actual cost of doing business, they cannot be arbitrarily reduced without necessitating the recovery of those costs elsewhere. Further, the AER's report on the *OTSA Compliance Review* found that "the costs incurred by the transportation service providers are considered reasonable and appear to represent the incremental costs of establishing and maintaining standard OTSAs" *[AER; OTSA Compliance Review report, p.20].*

The Liquidity Review draft report includes a recommendation from the ACCC that the standardisation charges issue be examined either by the AEMC as part of the current liquidity review, or by COAG Energy Council in the 2021 post implementation review of the capacity trading reforms. If it is deemed necessary to examine the issue of standardisation charges, then this should occur as part of the COAG Energy Council's 2021 post implementation review of the capacity trading reforms. The later date is in keeping with the AEMC's view (shared by APGA) that it "*a number of regulatory changes to gas markets are still too recent to thoroughly assess their effectiveness"*. The capacity trading reforms were only implemented in March 2019, so they fall very much in the "too recent" category.

The draft report also states that some stakeholders were "concerned that the DAA creates incentives for stakeholders to reduce their pipeline contracting levels", which would also reduce opportunities in the DAA as the auction only includes capacity that is contracted but un-nominated. While acknowledging this possibility, APGA notes that capacity obtained via the DAA is not a like-for-like substitute for firm capacity. A reliance on this for users with predictable and relatively inelastic gas demand profiles would entail those users taking on additional gas supply risk in some circumstances.

There is also a reference in the draft report to some stakeholders identifying the fact the DAA is not a "firm" product as an issue that limits its usefulness. However, this point falls well outside the intended scope of the DAA; with the appropriate mechanism for shippers requiring first tier firm capacity being to take out a firm capacity contract. That said, APGA notes that services acquired via the DAA actually come very close to being a firm product. Although DAA services rank below firm transportation services and the renomination rights held by firm capacity holders, they still rank above all other services from a scheduling, curtailment and renomination perspective.

If you would like to discuss any of these issues further, please contact APGA's National Policy Manager, Andrew Robertson on 0439 491 102 or at arobertson@apga.org.au.

Yours sincerely

STEVE DAVIES
Chief Executive Officer