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Dear Dr Locke

Regulatory Impact Statement – Gas Transmission Pipeline Capacity Trading

Thank you for the opportunity to provide feedback into the Standing Council of Energy and Resources (SCER) Regulatory Impact Statement (RIS) on Gas Transmission Pipeline Capacity Trading. As the Australian Energy Market Operator (AEMO), we have operating functions and interests in and across the wholesale and retail markets and networks, both for gas and electricity. AEMO views the efficient trading of gas transmission pipeline capacity as an important step toward an integrated market.

We welcome the SCER's attention to this aspect of the market arrangements and have set out below our own initial thinking in respect of the policy options identified in the RIS.

Overview

With Australian's eastern gas markets undergoing a period of significant development and change, both physically and commercially, this review is being carried out at an exceptionally opportune time. The number of reviews currently underway in respect of the wholesale gas markets highlights the relevance and importance of these issues to market participants, investors and policy makers alike. We view these reviews as an excellent opportunity for parties across the supply chain to bring together different perspectives to engage on issues affecting the forward looking efficient operation of the markets.

AEMO, in line with the SCER Gas Market Development Plan, is currently working closely together with industry participants to deliver a new gas supply brokerage hub in Wallumbilla, Queensland, for March 2014, on behalf of the SCER. As part of this work, AEMO is also looking at arrangements that may support voluntary shipper to shipper pipeline capacity trading at Wallumbilla to potentially deliver a more efficient market operation.

Consistent with this, AEMO has recently commissioned external research into how gas markets in different international contexts have evolved and how each manages the trading of pipeline capacity. Although we appreciate there is not likely to be a like-for-like comparison with the Australian context, we trust that this background will provide a helpful overview of different models and highlight where parallels can or do exist with the arrangements here domestically. It is our intention to publish this work to aide wider discussion with industry stakeholders once it is available. We would be happy to share and discuss the findings with the SCER if that would be of assistance to your own review processes.

Wallumbilla Gas Supply Hub

The establishment of the gas supply hub (GSH) is intended to facilitate open and transparent trade between participants. Feedback received from some participants during the GSH consultation process suggests that capacity trading would support further development and liquidity at the Wallumbilla hub. Issues raised by participants ranged from a lack of transparency on who to contact, to improving existing arrangements that would support more efficient transfer and contracting for shorter term capacity. However we note that, despite these concerns, there is nothing within the existing legal framework that limits the trading of pipeline capacity between parties. However, the basic mechanisms for trading, transfer and operation of the transacted services could make it difficult for the contract holder to realise potential revenue from the sale of unused capacity.

As a first step in dealing to some of these concerns, AEMO, as part of the GSH project, will implement a capacity listing service alongside the GSH commodity trading platform. This will provide industry participants the opportunity to transparently place buy or sell interest in capacity in the market. This capability will be available from March 2014 when the GSH market goes live.

As a second step and part of the work AEMO is taking forward on behalf of the SCER is to develop options that would facilitate shipper to shipper trade in capacity. Discussions with industry participants so far have indicated areas such as standardisation of contract terms and conditions, greater transparency and a central trading platform or bulletin board are may be helpful and are areas that require further investigation. In working through the concept of shipper to shipper trade in capacity with industry, it is AEMO's expectation that our process would identify the extent of the issue and deliver workable solutions that could be implemented if required.

Consistent with the SCER commitment to review the effective functioning of the Wallumbilla GSH arrangements in 2015, AEMO considers that it would also be appropriate to review the effectiveness of the capacity trading measures currently being developed alongside the GSH at the same time. This timeframe would in AEMO's view have provided the market with enough time to evolve and develop the necessary services and mechanisms to support SCER's overall Gas Market Development Plan.

Overall, we welcome the SCER's attention on this aspect of the market arrangements. We would like to reiterate AEMO's continued support for this area of study and to reaffirm our commitment to working together where we can assist the SCER in its thinking over the course of this process.

If it would be helpful to discuss any aspect of this further, please contact me or alternatively Peter Geers, General Manager Business Strategy, on 03 9609 8559.

Yours sincerely



David Swift
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