



19 July 2013

Manager, SCER Secretariat
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Submitted via: scer@ret.gov.au

Dear Secretariat

Gas Transmission Pipeline Capacity Trading

Alinta Energy welcomes the opportunity to make a submission in response to the Standing Council on Energy and Resources officials (SCER) regulatory impact statement 'Gas Transmission Pipeline Capacity Trading', published in May 2013.

Alinta Energy is an active investor in the energy retail, wholesale and generation markets across Australia. Alinta Energy has around 2500 megawatts of generation capacity in Australia (and New Zealand) and a growing customer base of approximately 700,000. Alinta Energy has significant gas interests across Australia.

Alinta Energy is the incumbent gas retailer in Western Australia and offers gas at the mass market retail level in South Australia and Victoria. Alinta Energy is also active in the gas market in Queensland and has a range of commercial interests; this includes commercial and industrial wholesale gas sales.

Alinta Energy'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 Energy also is part owner of the Goldfields Gas Transmission Pipeline, and owns an approximately 150km gas pipeline in Queensland serving the Braemar Power Station facility.

Alinta Energy is a participant in the Adelaide and Brisbane hubs of Short-Term Trading Market, the Victorian Declared Wholesale Gas Market and is looking to participate in the Wallumbilla Gas Supply Hub when it becomes operational in 2014.

Current arrangement and problem definition

Alinta Energy agrees in-principle with SCER that additional trading capacity is desirable, particularly for pipelines which are currently fully contracted. Alinta Energy also supports SCER's view that increasing capacity utilisation of existing pipelines will likely be an avenue for more efficient pricing and gas allocation in the market. Further, it is widely acknowledged that the east coast gas market has not developed an effective or efficient pipeline capacity trading market.

Nonetheless, the reasons for the present conditions require careful consideration before any programme of reform can be endorsed and it is necessary to ensure any response is consistent with existing market frameworks.

One argument is that unutilised pipeline capacity in itself is not an indicator of inefficient market conditions as the underlying demand for secondary trading along specific pipelines may be low. Alinta Energy agrees that it is likely to be the case that the demand for unused capacity may not be as great as may be considered to be the case by some stakeholders or governance bodies.

Additionally, it is possible to engage in secondary trading as it currently stands. Market participants are free to enter into the commercial arrangements which best meet their interests including as it pertains to secondary trading of capacity. Alinta Energy agrees that this is effectively true.

Nevertheless, there is limited trading and a view that participants are being frustrated in their attempts to trade capacity or access capacity. In Alinta Energy's experience this is driven by the conditions listed below. Whether or not any or all of these conditions justify reform is open to review.

1. Information on available capacity in the forward period is limited and not readily accessible.
2. Market does not cater to short-term trades.
3. Transactions costs are high due to contractual and administrative burdens associated with all trades involving gas pipelines.
4. Interface with hubs has not been resolved.
5. Exposure to additional pipeline charges is unknown at time of capacity trade and can be difficult to manage.
6. Marginal benefits of increased pipeline trade may be dwarfed by more significant benefits in retail gas markets.

Information is not readily available to facilitate trading in advance or to have a clear understanding of where capacity is, or may be, available and for what duration of time. In the absence of phoning round to contact key participants there is no platform to expedite capacity trade.

In Alinta Energy's experience most pipelines are interested in long-term contracts for large volumes of gas as opposed to short-term deals for small volumes. As a result, increased capacity trading is, to a degree, undermined through the significant transaction and administrative costs associated with small short-term deals, which reflects lower value benefits for pipelines. Additionally, constraints such as minimum haulage arrangements also act as barrier to greater utilisation in some circumstances.

The growing importance of trading hubs emphasises interface with capacity trading on individual pipelines. A unit of capacity on a pipeline needs to net off within existing or proposed hubs to enable trading on an individual pipeline to be effective. As this is not presently the case it limits the potential for trade.

Further, hub instruments like schedule variations and balancing gas need to be consistent with more active capacity trading, and pipeline charges, for instance on uncovered pipelines between Victoria and South Australia, should not prohibit trading through potential exposure to unknown costs.

The benefits for supporting pipeline capacity trading needs to be measureable; generally this is thought of as the benefits and cost to shippers, gas pipelines and purchasers of unused capacity and the implications for the wholesale market. This is largely correct; however, any additional benefit in the wholesale markets for large consumers, being commercial and industrial customers, and into the retail markets also needs to be considered.

Options for change

Alinta Energy believes there is a case for change, through industry led and government supported market evolution not significant and abrupt reform. While the case for change still needs to be developed it is likely to centre on improvements in information and transparency and voluntary trading mechanisms at this stage. The next section of this submission raises potential options for reform. All these options are presently conceptual and need to be considered in further detail.

Gas Market Information

Alinta Energy supports efforts which increase the availability of gas market information. However, increased information is only of value if the information provided addresses gaps in the market. Information which is not targeted at addressing the absence of capacity trading may ultimately create a reporting burden for little discernible benefit.

In the interim Alinta Energy considers there is value in exploring methods to list long term contracted capacity on individual pipelines on the gas bulletin board. This would promote market development by acting as a first point of reference for participants looking to contract capacity on certain pipelines.

Short-term capacity platform

In theory, both shippers and pipelines have an incentive to contract out any unused capacity but selling such additional capacity is less regularly done. Whilst, Alinta Energy believes that additional information will improve the visibility of market participants looking to trade, it is not necessarily clear if this will result in increased trading.

Alinta Energy is occasionally in the position of possessing excess contracted capacity, which could be sold to market and is interested in purchasing capacity over periods of time. However, present market arrangements in capacity trading often revolves around word of mouth knowledge of whom in the market is buying and selling, followed by potentially lengthy negotiations around terms and conditions. The cost of this process often outweighs the benefits, and as such Alinta Energy considers this arrangement to be operationally burdensome and hardly ideal.

Alinta Energy believes that opportunities do exist for increased trade in short-term secondary firm capacity and has long supported Australian Energy Market Operator's work in listing available pipeline capacity using a bulletin board approach, where excess capacity can be offered instantly to market.

Alinta Energy considers there is the potential for adjustments to the bulletin board which could allow participants to signal a willingness to buy or sell capacity in the short term (up to one month) in the form of a pool and bid stack, which could be executed on standardised terms and conditions at arm's length. Capacity traded in this manner could add towards a negative or positive balance to overall contract positions.

Alinta Energy considers there is some merit in leveraging off the existing bulletin board as a way of facilitating greater capacity trade. Alinta Energy welcomes SCER's analysis and further work in this area. Notably any mechanism should be voluntary.

Standardised Trade Arrangements and Conditions of Trade

Alinta Energy considers a framework which supports standardised trading arrangements as a potentially beneficial market development. A potential framework which could be progressed could include the following components:

- A defined exchange which contains a range of standardised contracts, covering different trade types.
- The ability for participants to develop stand-alone contracts.
- A capacity listing service which matches participants and conforms to existing hubs.
- Clear pre and post trade processes including nomination timing procedures, revision of nominations and on-day process requirements.
- Clear settlement and billing arrangements.

Much of this work is currently being progressed as part of AEMO's development of the Wallumbilla gas hub. Pending the success of the hub, Alinta Energy sees potential value in applying the aforementioned framework components on an expanded basis.

As noted, Alinta Energy supports voluntary trading platforms; however it should be recognised that additional trading hubs are not necessarily a precondition to a more efficient market place, if impediments to trade are not necessarily identified or well defined. As such, learning from the Wallumbilla supply hub experience may be the most appropriate method going forward, before progressing another voluntary trading platform.

Mandatory trading requirements

As a general position, Alinta Energy sees value in further developing methods which facilitate improved information sharing and provides the prospect for standardisation of contractual terms and conditions to cover short-term trades. As it relates to mandatory trading arrangements, option four, this will naturally raise caution amongst participants that hold existing contractual rights; understandably so.

A use-it-or-lose it scenario, whereby shippers would lose their contracted capacity not being used, is not Alinta Energy's preferred way forward and would inevitably lose the support of industry; however, mechanisms to increase trade of unused capacity on an as available and interruptible basis should be of less concern.

As a general rule, given gas markets have and continue to develop as the market evolves, government should support incremental improvements over sudden interventions. In this context, if progressed with industry support there may only be degrees of differences between existing approaches and bringing increased as available capacity to the market so long as it does not negatively and significantly impact on existing shippers' property rights.

This means existing shippers rights, based on existing contracts, should not be retrospectively weakened and that the sale of any as available capacity occurs in a way which does not override shippers' interests, provides fair compensation for secondary sale or both.

To summarise: Alinta Energy believe an advance on the status quo is required and supports SCER progressing option two initially, with the potential to progress option three, when it is clear doing so will provide a net benefit to the market. Option four requires appropriate caution with aspects that are suited to further discussion.

Introducing more hub arrangements

While capacity trading is an important development it is only one step in managing market risks and maximising trade. Alinta Energy has in other reviews stressed the importance of managing risks and costs within the day and improving balancing gas and market variation products and arrangements. This is an area of ongoing concern in the short-term trading market hubs.

Conclusion

Alinta Energy welcomes SCER's gas transmission pipeline capacity consultation paper and supports ongoing engagement with industry to ensure gas market development needs are consistent with the current market and are targeted to areas where clear deficiencies can be identified.

Should you have any queries in relation to this submission please do not hesitate to contact me on, telephone, 02 9372 2633, or Anders Sangkuhl on, telephone, 02 9375 0962.

Yours sincerely



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