

Australian Energy Market Commission
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5th April 2016

Review of the Victorian Declared Wholesale Gas Market (GPR0002)

The Australian Energy Council (the “**Energy Council**”) welcomes the opportunity to comment on the Australian Energy Market Commission’s (“**AEMC**”) Review of the Victorian Declared Wholesale Gas Market Discussion Paper.

The Energy Council is the industry body representing 22 electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. These businesses collectively generate the overwhelming majority of electricity in Australia and sell gas and electricity to over 10 million homes and businesses.

Introduction

The National Gas Objective “is to promote efficient investment in, and efficient operation and use of, natural gas services for the long term interests of consumers of natural gas with respect to price, quality, safety, reliability and security of supply of natural gas”.

The Energy Council understands that the structural changes occurring in the gas industry such as the development of liquefied natural gas exports warrant market reform, but observes that in the case of Victoria, the Australian Energy Market Operator’s *2016 Victorian Gas Planning Report Update* forecasts a reduction in peak system demand within the Declared Wholesale Gas Market (“**DWGM**”) of 1% per annum over the next five years. The decline of such a key indicator of system utilisation, and by association, pipeline expansion, leads the Energy Council to question whether the need to overhaul the DWGM in such a radical way is genuinely justified, particularly without a cost benefit analysis proving the changes to be “efficient investment”.

Financial Risk Management Products

One of the main reasons for the proposed market changes is to establish the preconditions required for financial risk management products to develop. While the proposed trading market may go some way to providing the opportunity to improve financial risk management compared with the *status quo* (contingent on sufficient liquidity developing to support it), market participants will continue to be exposed to balancing and other charges, which means that they will be unable to cover their portfolio positions fully with financial risk management products. This residual inability to fully mitigate risk reduces the value of the proposed market changes and maintains any existing difficulty new retailers may have in entering the market. This will particularly affect small retailers who may not have the financial backing to withstand a loss of any magnitude.

The documents provided to date also offer no evidence that the proposed reforms will increase liquidity. Again, this limits the appeal of the market changes to market participants, particularly new entrant retailers. The Energy Council would like to see evidence of the likely value before it endorses such significant changes.

Existing Rights

As mentioned in its previous submission, Energy Council members remain concerned about how the value of AMDQ credit certificates and related market entitlements will be assessed and compensated. At face value, allocation of firm capacity for a period of five years seems inadequate compensation for the termination of enduring rights.

Conclusion

While the Energy Council understands the rationale for the proposed changes, it remains cautious, particularly in the absence of a detailed cost benefit analysis. Rather than develop the Southern Hub in parallel with the other significant market changes proposed as part of the East Coast Wholesale Gas Market & Pipeline Frameworks Review, with all the complications of transitioning from a complex market carriage arrangement, the Energy Council recommends developing the Northern Hub first, and using the lessons learned from that process to develop the proposed Southern Hub. Concurrently, the time taken to develop the Northern Hub can be used by an industry working group to investigate the transitional and legacy issues in more detail and develop proposals to satisfy stakeholders.

Further to this proposal, as it has recommended in the East Coast Wholesale Gas Market & Pipeline Frameworks Review, the Energy Council suggests that any changes to the DWGM be conducted in a staged manner by an industry working group working in collaboration with the AEMC, with regular assessments along the way to ensure the programme is both meeting the National Gas Objective and providing a positive return for market participants' time and financial investments.

Any questions about this submission should be addressed to the writer, by e-mail to kieran.donoghue@energycouncil.com.au or by telephone on (03) 9205 3116.

Yours sincerely,



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