

Attachment A: Options to progress the east coast gas market – Stakeholder feedback template

Submission from ASX

The template below has been developed to enable stakeholders to provide feedback on the paper Options to advance the east coast gas market, in particular:

- Key issues and barriers to performance, participation and liquidity of the Wallumbilla Gas Supply Hub, and potential policy options
- Key issues and barriers to effectiveness of the pipeline capacity trading framework, and potential policy options
- Broader issues and options which could enable greater liquidity and participation through related enabling frameworks

Officials strongly encourage stakeholders to use this template, so that it can have due regard to the views expressed by stakeholders on each issue. If you wish to provide additional feedback outside the template, wherever possible please reference the relevant question to which your feedback relates.

Chapter 2: Rationale for undertaking consultation

Section 2.4 What are the objectives of Energy Ministers?

No.	Questions	Feedback
1	Do you have any comments about the rationale for undertaking consultation? Does the rationale broadly cover the issues that you face in your interaction with the gas market?	No Comment
2	Are there any issues which have not been identified which Energy Ministers should consider in the context of undertaking these workstreams?	No Comment
3	Do you have any comments about the proposed objectives of this work?	No Comment

Chapter 3: Consultation focus 1: Wallumbilla Gas Supply Hub

Section 3.1 What are the potential problems?

No.	Questions	Feedback
4	Do you agree with the problems that have been identified for Wallumbilla GSH and what effect do you think they could have on meeting the objectives outlined in Chapter 2.4?	No Comment
5	Are there any other problems that you think should be considered? If so, please set out what they are, what effect they may be having on liquidity at Wallumbilla GSH, and how these problems could be addressed.	No Comment
6	Are there structural issues regarding the nature of supply and demand for gas in Australia which could impact the success of reforms aimed at increasing liquidity of gas markets?	No Comment

Section 3.2 How could these problems be addressed?

Section 3.2.1 Anonymised delivery

No.	Questions	Feedback
7	What benefits could anonymised delivery offer for gas market participants which could assist in achieving the objectives in Chapter 2.4? What do you think the costs and benefits of implementing such an option would be to your business in terms of your participation in the Wallumbilla GSH?	No Comment

No.	Questions	Feedback
8	<p>What do you believe would be the most appropriate design for an anonymised delivery model at Wallumbilla GSH?</p> <p>(a) Is a model which emulates the CTP most appropriate for anonymised delivery of gas traded through the GSH?</p> <p>(b) What balancing regime represents the best trade-off of complexity and benefit to liquidity?</p> <p>(c) Would implementation via a Rule change or bilateral agreement be more preferable in terms of achieving the NGO?</p>	No Comment
9	<p>In terms of an implementation roadmap, what importance would you place on addressing this issue and over what timeframe?</p>	No Comment

Section 3.2.2 Streamlining prudential requirements

No.	Questions	Feedback
10	<p>Do you think there is likely to be a net benefit in harmonising prudential requirements across the east coast facilitated gas markets? What effect do you think this will have on your business, and suppliers and users more generally?</p>	No Comment

No.	Questions	Feedback
11	Do you think the introduction of the ASX physical delivery futures product will alleviate the current concerns around collateral requirements of forward-dated products? If not, please explain why.	<p>ASX would like to comment on the statement in the Consultation that the introduction of a deliverable ASX Wallumbilla Gas Futures Contract is expected to reduce the burden of the current collateral arrangements in the GSH significantly (see p.32).</p> <p>ASX Clear Futures collateral arrangements for any deliverable ASX Wallumbilla Gas Futures Contract would operate separately to AEMO's collateral arrangements for the GSH. Subject to regulatory approval, ASX expects that the practical effect of the proposed deliverable ASX Wallumbilla Gas Futures Contract going to delivery would be that the End Users enter into a transaction on the GSH. However, these GSH transactions will be subject to AEMO's collateral arrangements for the GSH. ASX Clear Futures would not provide collateral support for these GSH transactions or share in the prudential requirements for these GSH transactions with AEMO.</p> <p>The proposed deliverable ASX Wallumbilla Gas Futures Contract could be used by End Users for long dated contracts, which will have the practical effect of End Users only being required to satisfy the GSH collateral requirements once the Futures Contract goes to delivery and a GSH transaction is created for the delivery month. This would reduce the period for which End Users are required to satisfy the GSH collateral requirements.</p> <p>The collateral requirements for any deliverable ASX Wallumbilla Gas Futures Contract would be determined by ASX Clear Futures from time to time in accordance with comprehensive policies and procedures. While ASX cannot guarantee that ASX margin levels will always be lower than the GSH collateral requirements, it is the case currently for the ASX Gas Futures Contracts.</p>
12	Which option for sharing prudential requirements do you consider would be likely to offer best value for money? Are there other options that should be considered?	No Comment

No.	Questions	Feedback
13	In terms of an implementation roadmap, what importance would you place on addressing this issue and how quickly do you think it needs to be addressed?	No Comment

Section 3.2.3 Market making

No.	Questions	Feedback
14	Do you think a market making regime could make the Wallumbilla GSH better suited to your gas trading needs? Is a market making regime necessary in order to develop liquidity at Wallumbilla GSH or is this better achieved through other means?	No comment
15	<p>What form of market making regime do you think would be most appropriate for achieving the objectives in Chapter 2.4?</p> <p>(a) What parties would be most appropriate to be market makers (and in what markets e.g. physical, financial)? Should this be voluntary or mandatory in terms of participation?</p> <p>(b) How do Energy Ministers ensure that there is minimal adverse impact to participants selected as market makers in such a regime? Are there elements of the design of market making regime that could assist in minimising the implementation cost?</p> <p>(c) What role (if any) could energy market bodies and/or governments play in facilitating a regime at Wallumbilla GSH?</p>	No comment

<p>16</p>	<p>Does a market maker within the ASX physical futures product sufficiently reduce the need for an alternative market making regime for Wallumbilla?</p>	<p>ASX would like to comment on the statement in the Consultation that ASX will appoint a market maker for the proposed deliverable ASX Wallumbilla Gas Futures Contract in order to close out positions where participants cannot or do not want to go to physical delivery (see p.33). ASX does not expect to appoint a market maker to provide this facility to market participants. Rather, ASX expects to introduce a voluntary market making scheme similar to those that have been established for other ASX Futures Contracts.</p> <p>The ASX voluntary market making scheme is likely to include financial incentives for market makers who make markets in the deliverable ASX Wallumbilla Gas Futures Contract in accordance with the requirements of the scheme. A failure by a market maker to comply with its market making obligations would result in the non-payment of financial incentives, with no 'penalty' outside this loss of financial incentive.</p> <p>ASX considers that its voluntary market making scheme could nevertheless deliver some of the same benefits of a market making scheme on the GSH, including increased price transparency and a more robust forward curve for Wallumbilla Gas that provides price signals for investment and supply.</p> <p>An example of where an ASX market making scheme has made a significant difference in the underlying physical market is the ASX New Zealand Electricity Futures Contracts. Since 2011, four participants have provided price making services in these Futures Contracts and, based on any objective analysis, this has succeeded in its goals of creating liquidity, price transparency and increased competition at both a generator and retailer level.</p> <p>The New Zealand Electricity Authority has stated that "an active hedge or futures market with transparent and robust forward prices and easy accessibility for new entrant generators, retailers and consumers is critical to promote competition, reliability and efficiency in the wholesale and retail markets".</p> <p>It is important to note that the ASX Wallumbilla Gas Futures Contract may not deliver increased on-screen trading and liquidity on the GSH itself. The GSH transactions arising from delivery of the Futures Contract would be agreed off-market with respect to the GSH (i.e. through the delivery process for the Futures Contract) and then entered into the GSH as a pre-agreed trade. On this basis, the Energy Ministers may wish to consider if this meets their objectives for a GSH market making scheme.</p> <p>ASX would welcome the opportunity to share learnings from its market making schemes that may assist in the design of any market making scheme on the GSH, including how such a scheme may interact with the ASX market making scheme, identification of potential market makers and AFSL requirements, developing</p>
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No.	Questions	Feedback
		market making obligations and considerations relevant to whether a mandatory or voluntary scheme may be more appropriate.
17	In terms of an implementation roadmap, what additional work is required to consider the merits of market making regimes and to assess the cost and benefits of different designs?	No comment

Section 3.2.4 Virtual hub design

No.	Questions	Feedback
18	What benefits do you think a virtual hub for Wallumbilla GSH could introduce and why? Do you think it could make it easier for your business to trade gas?	No Comment
19	Do you have views on the design details that would need to be considered in designing a virtual hub, for instance which form of carriage model or balancing regime would be most appropriate?	No Comment

No.	Questions	Feedback
20	<p>What level of regulation should be imposed upon the hub operator? And what activities should be regulated as part of this? Should consideration be given to an independent hub operator?</p>	No Comment
21	<p>Regarding the idea of expanding a virtual hub to encompass the SEQ trading location and the Brisbane STTM:</p> <p>(a) What additional benefit would this provide your business, and the gas market generally, compared to a virtual hub covering Wallumbilla alone?</p> <p>(b) What are the major risks associated with this proposal, particularly considering management of existing contracts and congestion?</p> <p>(c) Would a liquid trading hub be an adequate replacement for the mandatory Brisbane STTM?</p>	No Comment
22	<p>In terms of an implementation roadmap, are there other considerations which should be considered for future consultation and assessment, if this option was to be investigated further?</p>	No Comment

Section 3.2.5 Other options considered

No.	Questions	Feedback
23	Do you agree with the initial analysis of these other options? Do you think there is merit in exploring these options further in order to assess whether they could contribute to meeting the objectives outlined in Chapter 2.4?	No Comment
24	Are there additional options which should be considered by Energy Ministers in more detail?	No Comment

Chapter 4: Consultation focus 2: Pipeline capacity trading frameworks

Section 4.1 What are the potential problems?

No.	Questions	Feedback
25	Do you agree with the problems that have been identified with pipeline capacity trading frameworks and what effect do you think they could have on future liquidity growth in the east coast gas market?	No Comment
26	Are there any other problems that you think should be considered? If so, please set out what they are, what effect they may be having on pipeline capacity liquidity, and how these problems could be addressed.	No Comment

No.	Questions	Feedback
27	Do you agree that these identified problems are relevant to meeting the objectives in Chapter 2.4? If not, please explain why.	No Comment

Section 4.2 How could these problems be addressed?

Section 4.2.1 Reviewing fee structures and levels

No.	Questions	Feedback
28	Do the fees charged by AEMO for participation in pipeline capacity trading act as a barrier to further growth in usage? How could this be alleviated?	No Comment
29	<p>To what extent should pipeline operator fees be reformed in order to increase the efficiency of the market, noting the options outlined above?</p> <p>(a) Do you agree with the AER's initial findings that the fee structures imposed by pipeline operators did not represent a substantial barrier to trading?</p> <p>(b) Would an increased level of regulation on pipeline operator fees be warranted in order to better improve market outcomes? Are there any risks which could arise from this approach?</p>	No Comment

No.	Questions	Feedback
30	<p>In terms of an implementation roadmap, what importance would you place on addressing this issue and how quickly do you think it needs to be addressed?</p>	No Comment

Section 4.2.2 Reviewing bidirectional pipelines restrictions

No.	Questions	Feedback
31	<p>Are there specific pipelines for which access to backhaul capacity is an issue for participants?</p> <p>(a) Would an interruptible backhaul auction product on bidirectional pipelines such as the one described above be feasible? If not, please explain why.</p> <p>(b) Is there a need to strengthen the conditions by which a pipeline can be made bidirectional? What risks could eventuate through a higher barrier to reclassification of pipelines?</p>	No Comment
32	<p>In terms of an implementation roadmap, is there a preferred approach or other considerations which should be considered for future consultation and assessment, if this option was to be investigated further?</p>	No Comment

Section 4.2.3 Alleviating issues around auction timing

No.	Questions	Feedback
33	<p>Would shifting forward the nomination cut-off time within the gas day present any difficulties? How might this impact the certainty for gas users to nominate for the next day?</p> <p>(a) Would the benefit in shifting forward the nomination cut-off time, and consequently the DAA, be sufficiently material to justify change?</p>	No Comment
34	<p>Are there thoughts on the usefulness of an automated nomination process for auctioned capacity in order to alleviate timing concerns from smaller participants? How might this be best implemented?</p>	No Comment
35	<p>In terms of an implementation roadmap, what importance would you place on addressing this issue and how quickly do you think it needs to be addressed?</p>	No Comment

Section 4.2.4 Reviewing firmness of auction product

No.	Questions	Feedback
36	<p>Should the firmness of the auction product as initially recommended by the GMRG be revisited, given the outcomes of the auction and use of the CTP?</p> <p>(a) What risks could shifting to a hybrid auction introduce (e.g. impact on investment signals)? What measures could be put in place to limit any impacts?</p>	No Comment
37	<p>In terms of an implementation roadmap, what additional work is required to consider the merits of reviewing the firmness of auction products?</p>	No Comment

Section 4.2.5 improving the usefulness of the Capacity Trading Platform

No.	Questions	Feedback
38	<p>Could the usefulness of the CTP be improved through a simplified product offering or coordinated trading mechanism for secondary capacity? How could simplification best be achieved?</p>	No Comment

No.	Questions	Feedback
39	<p>Would increasing access to primary capacity products on pipelines through the CTP result in a more efficient gas market, and improve flexibility for shippers and buyers? Is this an attractive alternative to bilateral contracting for short-term primary capacity?</p> <p>(a) What products could be made available? Is the CTP the most appropriate platform to make these products available? If not, please explain why.</p> <p>(b) How could pricing for these products be set? How could any incentives for economic withholding be addressed?</p>	No Comment
40	<p>In terms of an implementation roadmap, what additional work is required to consider the merits of trading primary capacity products on the CTP?</p>	No Comment

Section 4.2.6 Other options considered

No.	Questions	Feedback
41	<p>Do you see potential benefit in any of these other options which would help to achieve the objectives outlined in Chapter 2.4 and may warrant further exploration?</p>	No Comment
42	<p>Are there additional options which have not been explored or identified here and should be considered by Energy Ministers in more detail?</p>	No Comment

Chapter 5: Other enabling framework reform options

Section 5.1 Third-party access to gas infrastructure

No.	Questions	Feedback
43	<p>Do you think there is currently an issue with third-party access to gas facilities other than pipelines? Would a regulatory access regime for these facilities lead to better outcomes for the gas market and support achievement of the Energy Ministers' vision?</p> <p>(a) What types of facilities should be the focus of a third-party access regime (if any)? To what extent are the issues associated with these facilities similar to or different from the issues considered in the Pipeline RIS?</p>	No Comment
44	<p>Are there alternatives to implementing a third-party access regime for this kind of infrastructure, such as an independent body like AEMO or governments owning and/or operating infrastructure such as storage or compression?</p>	No Comment
45	<p>In terms of an implementation roadmap, what additional work is required to consider whether access regulation should be extended to other forms of gas infrastructure? What risks exist with regards to the introduction of any regulatory regime?</p>	No Comment

Section 5.2 Improving contracting practices to support greater on-screen trading and liquidity

No	Questions	Feedback
46	<p>What do you consider to be the main benefits of off-screen bilateral contracting arrangements (for example, under an MSA) as compared with on-screen trading through the Wallumbilla GSH?</p> <p>(a) Are there any contracting practices associated with the Wallumbilla GSH that you consider currently act as a disincentive to on-screen trading?</p>	No Comment

No	Questions	Feedback
	(b) What further procedural, regulatory or contractual changes would encourage increased on-screen trading through Wallumbilla GSH and would support your gas portfolio needs?	
47	How important is it to you to ensure confidentiality of commercial terms like price and volume when trading? To what extent would the option to anonymise delivery of gas at Wallumbilla GSH (outlined above) address confidentiality concerns?	No Comment
48	Are there are regulatory or other barriers preventing the entry into the market, or effective operation, of brokerage service providers?	No Comment

Section 5.3 Potential government support for infrastructure

No	Questions	Feedback
49	<p>Do you think that government support for infrastructure would be an appropriate means of helping achieve the objective of more liquid trading in capacity/gas?</p> <p>(a) Is there a risk that government support could crowd-out and displace private investment?</p> <p>(b) Is there a role for the market bodies or government as independent owners or operators of infrastructure, including as an independent operator of the Wallumbilla GSH?</p>	No Comment

Section 5.4 Access to regional pipelines

No.	Questions	Feedback
50	<p>Do you see regional pipeline access as an issue that requires addressing as part of achieving the Energy Ministers' objectives?</p> <p>(a) Does the ACCC's proposed capacity surrender mechanism represent an appropriate means of addressing regional pipeline access issues?</p> <p>(b) Do you have comments on the other potential options which have been explored above? If so, please explain.</p>	No Comment
51	<p>In terms of an implementation roadmap, what importance would you place on addressing this issue and how quickly it needs to be addressed?</p>	No Comment