

Attachment A: *Options to advance the east coast gas market* – stakeholder feedback template

Submission from Gas Task Force

This template has been developed to assist stakeholders to provide feedback on the consultation paper *Options to advance the east coast gas market*, which explores the following main elements:

- 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

Stakeholders are strongly encouraged to use this template, so that due consideration can be given to the views expressed by stakeholders on each issue. If you wish to provide additional feedback outside the template, please reference the relevant question to which your feedback relates wherever possible.

Chapter 2: Rationale for undertaking consultation

Section 2.4 What are the objectives of Energy Ministers?

Question 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?

Feedback 1:

Alinta Energy welcomes this consultation as an exploratory exercise into the existing operating environment and possible solutions to increase competition, investment and efficient wholesale prices in selected reform areas of interest. While we have provided responses to a range of questions below, we premise that in assessing next steps, the Government should consider:

- the desired outcomes,
- how it determines whether a proposed reform option should be progressed,
- what success should look like under any recommended option; and
- a full costs and benefits assessment (i.e. net benefits proportionate to market size), encompassing implementation and operational costs, as well as any quantitative impacts to consumers.

In addition, we recommend an examination of international case studies to identify any lessons that can be applied within the Australian context.

Lastly, we note that participants in the declared gas markets enter the market with a commercial strategy in mind. While some participants may experience barriers to entry or artificial roadblocks (for example, lack of information discovery), others may simply choose not to utilise market infrastructure in place of bilateral trades. It is therefore also worthwhile uncovering general user preferences in determining the overall value of a proposed reform.

Question 2: Are there any issues which have not been identified which Energy Ministers should consider in the context of undertaking these workstreams?

Feedback 2:

Please refer to our response to Q1

Question 3: Do you have any comments about the proposed objectives of this work?

Feedback 3:

Please refer to our response to Q1

Chapter 3: Consultation focus 1: Wallumbilla Gas Supply Hub

Section 3.1 What are the potential problems?

Question 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?

Feedback 4:

Yes – Alinta Energy agrees with the general assessment and the issues identified as creating some restriction to market operation or improvements to user participation.

Question 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.

Feedback 5:

A large number of off market trades between large LNG participants remains largely invisible to the market. We encourage the Department to consider how best to ensure this information is provided to the market, and whether this additional information may promote additional participation.

Alinta notes that this information may become clearer through upcoming increased transparency arrangements, specifically related to trades of 10TJ or more on the AEMO Bulletin Board. However, until such time, it remains to be seen if this issue is fully addressed.

Question 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?

Feedback 6:

The size of the Queensland market remains dominated by LNG producers. As a result, key attributes including market liquidity, price and trade direction can easily be impacted by differing behaviour,

production or train/transport issues from these participants. We encourage the Department to consider the best way to address this market power risk.

Section 3.2 How could these problems be addressed?

Section 3.2.1 Anonymised delivery

Question 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?

Feedback 7:

Alinta Energy supports a further review of this option and believe delivering a solution which replicates (as closely as possible) the CTP arrangements would be beneficial as the function is known to existing market participants. In addition, inserting AEMO into a facilitation role (as described in the option solution) will remove a large degree of conjecture associated with trades and trading behaviours, which may contribute to existing (or perceived) barriers. This would likely assist in improving liquidity on the Wallumbilla GSH.

We consider that the benefits would outweigh the costs, where a large degree of functionality and operational processes mirror existing CTP arrangements.

With regards to implementation, Alinta prefers a Rule Change with fix reform embedded into the NGRs. While this process will take longer to enact into the Rules, it will deliver overall, more benefits by removing a degree of complexity and unknowns, as well as setting up a largely clear and homogenous process across all trades.

We note that while simpler to implement, a bilateral agreement process is likely to remain hidden, and this lack of transparency as well as possible risks around negotiations with different pipeline owners will increase overall transactional and operational complexity. Implementation via Rule Change will therefore deliver an outcome in the best long term interests of consumers.

However, as an alternative, Alinta encourages the Government to explore if a possible hybrid approach of the two options is achievable. In this way, implementation is streamlined but the operational processes remain simple, standardised (where appropriate) and transparent. For example, AEMO could work closer with pipeline owners to make alternative points visible/discoverable, as a way to encourage greater trades on the system and through the GSH, especially in QLD.

Question 8: What do you believe would be the most appropriate design for an anonymised delivery model at Wallumbilla GSH?

- a) Is a model which emulates the CTP most appropriate for anonymised delivery of gas traded through the GSH?
- b) What balancing regime represents the best trade-off of complexity and benefit to liquidity?
- c) Would implementation via a Rule change or bilateral agreement be more preferable in terms of achieving the NGO?

Feedback 8:

Please refer to our response to Q7.

Question 9: In terms of an implementation roadmap, what importance would you place on addressing this issue and over what timeframe?

Feedback 9:

Of the options proposing reforms to the Wallumbilla GSH, Alinta Energy supports further exploration of anonymised delivery as a priority over the next 12 months.

Section 3.2.2 Streamlining prudential requirements

Question 10: 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?

Feedback 10:

Yes – Alinta Energy broadly supports harmonising prudential requirements across the facilitated markets on the east coast. From a participant perspective, using the same financial securities against all traded positions will reduce barriers to entry by reducing cash requirements. This could also contribute to improved liquidity across all east coast declared gas markets.

However, a further examination of this option and the impact to AEMO’s dedicated prudential systems will be necessary before taking a decision. I.e., is it possible to merge AEMO’s legacy systems? If so, do the market benefits outweigh the market costs? How long will this take and does the change need to be completed simultaneously across all prudential systems?

In addition, while we support netted trading positions across facilitated gas markets, we are concerned around the possible knock-on effects of market suspension. For example, it is unclear if a suspension in one declared market also means that the participant is automatically suspended in all other declared markets. We note that an automatic suspension would be critically detrimental to business operations and therefore this market operator decision should not be taken lightly. In addition, the suspension of a larger participant may also have further market operational impacts. These market risks will require further consideration.

Question 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.

Feedback 11:

The introduction of the ASX physical delivery futures product has the potential to alleviate current concerns around collateral requirements. Alinta believes that any work undertaken in this area should complement, rather than compete with the ASX work.

Alinta notes that trading ASX products come with their own set of registration, credit, margining etc. requirements, and these are not straight forward. This set of requirements may also act as a barrier for smaller participants wishing to participate in the AS physical delivery product.

In order to achieve positive outcome, AEMO and the ASX will need to work closely together. It is likely that both the GSH and ASX products will need to exist side by side.

Question 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?

Feedback 12:

As outlined in our response to Q10, we support sub-option 3 (netted trading positions across facilitated markets).

Question 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?

Feedback 13:

We believe this option would be relatively easy to implement and would deliver large benefit to a majority of participants. However, we think anonymised delivery will deliver greater market wide benefits and as such that option should be progressed first. Implementation of streamlined prudentials could be explored further for delivery within 24 months.

Section 3.2.3 Market making

Question 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?

Feedback 14:

Question 15: What form of market making regime do you think would be most appropriate for achieving the objectives in Chapter 2.4?

- 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?
- 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?
- c) What role (if any) could energy market bodies and/or governments play in facilitating a regime at Wallumbilla GSH?

Feedback 15:

Question 16: Does a market maker within the ASX physical futures product sufficiently reduce the need for an alternative market making regime for Wallumbilla?

Feedback 16:

Question 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?

Feedback 17:

Section 3.2.4 Virtual hub design

Question 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?

Feedback 18:

Alinta Energy in-principally supports the concept of a virtual hub as a way to increase volume between the Brisbane STTM and Wallumbilla GSH.

However, while the idea is attractive, there is a lot of complexity in designing the virtual hub. Bringing the concept to reality would likely require the equivalent market framework of the DWGM. We note that this would not be a quick process and would require a wholistic market review, in addition to a significant implementation budget.

Should the Department consider there is broader benefit in a virtual hub, we encourage an initial desktop review and high-level cost benefit analysis as an appropriate first step. A decision to progress further could then be taken in consultation with stakeholders on the overall net benefits and a projected implementation timeline.

Question 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?

Feedback 19:

Question 20: 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?

Feedback 20:

Question 21:

Regarding the idea of expanding a virtual hub to encompass the SEQ trading location and the Brisbane STTM:

- a) What additional benefit would this provide your business, and the gas market generally, compared to a virtual hub covering Wallumbilla alone?
- b) What are the major risks associated with this proposal, particularly considering management of existing contracts and congestion?
- c) Would a liquid trading hub be an adequate replacement for the mandatory Brisbane STTM?

Feedback 21:

Question 22: 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?

Feedback 22:

Please refer to our response to Q18

Section 3.2.5 Other options considered

Question 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?

Feedback 23:

Yes we support the Department's initial analysis. No further analysis is necessary.

Question 24: Are there additional options which should be considered by Energy Ministers in more detail?

Feedback 24:

Chapter 4: Consultation focus 2: Pipeline capacity trading frameworks

Section 4.1 What are the potential problems?

Question 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?

Feedback 25:

Yes – Alinta Energy broadly agrees with the Department's assessment. We are however, unsure of their impact on future liquidity as participants develop their own commercial strategies, including which trading framework to utilise. That said, addressing some of these issues may result in a limited increase in trading on the CTP and the DAA.

Question 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.

Feedback 26:

Question 27: Do you agree that these identified problems are relevant to meeting the objectives in Chapter 2.4? If not, please explain why.

Feedback 27:

Section 4.2 How could these problems be addressed?

Section 4.2.1 Reviewing fee structures and levels

Question 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?

Feedback 28:

Alinta Energy is broadly supportive of a periodic/biennial review of AEMO and pipeline fees to determine the extent of unnecessary fee increases and where (i.e. which fee type) is increasing. We also support a common fee structure and methodology (including standardisation, where it makes sense to do so).

Question 29: To what extent should pipeline operator fees be reformed in order to increase the efficiency of the market, noting the options outlined above?

- 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?
- 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?

Feedback 29:

Question 30: 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?

Feedback 30:

Section 4.2.2 Reviewing bidirectional pipelines restrictions

Question 31: Are there specific pipelines for which access to backhaul capacity is an issue for participants?

- a) Would an interruptible backhaul auction product on bidirectional pipelines such as the one described above be feasible? If not, please explain why.
- 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?

Feedback 31:

Alinta Energy believes nominated forward flow should be able to be used for back flow (backhaul). The risk of interruption on a backhaul product can be managed day to day and is no different to a number of current arrangements.

We support products that enable an underlying quantum of capacity – this would increase the amount of transport available to gas participants in the CTP/DAA with a likely flow on benefit to consumers.

Question 32: 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?

Feedback 32:

Section 4.2.3 Alleviating issues around auction timing

Question 33: 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?

- a) Would the benefit in shifting forward the nomination cut-off time, and consequently the DAA, be sufficiently material to justify change?

Feedback 33:

While we support further exploration of this option, we also are concerned about the risk flagged with respect to the impact on GPG owners. The Department should explore whether this option could be implemented as a voluntary opt-in arrangement, with businesses determining their risk/timing trade-off. To remove the risk of participants fluctuating from the status quo to the option and vice versa, consideration could be given on making this decision a one-way gate.

Question 34: 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?

Feedback 34:

We do not believe an automated nomination process would be useful for us, however smaller participants may see value. If it had enough support from the industry, we would be comfortable supporting a voluntary opt-in approach. Cost recovery should be limited only to those who utilise the service.

Question 35: 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?

Feedback 35:

Section 4.2.4 Reviewing firmness of auction product

Question 36: 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?

- 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?

Feedback 36:

Alinta Energy does not support a further review of the firmness of auction products. We note it is difficult to predict day ahead nominations with absolute accuracy, particularly with the increasing interaction between the NEM and gas markets. As such, having the renominations process works well as a corrective tool.

Changing the firmness of the auction product may inherently encourage the wrong behaviours, for example over-nominations, because participants may take the view that this is the least risky outcome for their portfolio.

Question 37: In terms of an implementation roadmap, what additional work is required to consider the merits of reviewing the firmness of auction products?

Feedback 37:

Section 4.2.5 improving the usefulness of the Capacity Trading Platform

Question 38: 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?

Feedback 38:

In our view, it is too early to assess the usefulness of the CTP. Most shippers have existing long duration contracts in place and will therefore be unable to change their behaviour via a simplified product offering/coordinated trading mechanism for secondary trading, until these contracts run their course.

We suggest this option be delayed and reviewed again in the future.

Question 39: 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?

- a) What products could be made available? Is the CTP the most appropriate platform to make these products available? If not, please explain why.
- b) How could pricing for these products be set? How could any incentives for economic withholding be addressed?

Feedback 39:

Question 40: In terms of an implementation roadmap, what additional work is required to consider the merits of trading primary capacity products on the CTP?

Feedback 40:

Section 4.2.6 Other options considered

Question 41: 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?

Feedback 41:

Question 42: Are there additional options which have not been explored or identified here and should be considered by Energy Ministers in more detail?

Feedback 42:

Chapter 5: Other enabling framework reform options

Section 5.1 Third-party access to gas infrastructure

Question 43: 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?

- 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?

Feedback 43:

Question 44: 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?

Feedback 44:

Question 45: 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?

Feedback 45:

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

Question 46: 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?

- a) Are there any contracting practices associated with the Wallumbilla GSH that you consider currently act as a disincentive to on-screen trading?

- b) What further procedural, regulatory or contractual changes would encourage increased on-screen trading through Wallumbilla GSH and would support your gas portfolio needs?

Feedback 46:

Question 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?

Feedback 47:

Question 48: Are there are regulatory or other barriers preventing the entry into the market, or effective operation, of brokerage service providers?

Feedback 48:

Section 5.3 Potential government support for infrastructure

Question 49: 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?

- a) Is there a risk that government support could crowd-out and displace private investment?
- 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?

Feedback 49:

Section 5.4 Access to regional pipelines

Question 50: Do you see regional pipeline access as an issue that requires addressing as part of achieving the Energy Ministers' objectives?

- a) Does the ACCC's proposed capacity surrender mechanism represent an appropriate means of addressing regional pipeline access issues?
- b) Do you have comments on the other potential options which have been explored above? If so, please explain.

Feedback 50:

Question 51: In terms of an implementation roadmap, what importance would you place on addressing this issue and how quickly it needs to be addressed?

Feedback 51: