

Attachment A: *Options to advance the east coast gas market* – Submission by Lochard Energy

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:

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:

Lochard Energy appreciates the opportunity to provide feedback on the Energy Ministers' 'Options to advance the east coast gas market – consultation on the Wallumbilla Gas Supply Hub and pipeline capacity trading framework' (Consultation Paper).

As an overarching comment, Lochard notes that the 'Measures to improve transparency in gas markets' reform (Gas Transparency Reform) and 'Options to improve pipeline regulation' reform (Pipeline Regulation Reform) are currently being progressed, and will introduce material changes for the gas industry.

These reforms need to be given time to take effect following their implementation, before a proper assessment can be made as to whether further changes are required to improve gas markets.

At that time, further change should only be implemented if rigorous, evidence-based review demonstrates that:

- *there is a real and material problem to be addressed; and*
- *the proposed change would appropriately address the issue in a balanced way – introducing reforms only to the extent required so as to avoid the burden and cost of overregulation.*

Otherwise, introducing a series of complex and major reforms without adequate consideration will likely have unintended consequences for an already reform-fatigued market, and potentially for the smaller participants that these reforms are designed to assist (e.g. by requiring significant resources to be put towards understanding and implementing major regulatory changes).

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

Feedback 3:

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:

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:

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:

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:

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:

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

Feedback 9:

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:

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:

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:

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:

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:

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:

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:

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:

In relation to the issues associated with access to short-term capacity (in particular for smaller users), Lochard makes the following observations:

- *The availability of uncontracted capacity is currently published on the Gas Bulletin Board. It appears, however, that not all participants are familiar with how to easily retrieve this information, with most potential customers opting to speak directly to the service provider.*
- *The publishing of contracted price ranges by the ACCC in its Gas Market Inquiry reports has greatly assisted participants in understanding the cost boundaries of utilising certain types of gas infrastructure. Previously, it was the case that new/first-time users would require some explanation as to how their prices compare, but the ACCC publication now allows these participants to access the required information on their own.*
- *[paragraph redacted – confidential]*
- *In most cases, market participants are able to seek out the best ways to manage their requirements based on their views of risk and costs. The current level of usage of the CTP/DAA is one example of the market choosing the DAA as the preferred platform for acquiring short-term capacity, with an appropriate balance between risk and costs.*

While it is important to address concerns regarding the availability of short-term primary capacity, comprehensive evidence-based consideration of real market needs must be undertaken to identify and implement an appropriate response.

Please also see our response to Question 2 above, noting that once introduced, the Gas Transparency Reforms and Pipeline Regulation Reforms will further enhance understanding in the market of capacity availability and pricing mechanisms.

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:

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:

Lochard Energy is of the view that service provider fee structures do not represent a substantial barrier to trading. Rather, from our perspective, participants' elections to use the CTP/DAA to obtain capacity at certain facilities is driven by other, more important, factors (such as the liquidity of the Adelaide STTM or the overall demand for gas in an area).

The level of fees applied by service providers for capacity trading and auction-related services are designed to recover the initial and ongoing costs associated with the operation of the CTP/DAA, which are unique to each facility. Relevantly, these fees are expected to reduce over time as service providers' costs are offset by fee revenue – further limiting any impact of service provider fees on participants' ability to use the CTP/DAA.

Given the above, Lochard Energy considers that further regulation of service provider fees is unnecessary, and unlikely to be effective in increasing market efficiency. Rather, it is our view that the burdens introduced by increased regulation (e.g. on relevant regulatory bodies, AEMO, facility operators and the market more broadly) are likely to outweigh any potential benefits which might be realised from such change.

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:

Please see our responses to Questions 2 and 29 above.

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:

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:

Lochard Energy recognises that there may be benefits to certain market participants in shifting the nomination cut-off time forward in the gas day.

However, one particular issue for further consideration in weighing up the practicalities of this change is how the need for DAA participant availability to respond to unforeseen issues after normal business hours will be managed (if the intention of the change is to minimise the need for 24/7 trading desks/after-hours staff availability). For example, in a scenario where auction services are curtailed after business hours, steps may need to be taken by the relevant DAA participant at the time to adjust their nominations and/or reschedule quantities (e.g. through the DWGM) to reflect the curtailment.

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:

Lochard Energy recognises that an automated or default nomination based on the auction outcome could simplify the DAA process for certain market participants.

It is worth noting, however, that some participants may only nominate a portion, rather than the full quantity, of the auction capacity that they have won for a gas day – so some ability to opt in or out of the automated nomination process (and the mechanics of how this would work in practice) will need to be carefully workshopped.

Further, the issue of participant availability after business hours to respond to unforeseen issues (as discussed at Question 33 above) will also need to be taken into account.

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:

Please see our response to Question 2 above.

The role, and reliability, of IT systems and connectivity between AEMO, facility operators and market participants will also need to be considered in implementing an automated nomination feature for the DAA (for example, where would responsibility lie in circumstances where an IT issue leads to a nomination not being made, or being made incorrectly).

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:

Premature for revisiting the firmness of the auction product at this time

As noted in the Consultation Paper, the DAA has been regarded as a success, with the AER finding that usage has increased over time as participants become more familiar with the products.¹

In particular, given that current evidence suggests that:

- DAA participants are comfortable with the risk of curtailment when purchasing auction products (i.e. any potential uncertainty associated with the auction is generally not regarded as a material issue);²*
- there is less demand for firm secondary capacity;³ and*
- low activity on the CTP is a reflection of buyer satisfaction with the DAA,⁴*

Lochard is of the view that there is no need for the introduction of a firm (or hybrid) DAA product at this time.

We note the possibility that the value of the DAA to the market might change over time if there is a shift in future contracting practices, such that the quantity of contracted but unnominated capacity is reduced. However, given the current lack of any material issues with the secondary non-firm DAA product, and the risks associated with a change to the current approach (outlined below), Lochard considers it premature to try to pre-empt potential issues which may never arise.

[paragraph deleted – confidential]

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:

Please see our responses to Questions 2 and 36 above.

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:

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?

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

Feedback 39:

¹ AER, 'Pipeline Capacity Trading – Two Year Review' (April 2021).

² Consultation Paper, p 44.

³ Consultation Paper, p 44.

⁴ AER, 'Pipeline Capacity Trading – Two Year Review' (April 2021), p 27.

Gas market participants are currently able to access short term capacity at the IGSF by directly contracting with Lochard for short term primary rights (see also our comments at Question 43 below in relation to access), or by seeking out such capacity through the DAA, CTP or bilateral trades with other customers.

Further, as noted in response to Question 2 above, recent and incoming changes to the availability of information about uncontracted primary capacity has, and will continue to, improve participant understanding and access to short term capacity.

Lochard Energy does not expect that making primary capacity products at the IGSF available on the CTP would materially increase efficiency in gas markets, or improve flexibility for shippers and buyers. Mandating access through the CTP would likely lead to increased costs, which in turn need to be passed onto the users of the relevant services.

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:

Please see our response to Question 2 above.

Significant time and resources would need to be dedicated towards the introduction of the trading of primary capacity products on the CTP (e.g. IT and workflow changes, new or amended contractual frameworks etc.). Careful consideration should therefore be given to whether this additional work for the market can be justified in the circumstances.

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:

The implementation of a regulatory access regime for non-pipeline infrastructure (such as storage, compression and processing facilities) should not be undertaken, unless it has been established that:

- there are genuine and material access issues in relation to these facilities; and*
- this lack of access is having an adverse impact on gas markets.*

Lochard Energy is not aware of any evidence that this is currently the case for Iona gas storage and designated compression facilities (noting, in particular, that analysis which has been undertaken for pipeline access and services cannot be applied to storage and standalone/designated compression facilities, which play a markedly different role in the east coast gas market). If further regulation is to be imposed on non-pipeline facilities, it will need to be done on a case-by-case basis and on the basis of rigorous, evidence-based assessment which has been specifically directed towards those facility types.

[paragraph deleted – confidential]

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:

Please see our response to Question 43 above. Participants are currently able to access services at the IGSF on fair and reasonable prices and terms.

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:

Please see our responses to Questions 2 and 43 above.

Further regulation should be carefully considered on a case by case basis, and implemented only where there is a clear rationale for strengthening third party access rights to specific facilities.

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?

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