



Gas Market Reform Group
Level 6, 201 Elizabeth Street
Sydney NSW 2001
by email: enquiries@gmrg.coagenergycouncil.gov.au.

Monday, 6 November 2017

Dear GMRG Members,

RE: Day-Ahead Auction and Reporting Framework - Consultation Paper

ENGIE appreciates the opportunity to comment on the GMRG Day-Ahead Auction and Reporting Framework - Consultation Paper. Along with the Stakeholder Feedback Template enclosed as Attachment 1 of this letter we would like to specifically outline the following concerns we have identified upon review of this Consultation Paper.

The definition of a firm product has not been properly defined

We are concerned that an appropriate definition of “firm” capacity within the consultation paper has not been fully defined. As this forms a fundamental part of what capacity will be offered in the auction we have found it difficult to fully assess the consequences without knowing what products on gas pipelines it will affect. We also note that there may be significant unintended consequences depending on the definition that is decided upon and can provide practical examples to the working group.

The definition of contracted but un-nominated capacity

We do not believe that the current definitions fully represent the issue that these reforms are trying to achieve. As the owner of a number of gas fired power stations we cannot stress highly enough that the presence of physical molecules flowing along a pipeline as a measure of capacity utilisation of a pipeline. Unintended consequences of these reforms may lead to the inability of a pipeline to provide services to power stations at a level that appropriately covers the electricity market risks a generator is exposed to and as such will lead to the reduction in generation capacity and potential pipeline contracted capacity as contracts expire but are not renewed.

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The ranking of the proposed service

Whilst we strongly support the recommendation that firm services and renominations of firm services will rank ahead of auction services there are many services in existence today that are closely linked to such services which have not been assessed fully in our opinion. Also by making the auction an absolute second priority the ability and rational for pipelines to offer solutions where absolute firm capacity may not be an economic option is of concern. We have many examples of such products and situations we would be willing to share on a confidential basis.

It is also of concern that more has not been discussed about the impacts of the phasing out of as available and interruptible rights. We see the auction as a means of providing an incentive to pipeline operators to directly contract at levels that would be expected in a workable competitive market and are also concerned that the reasons for this not currently occurring has not been addressed. Of particular note is the current driver of most favoured nation clauses in unrelated long term contracts setting the basis of prices for as-available capacity at different firmness and tenors.

The impact of other reforms currently underway

We do not believe that the impacts of other material reforms being undertaken in the market have been fully incorporated in the positions of the discussion paper. The current changes to pipeline access through arbitration and the listing of capacity on the GSH in conjunction with the zero MDQ contracts are actually going to solve many of the issues (operational and economically) currently resulting in the unutilised capacity. As such we believe that if such reforms were better taken into account then aspects such as the ranking of the proposed auction capacity could change.

ENGIE trusts that the comments provided in this response are of assistance to the GMRG. We would also welcome the opportunity to work through the identified issues with the committee members at your next convenience. Please do not hesitate to contact me on, telephone, 03 9617 8480 in relation to any of these matters.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "M Weatherly". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Michael Weatherly
Origination Manager

