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Gas Market Reform Group  
c/o Australian Energy Market Commission  
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Dear GMRG

## **Standardisation Related Reforms and the Capacity Trading Platform Auction Consultation Paper, September 2017**

The Major Energy Users (MEU) welcomes the opportunity to provide its views to the Gas Market Reform Group (GMRG) on the Operation and Administration of the Capacity Trading Platform(s) and Day-Ahead Auction process for the east coast gas market.

The MEU considers that the GMRG has produced a clear and detailed assessment of the proposed approach to implement a capacity trading platform. Except where detailed below, the MEU generally supports the GMRG preliminary views on the various questions raised in the consultation paper.

### **Reiteration of MEU concerns**

The cost of delivered gas to end users is now a barrier to investment in new downstream facilities that require significant thermal energy or gas as a feedstock. Already the MEU is aware of a number of new investments by downstream users of gas that have been deferred as a result of the current very high cost of delivered gas. Further, the high cost of delivered gas is impacting the electricity market where consumers of electricity are looking to reduce their exposure to high electricity prices caused, in part, by the very high cost of gas.

This means that the processes being contemplated by the GMRG need to reflect the reality that the domestic use of gas for productive activities will be constrained unless there are serious attempts made to increase the ability of gas transport to minimise the cost of delivered gas. The MEU is very much aware that the gas transport industry faces a very real existential threat to its long term viability unless it cooperates in reducing the costs of gas transport to end users of gas.

In its earlier responses to the GMRG on operation and administration of the capacity trading platform and day-ahead auction process, the MEU made a number of observations that consumers see as key to the successful implementation of the process. These were:

- ) The introduction of capacity trading needs to eliminate the ability of shippers to hoard capacity and so limit downstream competition
- ) All transmission gas pipelines need to be included in the new trading process so that no element of the gas transmission network can remain at the threat of gas hoarding.
- ) The introduction of trading of capacity must result in a reduction of inefficient investment in new pipeline capacity
- ) The trading of capacity that is introduced must deliver simple processes and provide continuity as gas transportation will encompass shippers having to contract with a number of different pipelines with different owners to deliver gas to its ultimate destination.

The MEU sees that all of these needs have to be addressed so that the gas transportation industry can contribute to the lower cost of delivered gas for end users.

### **General observations regarding the consultation paper**

As a general observation, the MEU notes the point made by the GMRG that it is challenging to quantify the benefits from implementing the trading platform. In this regard, the MEU highlights that mere existence of the platform and the requirements that un-nominated capacity will be made available for auction, will engender in the gas transport industry pressure to limit the use of capacity hoarding as a tool to restrict competition in downstream markets – an issue that has caused considerable harm to consumers in the past and still causes problems for end users. To some extent, its mere presence and applicability will address one of the MEU's major concerns.

While the MEU sees that the introduction of a formalized approach to capacity trading and the day ahead auction process will be used primarily by retailers of gas and industrial users requiring large amounts of gas, the MEU is concerned that few medium sized and smaller gas users will have the gas demand to warrant the costs to be active in capacity trading. With this in mind, the MEU considers that there

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should be put in place a carefully constructed monitoring regime to ensure that the benefits of the capacity trading regime are delivering benefits to those consumers that are most unlikely to enter the “capacity trading game”.

The MEU also notes that, throughout the consultation paper, there is reference made to firm forward haul, compression and park products as being the focus of capacity trading. The MEU is aware that increasingly back haul is becoming a core aspect of the gas transportation business, so the MEU considers that exclusion of back haul from the suite of products offered for trading will limit the benefits that could be made available.

While back haul could be referred to as “negative” forward haul, it is important to note that back haul of itself provides increased capacity for forward haul. With this in mind, the MEU considers that backhaul services must be included in the range of the services that should be included in the products included in the suite of standardized transport products that are to be traded and recognised as increasing the available spare capacity available for trading or for auction.

The MEU is concerned at the use of the term “hub” used throughout the consultation paper, as it may be confused with the concept of “hub” used by the AEMC in its proposed changes to the east coast gas market, where the AEMC refers to there being two gas supply hubs (northern based on the Wallumbilla hub and southern hub based on the Victorian DWGM) with the STTMs being made balancing markets. Implied in the GMRG consultation paper, is that hubs will be at the confluence of each major pipeline where trading of capacity is needed.

For example, the pressure in the DWGM is lower than the pressure on the SEAGas pipeline. This means that at this connection point, there has to be a compression service to increase gas pressure to allow trade from the DWGM to the SEAGas pipeline. This implies that Port Campbell becomes a hub for the purpose of capacity trading as it provides the ability for gas trade between two otherwise incompatible transport regimes. Similar pressure differentials apply to other parts of the east coast gas market such as at the Longford interface between DWGM and EGP and between SEAGas and MAPS at Adelaide.

The MEU notes that the GMRG assumes capacity trading will be essentially only on the main pipelines. While the MEU accepts that most trading will occur on these pipelines, it points out that there are a number of lateral pipelines where the need for capacity trading is essential because the capacities of these laterals is already fully contracted and/or are operating at near capacity. The lack of capacity trading in either of these scenarios means that there will be inefficiencies where spare capacity is not otherwise available to be utilised or where the shipper has contracted all the available capacity and uses this fact to prevent competition. If there was capacity trading included for these laterals, then the operations would be more efficient and capacity could not be hoarded to the detriment of consumers.

## Capacity trading reform

It is essential that the standard transport agreements are consistent and made independently to avoid any bias or unnecessary restriction. This will allow a shipper to enter into trades that allow for the transport across a number of different pipelines (where often there are different owners) and compression services without a loss of continuity. This implies that there needs to be the minimum inclusion of facility specific terms into operational GTAs and that deviations from the standard to incorporate these facility specific requirements must be assessed independently (eg by the AER with advice from AEMO) before they are allowed to be included.

For example, it has been widely reported that gas for (say) Victoria will increasingly come from Queensland. For this to occur, that gas will have to be transported on the SWQP, MAPS, SEAGas, MSP, EGP and the VTS. For this to occur, there will be a number of different pipelines, and multiple services, with different owners that will be involved in the deliver process. Unless there is an ability to provide continuity of flow essentially under the same service conditions on every one of the disparate parts of the gas transportation process, then just one break in the chain will render the entire process useless.

The MEU is concerned with regard to the costs caused by provision of the trading processes and the information flows to and from the auction platform. While it is accepted that pipeline operators will incur some costs as a result of the changes, the costs will be modest. However, the MEU can see that pipeline operators will see this new development as a tool to increase their revenues. It is widely accepted that gas transmission pipelines and networks are providers of monopoly services and this means that the providers of these services will be able to charge monopoly rents as a result of these changes. While the AER might be able to limit the imposition of such monopoly rents for regulated pipelines, it will be more challenging to do so for unregulated pipelines. The MEU considers that the AER needs to be made aware that the costs of providing the necessary data flows and processes are monitored to ensure that consumers do not incur unnecessary costs, noting that the pipeline operators and primary shippers will be able to recover the costs from the secondary shippers.

Further, the MEU notes that the proceeds from the day a head auctions of capacity could deliver windfall benefits to both regulated and unregulated pipelines. While accepting that these windfall benefits to unregulated pipelines cannot be readily addressed, the MEU considers that these windfalls for regulated pipelines must be taken into account when the AER carries out its regular access arrangement reviews so that consumers which effectively underwrite the revenues of regulated pipelines do not pay twice for the same service – once with the regulated revenue and again when they pay for the cost of capacity that has been traded.

The MEU notes that the GMRG has indicated that it accepts the assertions of the pipeline operators that a zonal approach for receipts and delivery is preferable for establishing the parameters for secondary trading. While the MEU does not have

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specific views on how the pipelines could be operated with regard to secondary trading, it does have a view that increasing complexity increases costs and making secondary trading more challenging and that the bulk of secondary trading is likely to match the bulk of primary trading. As the bulk of primary trading is from the producer to the major consumption points, the MEU considers that in assessing what zones might be appropriate, the likely flows should be assessed in proportion to the volumes used at each major consumption point.

With this in mind, the MEU considers that increased simplicity might be preferable to having large numbers of zones, noting that large numbers of zones will have the potential for pipeline operators to “game” the arrangements. Equally, the MEU is aware that although there may be capacity on the main pipeline, the capacity at an extraction point might be constrained. The MEU considers that the auction process could be structured in such a way that advice is provided to potential secondary capacity buyers, what potential or actual limitations are likely or forecast based on nominations for the various delivery and receipt points for each main pipeline<sup>1</sup>. This would obviate potential secondary capacity trades involving such receipt and delivery points.

### **Capacity trading platform**

As noted above, the MEU considers that backhaul services need to be added to the suite of products that are to be traded on the platform. While backhaul has not in the past been a widely sought after product, with the potential of short term releases of gas from the exporters and the “hovering” up of gas in the southern states to supply gas for the exporters when there is a surplus, clearly shows that the new gas market will exhibit much more backhaul services than existed under the “old” gas markets of the 1990s and 2000s where gas moved consistently from production sources to demand points. The fact there have been reverses of flows on the MSP and significant backhaul on MAPS as gas flowed from Victoria to Moomba highlights the importance of backhaul being a service being used more frequently. Limiting the services available (including the absence of a backhaul service) could result in considerable loss of efficiency in the gas transportation changes that the provision of the platform is designed to provide.

Similarly, having a platform to better enable gas swaps will improve efficiency and reduce costs that ultimately consumers will have to carry.

The MEU notes that there is not proposed a compression product from the Southern hub (DWGM) into north flowing pipelines, yet to achieve trading from the Southern hub (DWGM) proposed by the AEMC requires a compression service at both Port Campbell and Longford to enable deliveries into EGP, TGP and SEAGas. The MEU

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<sup>1</sup> Alternatively, AEMO might be able to forecast the available capacities available at each injection or delivery point at the times of each auction

points out that already there have been enquiries made to providers of this compression service. It is therefore considered that availability of a compression service needs to be widened beyond Wallumbilla and Moomba as detailed in table 7.4.

The consultation paper provides a view that not all pipelines offer park services and therefore these are not included in table 7.5. Park and loan services are an essential low cost option to balancing the actual usage by end users. In this regard, while every effort is made to ensure that all shippers are in balance, end user operations and weather have a major impact on whether a shipper can be in balance. The MEU considers that unless there are demonstrable technical reasons that park services cannot be made available, then all major pipelines should be required to offer these as the absence of them results in lower efficiency of the gas markets.

The MEU notes the challenges associated with the charging parameter for capacity products and outlines three options. While there appears to be some good reasons to support option 2, the main disadvantage of this option is that of confidentiality. In this regard the MEU notes that if the transaction is kept fully anonymous by AEMO (as proposed under the delivery process), then the concerns expressed about confidentiality disappears.

Also under option 2, there is raised a concern about management of any variable portion of the shipping charge. While the primary shipper has already made a commitment to "own" the capacity it has negotiated with the service provider through payment of the fixed charge, any contribution made by the secondary shipper for the fixed charge becomes a benefit to the primary shipper, but the primary shipper has to pay a variable charge for any throughput. If the variable charge is effectively paid as a pass through by the secondary shipper, then the secondary shipper can offer its price for the fixed component. So a primary shipper would offer capacity based on "what will you pay for the fixed charge (ie \$/GJ of MDQ) but accepting a variable charge of \$/GJ of throughput". This would overcome the other difficulty identified with option 2.

We appreciate the opportunity to have provided this input to the capacity trading and auction process. Should you wish for amplification of any of the comments provided in this response, please contact our Public Officer (David Headberry) on 03 5962 3225 or at [davidheadberry@bigpond.com](mailto:davidheadberry@bigpond.com) .

Yours faithfully



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