



Major Energy Users Inc.

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26 April 2018

Gas Market Reform Group
c/o Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

By email: enquiries@gmrg.coagenergycouncil.gov.au

Dear GMRG

Capacity Trading Reform Package Legal and Regulatory Framework

Following on from the discussion with Katherine Lowe on 23 April and the email below, the Major Energy Users (MEU) would like to accept the invitation to respond to the draft Capacity Trading Reform package.

The MEU response addresses four key aspects

1. The MEU has been a party to the discussions about the package carried out under the auspices of Energy Consumers Australia (ECA) and the responses provided by the ECA on this issue are fully supported by the MEU
2. The MEU considers that there must be an open and transparent mechanism available to move gas from the Victorian DWGM into other markets, as proposed by the AEMC review into the east coast gas market. The MEU considers that an integral part of the AEMC concept requires gas from the lower pressure DTS to go into the three interstate gas pipelines (TGP, EGP and SEAGas) to be transported on these higher pressure pipelines. This requires there to be an open and transparent market for the compression services to achieve this. This means that the capacity trading reform package must have these compression services included
3. The MEU is concerned that the 10 TJ/d lower limit for capacity trading is too high and needs to be much lower. The MEU is aware that some pipelines are

already asserting their pipelines are exempt because of this limit, with some using contracted capacity rather than rated capacity to avoid inclusion. The MEU points out that the National Gas Objective is that the rules need to reflect the long term interests of consumers. The decision to establish a capacity trading market is to prevent the exercise of market power and to exclude a significant number of consumers from the benefit of capacity trading because of an arbitrary capacity setting is unacceptable. In addition to reducing the setting, the MEU considers that there should be an easily implemented mechanism where consumers and/or shippers can seek for a pipeline to be subject to capacity trading even if its capacity (rated and/or contracted) is less than declared setting. This would provide an incentive for such pipelines to be cooperative with consumers and/or shippers. Such an approach would also allow for other aspects of the proposed rules, (such as where pipelines are currently excluded for other reasons) to apply at a later stage for the benefit of consumers.

4. The MEU is concerned that some decisions are being made by the GMRG on the basis that the cost of implementation of a change or a setting is significant. The MEU highlights that there has been no attempt to assess whether the cost premium to include these changes would be acceptable to consumers. The MEU is aware of many instances where supply side entities have used the rules to increase prices in the knowledge that they can do so with impunity; this applies even when the cost to consumers of expanding the coverage of the rules would have been quite modest, and significantly less than the costs they incur due to limiting the coverage. This failure to seek consumer input as to costs has been a chronic problem in energy regulation, and caused considerable harm to consumers over the years.

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 .

Yours faithfully



David Headberry
Public Officer