

13 April 2017

Gas Market Reform Group
gas@environment.gov.au

Dear Gas Market Reform Group Members,

ATCO Australia owns and operates the vast majority of Western Australia's gas reticulation network and is part of the ATCO Group of Companies, a diversified global organisation with approximately 7,000 employees and assets of CAD\$20 billion. ATCO is engaged in electricity (generation, transmission, and distribution); pipelines & liquids (natural gas transmission, distribution and infrastructure development, energy storage, and industrial water solutions); retail energy and structures & logistics (workforce housing, innovative modular facilities, construction, site support services, and logistics and operations management).

ATCO views Australia as an important strategic market for future growth and investment and at present our energy infrastructure assets include:

- ATCO Gas Australia - which owns, operates and maintains the largest gas infrastructure network in Western Australia, serving about 725,000 residential, commercial and industrial consumers. Service is provided via the Mid-West and South West Gas Distribution System (regulated by the Economic Regulation Authority of Western Australia (ERA) and networks in Kalgoorlie and Albany.
- ATCO Power Australia - which owns an 86MW open cycle gas turbine ('OCGT') generation facility in Karratha, WA, and within the NEM owns, in a 50:50 joint venture with Origin Energy, the 180MW Osborne combined cycle gas turbine ('CCGT') generation facility in South Australia.

ATCO Australia is also actively pursuing opportunities to participate in the east coast gas market and recognises the importance of this review¹.

Importance of the review

South East Australian gas prices have risen dramatically. This has been driven by demand for liquefied natural gas (LNG) exports; growth in the South East ('SE') Australian domestic gas market; concerns over transportation; and restrictions developing new sources of supply. These high prices, despite very large reserves of conventional and non-conventional gas within Australia, are limiting the ability of gas generators to play their proper role in delivering secure, reliable and low emission electricity.

ATCO supports the Gas Market Reform Group's (GRMG) objective to create a fair market framework (consistent with established competition legislation, including market power and pricing practice controls) that includes cost-reflective pricing and allows the market to work

¹ *Gas Pipeline Information Disclosure and Arbitration Framework - Implementation Options Paper March 2017*, available at <http://gmrg.coagenergycouncil.gov.au/publications/gas-pipeline-information-disclosure-and-arbitration-framework-implementation-options>.

through efficient utilisation of infrastructure and removal of barriers to effective competition, or through creating economic incentives that imbalance the market.

GRMG's overarching objective: To facilitate timely and effective commercial negotiations between shippers and the operators of non-scheme pipelines by: reducing the imbalance in bargaining power that shippers can face; and pose a constraint on the exercise of market power by pipeline operators².

Given the relative immaturity of the Australian gas market (few transport options; limited secondary markets; no financial markets) action is required to encourage competition to ensure a level playing field for new entrants attempting to establish new infrastructure and more liquidity in the market.

Recommendations

ATCO supports the GRMG's overall proposed approach to reform based on our experience operating in the National Energy Market (NEM) and on our exposure and experience in other deregulated gas and electricity markets. In particular, ATCO considers the following areas to be key to improving the competitiveness of the east coast gas market to deliver long term value to customers:

1. Access to effective arbitration frameworks when pipeline access negotiations fail to deliver timely or efficient outcomes, including the utilisation of technical experts to determine reasonable costs (and benefits) of connections;
2. Transparent pricing structures for firm and non-firm compression and redirection services at gas hubs, for both access seekers and adjacent pipeline owners;
3. Improved market transparency and efficiency through the appointment of independent gas hub operators.

If you have any questions or would like to discuss any of these issues further, please contact either myself or Steve Lewis, General Manager Business Development.

Sincerely,



R. L. (Bobbi) Lambright
Managing Director & Chief Operating Officer

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² Ibid 1.