

13 June 2017

Dr. Michael Vertigan AC
Chair – Gas Market Reform Group
c/o Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

[via email: enquiries@gmrg.coagenergycouncil.gov.au]

Dear Dr Vertigan

RE: OPERATION AND ADMINISTRATION OF THE CAPACITY TRADING PLATFORM(S) AND DAY-AHEAD AUCTION CONSULTATION PAPER

The Australian Petroleum Production & Exploration Association (APPEA) is the peak national body representing the oil and gas exploration, development and production industry in Australia. The Association's 60 full members account for more than 95 per cent of Australia's petroleum production and most exploration. APPEA's members also include many companies providing services to the industry.

APPEA welcomes the opportunity to comment on the *Operation and Administration of the Capacity Trading Platform(s) and Day-Ahead Auction Consultation Paper* (the consultation paper). APPEA's submission reflects feedback provided by members and should be read in conjunction with submissions provided by individual members.

APPEA welcomes the Council of Australian Governments Energy Council's support for removing barriers to developing onshore gas resources through such measures as reforms to pipeline regulation and information transparency in gas transportation. New gas supplies are essential for improving security of supply and putting downward pressure on gas prices.

Capacity Trading Platform(s)

APPEA considers that developing a single capacity trading platform, operated by the Australian Energy Market Operator (AEMO), will best meet the National Gas Objectives and the Energy Council's Australian Gas Market Vision.

The evaluation criteria presented in Table 3.2 of the consultation paper provides a compelling case for an AEMO operated platform. Importantly, an AEMO platform will:

- be independent of both shippers and pipeline operators;
- leverage existing technology, experience, governance and prudential arrangements;
- provide a single platform for market participants to coordinate their gas, hub services and transportation requirements; and
- be a relatively low cost solution to develop in an expedited manner to meet the desire of the Energy Council to fast-track gas market reforms.

APPEA notes that the consultation paper does not present examples of an industry led independent platform model. Examples do exist in other jurisdictions. For example, the 2015 *International Gas Markets Study*¹ report to the Australian Energy Market Commission (AEMC) by Market Reform includes information on the PRISMA² joint capacity booking platform of major European Transmission System Operators.

Tasking the AEMO with developing and operating the platform is likely to be the most time efficient option. APPEA suggests that a post-implementation review be conducted, for example after three years of operation, to assess the costs and benefits of an option to spin out the platform into an industry led joint venture.

Auction of Contracted but Un-Nominated Capacity

APPEA supports the AEMC preference for a single auction of contracted but un-nominated capacity to be conducted across the east coast market. Industry also considers that there are benefits from having the AEMO operate both the capacity trading platform and the auction.

While we note the potential for a slightly longer auction process and higher implementation costs, APPEA considers the benefits of the AEMO proposal to outweigh the expected time and monetary costs.

As noted on pages 20-21 of the consultation paper, an AEMO auction platform will:

- be independent of both shippers and pipeline operators;
- leverage existing technology, experience and governance arrangements; and
- provide a single interface for market participants, reducing the cost and risk of managing multiple systems.

A critical element of an auction of this nature is the ability to handle conditional bidding across pipelines. The increasingly interconnected east coast market means that gas transportation is often required over multiple pipelines, not all under common ownership, to reach the final end user. It therefore makes sense that an AEMO auction platform provides a single interface for gas market participants to coordinate their gas, hub services and transportation requirements.

Conclusion

The development of a pipeline capacity trading platform and uncontracted capacity day-ahead auction platform are vital reforms necessary to improve the efficient operation of the east coast gas market. For both platforms to operate in the long term interests of gas consumers, and noting the Energy Council's desire to expedite gas market reforms, the AEMO should operate and administer both platforms.

¹ See: www.aemc.gov.au/getattachment/a22428b6-a577-496e-b35a-4393e4b9d6f3/International-Gas-Market-Review-%E2%80%93-Market-Reform.aspx

² See: corporate.prisma-capacity.eu



APPEA appreciates the opportunity to contribute to this aspect of the gas market reform process. Please contact Mr Adam Welch, Senior Policy Adviser, on 08 9426 7205 or awelch@appea.com.au should you or your staff wish to discuss any aspect of APPEA's comments.

Yours sincerely

A handwritten signature in black ink, which appears to read "Damian Dwyer". The signature is written in a cursive style with a long, sweeping underline.

Damian Dwyer
Director – Economics