



28 April, 2005

Manager- Energy Market Reform Team
National Energy Market Branch
Department of Industry, Tourism and Resources
GPO Box 9839 Canberra ACT 2601
MCEMarketReform@industry.gov.au

Dear Sir,

Options for the Development of Australian Wholesale Gas Markets

I attach the comments from the Energy markets Reform Forum, the Electricity Consumers Coalition of South Australia, and the Energy Users Coalition of Victoria.

A copy has been sent in writing and electronically.

Yours sincerely

A handwritten signature in black ink that reads 'Mark Gell'. The signature is fluid and cursive, with the first letters of 'Mark' and 'Gell' being significantly larger and more prominent.

Mark Gell
Chairman
Energy Markets Reform Forum

Energy Markets Reform Forum,
Electricity Consumers Coalition of SA,
and
Energy Users Coalition of Victoria:

Comments On Options For The Development Of Australian Gas
Markets

Introduction

The Energy Markets Reform Forum (EMRF), the Electricity Consumers Coalition of SA (ECCSA), and Energy Users Coalition of Victoria (EUCV) welcome the opportunity to provide their views in relation to the paper entitled 'Options for the Development of Australian Wholesale Gas Markets'. The three groups represent major energy and energy infrastructure users in NSW, Victoria and SA.

Arising from the consideration of the MCE National Gas Emergency Response Protocol Options Paper (February 2005), the EMRF submitted a proposal (supported and endorsed by the Energy Users Association of Australia (EUAA), the Electricity Consumers Coalition of South Australia and the Energy Users Coalition of Victoria) for a controlled, planned and sequenced approach for managing risks in the event of a gas supply incident. The proposal would involve:

“---an arrangement whereby the top dozen or so major industrial gas users in S.A., Victoria and NSW would provide information on their gas demand loads and agree on the extent to which each user is prepared to curtail gas demand in the event of a gas supply emergency. Should such an emergency occur, the system would allow for major users to reduce their gas consumption, with any demand source paying for the gas curtailed by the users. An incentive system will be established to compensate each user for making available their gas in respect of each user's demand curtailment.”

Information on the proposal (dated 14 December 2004, and 17 January 2005) is attached.

Since then, our thinking has further evolved, and we now consider that such swap arrangements could be undertaken at any time the companies concerned are interested, provided the relevant information and contractual details are available, say on a Bulletin Board.

The EMRF had also suggested to the Gas Emergency Protocol Working Group that jurisdictions (and other participants, such as retailers and network service providers) would need to assist in facilitating the development of such arrangements. For example, information availability (such as on gas contractual arrangements and infrastructure

bottlenecks) and the development of governance and other regulatory arrangements, may be necessary.

In other words, there is a need for some amount of governmental leadership to facilitate such a voluntary, industry-based, risk management approach, which inter alia, could usefully respond to all but the most severe of gas supply interruptions. This approach would, therefore, delay for as long as possible any governmental intervention in the event of gas supply incidents or emergencies.

Against the above background, the three groups provide the following comments on the various options canvassed for the development of Australian wholesale gas markets.

Comments on option 1 – The current market with organic development

This option involves Governments taking no intervention and leaving the market to its own device in bringing about new developments to the wholesale gas market structure.

The three groups do not support this option.

The voluntary, industry-based swap arrangements referred to earlier would however require some form of governmental intervention. This would include:-

- development of arrangements to provide more information on market and system operations and capabilities at all necessary stages in the gas supply chain, with updates on a regular basis
- development of swap arrangements, including rules and governance arrangements to facilitate commercial activities and free trade, and
- regulatory certainty and common arrangements across all jurisdictions.

As previously discussed, governments would be required to initiate such arrangements, if only because of the need to bring the various stakeholders together, but also to ensure regulatory arrangements across jurisdictions are consistent. Information provision and transparency requirements may require governmental encouragement and regulatory oversight to ensure they are adequate and complied with.

As previously reported, major gas using companies in SA, Victoria and NSW are prepared to engage in such arrangements, as long as they are commercially-based.

Comments an option 2 – The current market with bulletin board facilities

This option has the feature of introducing one or even a number of contracting trading bulletin board facilities. It involves:-

“The posting of bids and offers on a bulletin board would be voluntary and the contracts traded would not necessarily be standardized. When participants post

their bids and offers they can specify the particular contractual terms that apply to them.”

We would recommend that there be a standard form of contract but with the ability of participants to be able to identify those aspects where they deviate from the standard form. This approach allows for maximum convenience for all but the flexibility for the parties to contract in a form appropriate and acceptable to them.

This option is similar to the EMRF’s proposal and is supported. The groups consider that:-

- as much relevant information as possible should be provided to facilitate trading, including a requirement to post existing or impending ‘overs’ and ‘unders’ in gas and transportation capacity, time-frames and price ranges.
- both gas supply and transportation capacity should be on the same bulletin board to facilitate matching of bids and offers.
- the bulletin board should be managed by a party independent of any operating in the gas supply chain, including producers, transport service providers, retailers and consumers.
- governments should initiate the establishment of this option, including development of the bulletin board rules and operation. This must be done with the close involvement of an independent commercial market service provider (e.g. Reuters), who may be willing and able to provide the bulletin board facilities.
- there be some regulatory oversight (eg by ASIC) to ensure that there is compliance to the rules and truth in the information provided.

The groups consider that option 2 should be a priority undertaking.

Comments on option 3 – The city gate scheme

This option involves establishing an independent market operator who determines a spot price for gas at each identified city gate.

The groups support in principle the progressive development towards this option. This development is likely to be useful as the gas market further matures, as experience is gained in the operation of bulletin board facilities, and as more flexible gas marketing arrangements developed outside the traditional and existing long-term bilateral gas contracts.

Representatives of the three groups would be prepared to work with industry and government participants to develop this option further.

Comments on option 4 – Extension of the Victorian model

We note with interest the comment that:

“Option 4 has been very successful in Victoria and has the potential to improve the efficiency of Australian wholesale gas markets”.

As evidenced by the responses to the ACCC when the Victorian gas review occurred in 20002, there is not a lot of support from consumers or market participants which would give credence to such a statement..

Whilst it is accepted that the Victorian model does work, it is not clear whether it is commercially feasible in practice to extend it to other states where there is diverse and private ownership of the gas industry, with substantial commercial contracts and arrangements already in place, and where the operations are based on a totally different model (Victoria uses the market model whereas all other states use the contract model for gas management, transport and trading). When these factors are all combined with the overall uncertainty that applies to the gas market at this point of time, it is quite apparent that significant resources and time will be needed to demonstrate that this option is indeed feasible.

It is considered by the groups that with all of these uncertainties and lack of hard evidence to support the claims, on balance, any benefits of using the VENCORP model for system operation could well be outweighed by the costs and increased complexity.

April 2005

14 December, 2004



Mr Peter Naughton
Manager
Wholesale Markets, Energy and Security Division
Department of Infrastructure
peter.naughton@doi.vic.gov.au

Dear Mr Naughton,

National Gas Emergency Response Protocol

The Energy Markets Reform Forum (EMRF) representing major energy and energy infrastructure users recently presented to the MCE Standing Committee of Officials a brief proposal for a controlled, planned and sequenced approach for managing risks in the event of a gas supply emergency, similar to the circumstances occasioned by the Moomba gas plant incident.

The EMRF approach for minimizing risks for major industrial gas users involves an arrangement whereby the top dozen or so major industrial gas users in S.A., Victoria, and NSW would provide information on their gas demand loads and agree on the extent to which each user is prepared to curtail gas demand in the event of an emergency. Should an emergency occur, the system would allow for major users to reduce their gas consumption, with any demand source paying for the gas curtailed by the users. An incentive system will be established to compensate each user for making available their gas in respect of each user's demand curtailment.

This arrangement would delay the need for Government intervention to curtail gas for as long as possible, thereby permitting a voluntary market-based solution to an emergency gas response.

As foreshadowed in our advice to the MCE Standing Committee of Officials, the proposal was discussed at a Forum with major gas users in Victoria, South Australia, and New South Wales in late November. The forum was attended by major gas using member companies from the Energy Markets Reform Forum, Energy Users Association of Australia, Energy Consumers Council of South Australia, and the Energy Consumers Coalition of Victoria. Attendees included representatives from:- Amcor, OneSteel, BlueScope Steel, Adelaide Brighton Cement, Kimberley Clarke, Zinifex, Qenos, Norske Skog, Terra Gas Trader, B P Australia, and Visy.

At the Forum, whilst recognizing that some matters of detail would need to be investigated- such as existing gas contractual arrangements and infrastructure bottlenecks- there was strong in principle support for a voluntary, industry- based, risk management approach to meeting national or state-based gas supply emergencies.

User representatives considered that the MCE Standing Committee of Officials be approached to assist in the development of such an industry-based proposal.

Key principles under-pinning such an approach would include:-

- Voluntary curtailment commitments
- Codification of arrangements for gas curtailment agreed by participants
- Sanctity of commercial contracts and compensation for gas curtailment
- Incentives for curtailment and for bringing forth alternative gas supply.

Major gas users' representatives will be able to expand on the Users' interests at the forthcoming Industry- Government Development Committee meeting on 16 December, 2004. This letter has the support of the Energy Users Association of Australia, Electricity Consumers Coalition of South Australia and Energy Users Coalition of Victoria.

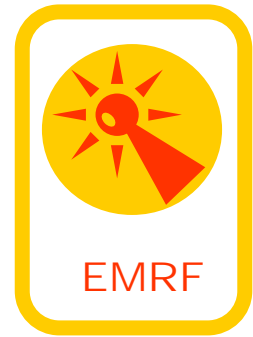
Yours sincerely

A handwritten signature in black ink, appearing to read 'Mark Gell', written in a cursive style.

Mark Gell

Chairman

17 January, 2005



Mr Greg Mcleish
Energy and Security Division
Department of Infrastructure
Level 23, Nauru House
80 Collins Street
Melbourne VIC 3000

Dear Mr Mcleish,

MCE National Gas Emergency Response Protocol

I provide herewith the Energy Markets Reform Forum's (EMRF) further submission commenting on the MMA paper and the options for the Protocol. The comments are also supported by the Energy Users Association of Australia (EUAA), Electricity Consumers Coalition of South Australia (ECCSA) and the Energy Users Coalition of Victoria (EUCV). Collectively these groups represent the largest gas users in New South Wales, Victoria and South Australia.

The EMRF, EUAA, ECCSA and EUCV strongly consider that government intervention in a gas supply disruption must be deferred for as long as possible until an emergency response becomes necessary. In this regard, we consider, and indeed strongly urge all jurisdictions, to support and assist with the development of the EMRF's proposal for a voluntary major customer curtailment arrangement. This proposal had been submitted to the MCE officials some time ago and again in December 2004.

The EMRF's proposal is consistent with – indeed strongly supportive of – the Ministerial Council on Energy's “ fundamental principles that will guide the future development of Australian wholesale gas market(s) “ (MCE statement December 2004). These principles are:-

- Information on market and system operations and capabilities at all stages of the gas supply chain (subject to recognition of existing contractual confidentiality) should be publicly available and frequently updated.
- Gas market structure to facilitate a competitive market in all sectors.
- Gas market participants should be able to freely trade between pipelines, regions and basins.
- There should be regulatory certainty and consistency across all jurisdictions.
- Market design and institutional requirements responsive to and reflective of the needs of the market participants.

Against the background of the above fundamental principles the EMRF proposal is a market –based , least-cost, risk management mechanism for, inter alia, conveying information on gas loads and voluntary curtailment potential which will deliver a considerable degree of transparency and certainty to assist in responding to gas supply disruptions and thereby deferring government emergency intervention. The mechanism would be assisted by the participation of producers, gas retailers and networks, and an agency (such as the NSW gas markets company, but at a national level). Governments should play a facilitory role, by taking a leadership role as an “honest broker. “

The EMRF, EUAA, ECCSA and EUCV believe that the market-based proposal should be given an opportunity to develop and, in this regard, seek Jurisdictions support for its development.

Yours sincerely

A handwritten signature in black ink, appearing to read "Mark Gell". The signature is fluid and cursive, with the first name "Mark" written in a larger, more prominent script than the last name "Gell".

Mark Gell
Chairman