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The Energy Retailers Association of Australia (ERAA) welcomes the publication of the MCE's Principles for Gas Market Development, and the opportunity to comment. The ERAA is the peak body representing energy retailers in Australia, and as such represents the core group of organisations responsible for purchasing, shipping and supplying gas to customers.

Even prior to the Moomba incident earlier this year, the ERAA had developed a set of gas market principles designed to facilitate a more responsive market, including during times of constraint. This thinking has been progressed in recent months, in line with the indication from the MCE, as outlined in the 2 April Communiqué, that the issue of gas market development is a key element in the energy market reform agenda. The ERAA paper "An Australian Wholesale Gas Market: Its Justification, Framework and Governance" presents the culmination of its work on the issue, and is attached for the MCE's reference and consideration.

Even though the ERAA has developed a position on the future development of the gas market, the current capacity of the industry to manage situations such as Moomba should not be underestimated. In rapidly procuring Victorian gas to flow through the newly commissioned SEAGas pipeline, the industry significantly reduced the potential consequences of the shutdown. This resulted in effectively no disruption to most consumers of gas.

While the ERAA paper goes into some detail on the design of a wholesale gas market¹, the following comments address the specific issues raised by the MCE in its August 2004 Consultation Paper "Draft Gas Market Principles". In doing so, it should be noted that the ERAA is fully aligned with the MCE's objectives to encourage transparency, new entrants, facilitate investment in gas infrastructure and provide a clearer mechanism for managing interruptions.

Taking each of the principles in turn:

¹ See for example the ERAA's set of gas market principles in section 2.1 on p11

Information should be publicly available and frequently updated.

The transparency of the NEM is notably provided by the copious amounts of information provided by the market operator. In contrast, the gas market is recognised as somewhat opaque, potentially creating inefficiencies during the normal course of operation, and making decision-making difficult during times of constraint.

While some data is supplied by market and pipeline operators, it is not currently consolidated into a cohesive set of information on which sound commercial, regulatory or governmental decisions can readily be made. In its paper, the ERAA recommends that an industry-governed market operator/manager collate such information from industry and publish it to relevant stakeholders. The level of disclosure is therefore not to be determined up front, but is seen as an integral function of the market.

That being said, at its core the ERAA calls for a simple mechanism for an informed market to create and publish the value of gas on a day at relevant points within the eastern Australian gas market.

Gas market structure to facilitate a competitive market in all sectors

The ERAA notes in its paper that unlike the markets of US and UK, the Australian market has suffered from a lack of liquidity driven largely by the small number of participants. However, the discovery of major new fields, notably in Queensland and offshore Victoria, as well as the successful introduction of FRC in six jurisdictions, serve to illustrate the dynamic nature of the industry to drive new players and new investments into the market.

It is the ERAA's view that a wholesale gas market, in line with the principles proposed in the ERAA paper, would provide a catalyst for parties utilising the gas chain to more dynamically price its various components without the need for prescription.

Given the rapid rate of growth and private investment observed in recent years, the ERAA does not agree that any industry-specific regulation to address gas market structure is required, and contends that the provisions of the Trade Practices Act are sufficient to allay any competition concerns.

Free trade between pipelines, regions and basins

The ERAA agrees with this principle but notes that the long term contracts currently in place have provided the platform from which short term trading can occur, rather than being a barrier to trade, as alluded to in the MCE paper. In order to improve the effectiveness of trading, however, the ERAA sees a simple price setting mechanism in each demand centre that values gas on a day, designed to supplement the set of contractual arrangements already in place. Liquidity can be maximised by designing a market whereby the maximum number of buyers and sellers can interact and trade against this value of gas. A spot market concept obviates the need for standard short-form contracts (by providing a settlement system) and also enhances transparency. However, central to the ERAA's position is that any spot market should be developed as simply as possible so as to minimise cost, and ensure that the efficiency benefits justify those costs. In the design of any spot market, it will also be important to give consideration to long term contractual arrangements that have been entered into by participants, ensuring that any new arrangements address transitional issues.

Linkage of gas and electricity markets

There is no doubt that a price signal created for gas on a day will enhance the efficiencies between the gas and electricity markets. However given the difference in the physical operations of the delivery systems, the gas market may not need the level of sophistication required for the matching of supply and demand in the electricity market.

Regulatory certainty and consistency across all jurisdictions

The ERAA welcomes the broader objective of the MCE reforms and the likelihood of creating a greater consistency, particularly in the event of severe constraint events or emergencies. A regime of commercial incentives is more likely to achieve this consistency as opposed to rigid regulatory controls.

The Moomba incident highlighted shortcomings in the handling of interruptions across jurisdictions, and industry requires clearer procedures and processes to be implemented during, and ahead of, these times.

Design and institutional requirements responsive to the needs of the market

The ERAA strongly supports the creation of an independent body to manage the wholesale gas market. Moreover, such a body must be managed by industry, in order to minimise costs, avoid bureaucracy, and ensure responsiveness to the market requirements, while also delivering on governments' objectives such as transparency. The industry-governed structure would be supported, and empowered by an appropriate legislative framework. There are some examples of the gas industry successfully creating such organisations to manage retail market systems, and this is the industry's preferred model for the wholesale gas market. The ERAA paper provides more detail on this issue.

In closing, the ERAA is encouraged by the MCE's commitment to consult industry on this issue and to use an industry-agreed set of principles to guide consultancy work on the possible ways forward.

Yours sincerely,

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