



6 April 2005

Manager – Energy Market Reform Team  
National Energy Market Branch  
Department of Industry, Tourism and Resources  
GPO Box 9839  
CANBERRA ACT 2601

Dear Sir,

**Re: Options for the Development of Australian Wholesale Gas Markets**

Thank you for the opportunity to comment on the Options for the Development of Australian Wholesale Gas Markets Draft Report prepared by The Allen Consulting Group for the Ministerial Council on Energy Standing Committee of Officials Gas Market Development Working Group.

Gas Market Company Limited and Retail Energy Market Company Limited, the market operators in NSW and the ACT, and SA and WA respectively, have prepared a joint submission on the Draft Report which is attached for consideration.

Should you require any further information or clarification of any of the issues raised, please contact Patricia McKenzie on (02) 9418 2660 or Steve Thomson on (03) 9607 8351.

Yours sincerely,

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# **Submission on the Options for the Development of Australian Wholesale Gas Markets Options Draft Report prepared by The Allen Consulting Group for the Ministerial Council on Energy Standing Committee of Officials – Gas Market Development Working Group**

## ***1. Introduction***

As the market administrators for gas full retail competition within the gas distribution networks situated in South Australia, Western Australia, New South Wales and the Australian Capital Territory, REMCo and GMC are keen to provide input to the consultation process on the Draft Report on the Options for the Development of the Australian Wholesale Gas Market. Our submission is directed to consideration of the issues associated with the development of Australian wholesale gas markets as it relates to the operation of gas full retail competition (FRC) in the gas networks that we administer, and the appropriateness of the governance model adopted in FRC for any wholesale market.

This submission focuses on important issues that we believe need to be considered in the decisions made by all parties involved in the development of wholesale gas markets within Australia. It does not specifically comment on the merits or otherwise of the four options discussed in the Options Paper, as this will be a matter for market participants.

The issues that we highlight in this submission include:

- The value of current contractual rights and benefits under the market rules should be taken into account in developing wholesale market arrangements.
- The effect on current investments by REMCo, GMC and their market participants, including the possibility of stranding of assets, must be taken into account in any cost benefit analysis of the proposed changes to market arrangements and any additional costs appropriately allocated.
- The co-regulatory model should be adopted to administer any wholesale market

## ***2. FRC Rules and Investment***

### ***2.1 Current contractual rights***

The rules of REMCo and GMC form a contract between the market participants, and the value of these contractual rights and benefits must be considered, together with the value of all other existing contractual rights, in developing any changes to market arrangements. The balancing of the networks, while different in the various

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jurisdictions, has required market participants to develop complex rules which include purchase of quantities of balancing gas or swing services. It is possible that the existence of a wholesale spot market could impact on the operation of those balancing provisions and/or the value of these arrangements to the parties involved.

It is also possible that changes to the FRC rules could assist in the development of a wholesale gas market. For example, the Business Rules Industry Committee in the NSW and ACT markets is considering changes to the balancing arrangements which could provide incentive for the existence of a spot market.

Accordingly, REMCo and GMC submit that any option which would impact the value of participants' contractual rights and benefits under the existing business rules for FRC must be progressed in consultation with the market participants in order for them to understand, and take into account, any impact on their rights and benefits.

## **2.2 Cost Benefit Analysis**

Market participants in WA, SA, ACT and NSW have invested substantial amounts in their gas FRC systems, in particular the balancing systems for the networks. The development of a gas wholesale market under the proposals in the draft report could have significant impact on those balancing systems, which would lead to additional costs or, in some circumstances, a stranding of the investment in those assets.

REMCo and GMC submit that:

- any development of the gas wholesale market should either be consistent with existing market arrangements, or
- the costs of changing or abandoning existing investment should be taken into account in any cost benefit analysis of the proposals; and
- any additional costs necessary to accommodate a wholesale market should be appropriately allocated as part of that process.

However, the current proposals do not provide sufficient detail to understand their impact on the parties involved in the current gas retail, wholesale, transmission or distribution markets, and further development of these concepts is necessary to allow a determination of the impacts and cost benefit analysis to occur.

## **3. Co-Regulatory Model**

REMCo and GMC support development of wholesale gas markets in Australia being carried out under the co-regulatory model that is represented by our arrangements for gas retail competition in WA, SA, ACT and NSW, whereby an industry owned market administrator develops and then administers processes which are consistent with the policy objectives of the government/s. Furthermore, we believe that such arrangements should be able to be conducted across multiple jurisdictions under consistent and light handed regulatory oversight.

As we have previously submitted to the MCE, REMCo and GMC and their members believe that the co-regulatory model under which we operate is a very successful model for the implementation of government policy objectives related to energy

market competition. We recommend that this model be adopted for the development of wholesale gas markets, including the potential integration of these markets across the interconnected jurisdictions.

REMCo and GMC have demonstrated through the operation of our markets that, given clear and consistent policy objectives and a consistent legislative and regulatory environment by the relevant jurisdictions, industry is best able to develop commercial arrangements which achieve the objectives. Requiring a form of light-handed jurisdictional sanction of these arrangements ensures that jurisdictions maintain control of the consistency of market rules with policy objectives, without the jurisdictions being embroiled in commercial and operational matters associated the running of such markets, and the inherent risks associated with trading markets.

#### **4. Conclusion**

REMCo and GMC submit that the existing FRC market rules and investment be taken into account in any further development of the options for wholesale gas markets, and strongly encourage governments to adopt the co-regulatory model, as demonstrated by the SA, WA, NSW and ACT jurisdictions arrangements with REMCo and GMC, for the administration of any wholesale gas markets.