



**International Power (Australia) Pty Ltd**  
ABN 59 092 560 793

Level 37, Rialto North Tower  
525 Collins Street  
Melbourne, Victoria 3000  
Australia

**Tel** +61 3 9617 8400  
**Fax** +61 3 9617 8401  
[www.ipplc.com](http://www.ipplc.com)

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

Thursday, 23 September 2004

Dear Manager

## **DRAFT PRINCIPLES FOR GAS MARKET DEVELOPMENT**

Please find enclosed a response from International Power (IPR) to the consultation paper “Draft Gas Market Principles” follows. I apologise for the late response, and would appreciate your consideration of our submission notwithstanding.

With the completion of its recent acquisition of the Australian Edison Mission assets, IPR will become unequivocally the largest private generator in Australia. Further, this business is a significant user of gas through its Pelican Point and Synergen assets in South Australia, and a one-third owner of the SEAGas pipeline from Western Victoria to Adelaide. The development of gas markets, and their relationship with the National Electricity Market (NEM), are clearly critical to our business, and we appreciate the continuing opportunity of the consultation opportunities offered.

As an owner of gas fired generation and pipeline assets in Australia the company is keen to see the development of a liquid wholesale gas market. Given that IPR is a global business with exposure to a range of gas markets around the world, we would be happy to draw on this experience to assist in any future consultations.

***Information on market and system operations and capabilities at all stages of the supply chain (subject to recognition of existing contractual confidentiality) should be publicly available and frequently updated.***

International Power agrees with the paper that if the market is to operate in a functional manner there is a requirement for consistent information across all regions and pipelines in terms of format, content and timing of publication. The cost of providing this information however should be managed so that it is not be allowed to become a heavy impost on the market.

From assessments of other gas markets around the world, IPR also considers that line pack information would be a useful source of published market information to be used by participants.

We would however express concern with the view that a key reason for this information should be used to assist in the assessment of government intervention. An effective wholesale gas market will clear at the optimum level and allocate scarce resources by directing them to the areas where they are valued highest. This is one of the fundamental benefits of a market arrangement. It is our view that government intervention will serve only to reduce confidence in a market mechanism, will reduce liquidity, increase risk for participants and ultimately lead to a reduction in investment. The scope for intervention should be limited to the most extreme of circumstances, when the market is no longer able to clear. In these circumstances, the information that normally informs an effective market will be able to assist government.

Gas market structure to facilitate a competitive market in all sectors

In our view, the NEM, with a central Code, clear regional nodes and fully interconnected transmission network would be a good model for the gas market. There are however clear fundamental differences between power and gas which must be recognised when developing any market arrangements.

The gas market should aim to add as much consistency across its structure as possible. Whilst this may prove difficult given its current fragmented nature, failure to address this will undoubtedly reduce the effectiveness of any market mechanism introduced. An example of this would be the introduction of a uniform gas day and balancing arrangements across all interconnected jurisdictions.

***Gas market participants should be able to freely trade between pipelines, regions and basins.***

To enable trading between regions and pipelines a market in both gas commodity and transport across a number of clearly defined hubs will be required in standard sizes and products.

The consultation paper focuses on the requirement for short-term trading but it is IPR's view that there is also a need for a longer term contract market to give participants greater flexibility to manage their positions.

***The gas market should be able to respond effectively to price signals in the electricity market.***

International Power agrees with this statement and would also argue that in an effective market setting, the electricity market would also respond to price signals in the gas market. Limited government intervention is required for this to happen, with prices clearing to give optimal allocation. This would require a gas market that facilitated within-day trading.

***As far as practicable, there should be regulatory certainty and consistency across all jurisdictions***

A light-handed, stable and consistent regulatory approach to the gas market is desirable to ensure maximum participation across all regions. This is a further reason for consistency in rules.

Where regulatory input is required it should be minimal, “light handed” and rational, and recognise the reasonable commercial needs of participants, if investment is to be fostered. MCE moves to rationalise regulation across the energy markets is a valuable step in ensuring this certainty.

Market design and institutional requirements responsive to the needs of the market

IPR would envisage a physical market that goes beyond a simple residual balancing mechanism where price signals are transparent and available in real time. In addition, there is a requirement for a wholesale market with a range of standard contracts trading from prompt (e.g. within-day, day-ahead) to the longer term (months, calendar years). Contracts would be for physical delivery although a derivative market may develop as liquidity and transparency grows.

Thank you again for the opportunity to comment. We would be happy to expand these comments at any time, and contact in the first instance should be with Mr Darren Foulds, on 03 9617 8400.

Yours sincerely

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

Stephen Orr  
COMMERCIAL DIRECTOR