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Options for the Development of Australian Wholesale Gas Markets

NRG appreciates this opportunity to comment on the Options Paper prepared by The Allen Consulting Group for the MCE, *Options for the Development of the Australian Wholesale Gas Market: Draft Report*.

By way of background, NRG is an integrated energy business centred around base load electricity generation, energy trading and retail operations, with assets in South Australia and Queensland. The South Australian portfolio comprises approximately 940MW of generation, and encompasses the base load coal-fired Northern and Playford Power Stations at Port Augusta, the Leigh Creek coal mine and rail line, and the output of the gas-fired Osborne Power Station (under a power purchase agreement). These assets were acquired following the disaggregation of the South Australian electricity industry in 1998 by the US-based global energy company NRG Energy, Inc in 2000. The Queensland assets comprise a 37.5% interest in the 1280MW coal-fired Gladstone Power Station, which is also operated by NRG.

As a general principle, NRG supports reforms designed to bring much needed transparency to the wholesale gas market, particularly in relation to gas pricing and trading, and availability of information on market and system operations.

However, NRG believes such reforms should focus on facilitating the efficient operation of markets and harnessing established market mechanisms, rather than attempting to impose new market models. Consistent with this, reform measures should seek to avoid heavy handed regulatory or government intervention that may pose sovereign and regulatory risks for new and existing investment, and existing contractual and participant rights should also be preserved.

Within these bounds, there appears to be much scope for facilitation of accelerated gas market development at the wholesale level. In particular, whilst long-term contracts are likely to remain

the primary trading mechanisms for the foreseeable future, there appear to be benefits in enhanced mechanisms for shorter-term trading and information on market operations, also recognising the important linkages to electricity production and pricing.

Against this backdrop, NRG offers the following comments on the specific options canvassed in the report.

Option 1 – status quo. This option should never be lightly dismissed in view of the potential costs associated with market reform and regulatory measures. However, there would appear to be scope for greater facilitation of market information and price transparency in the sector on a cost efficient basis.

Options 2 & 3 – bulletin board facilities and city gate trading concepts. While many features of these proposed arrangements need to be worked through in greater detail, these appear to be worthwhile concepts to further explore and develop. Such measures could potentially be introduced in a manner that preserves existing rights and complements existing market mechanisms, without harming regulatory certainty and consistency in the sector.

Option 4 – extension of the Victorian model. The Victorian market is characterised by a range of unique features not necessarily shared by other regions (eg customer density, proximity of production sites to market, major gas storage facilities, range of alternative supply sources). It also needs to be recognised that the Victorian market arrangements emerged in the context of a specific industry reform and sale process, that could not easily be replicated in other markets in South-Eastern Australia in the current environment. Consequently, there would not appear to be sufficient justification for moving down this path in the short to medium term.

In conclusion, NRG would encourage the Gas Market Development Working Group to continue to investigate and pursue reform measures to address the need for greater transparency in wholesale gas market operation, trading and pricing to improve market operation and efficiency, and market entry opportunities. Options 2 and 3 seem to offer valuable opportunities in this regard.

Should you wish to discuss any aspects of this submission, please contact either Simon Appleby on (08) 8372 8706 or myself on (08) 8372 8726.

Yours sincerely

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