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**TXU Comments on MCE GMDWG Consultation:
Options for the development of the Australian wholesale gas market – Draft Report**

Thank you for providing us with the opportunity to comment on the Draft Report outlining options for the development of the Australian wholesale gas market. We trust that our response will assist the working group in formulating its proposed options.

TXU has one of Australia's largest and most diverse portfolios of gas customers, including:

- Owning and supplying gas to Australia's largest gas-fired generator, the 1280MW Torrens Island Power Station in South Australia
- Supply of gas to Ecogen, which comprises Victoria's 2 largest gas-fired power stations, Newport and Jeeralang
- Development approval for a 400MW combined-cycle gas-fired power station at Tallawarra in New South Wales
- Over 450,000 industrial, commercial and domestic customers in Victoria
- Gas consumers in South Australia and New South Wales.

In order to reliably and efficiently supply our customers, TXU holds a large and complex gas supply and transportation portfolio, and has invested substantially in gas infrastructure assets such as SEA Gas and our Underground Storage facility in Western Victoria. This portfolio of contracts and assets has delivered significant benefits to our customers and to the Australian community more broadly, through competition and security of supply.

As such, TXU has deep experience and a very keen interest in the development of the Australian gas market and in particular the inter-connected South East Australian system.

While there are a number of benefits to be obtained from further market development, the key shortcoming that **must** be addressed is the inadequate market arrangements when supply constraints or emergency situations occur, leading to unnecessarily early Government intervention and inefficient market outcomes. This has been clearly seen in the Moomba incidents of both 2004 and 2003.

TXU has invested a considerable amount of time and resource into the further development of the wholesale gas market. This is because TXU believes it is essential that further development be accelerated. The drivers for change are simple and have been well articulated by the ERAA:

- The management of increasingly complex energy portfolios
- The promotion of additional gas fired power generation and its associated system wide benefits
- A means of providing commercial discipline at times of system constraint, with the intention of avoiding intervention in market operations.

The advantage of a wholesale gas market is to transparently price the value of gas on a day at key locations, thereby incentivising commercial behaviour and minimising the need for government intervention in the market.

TXU believes the most immediate need for a gas market is in relation to security of supply. At present, leaving the Victorian spot market aside, there is a need for more effective mechanisms to price and allocate gas in the event of a supply constraint. Such market mechanisms are required to assist in effectively managing the incident on the day, and to send price signals for investment in security of supply. These are key issues for governments, industry and the community. ***As such, we urge the MCE to ensure whichever approach is adopted they are satisfied the issue of market arrangements under supply constraint situations is dealt with robustly.***

TXU notes that this aspect of managing emergencies has been excised from the scope of the National Gas Emergency Protocol (refer page 3 of the Allen Consulting draft report on Options for the Development of the Australian Wholesale Gas Market). In our response to the GEPWG consultation on National Gas Emergency Response Protocols Options Paper we expressed our concern that the market mechanisms to delay or obviate the need for government intervention may be missed. We therefore believe it is essential it be addressed within the Gas Market Development Initiative.

COMMENTARY ON OPTIONS

TXU rejects Options 1, 2 and 4 for the following reasons:

Option 1 – The current market with organic development. By definition, this option does not deliver accelerated development of the gas market.

Option 2 – The current market with bulletin board facilities. Based on our experience, Bulletin Board facilities will add little value and will simply serve as a noticeboard rather than a trading mechanism that achieves the principles agreed by the MCE.

Option 4 – Extension of the Victorian Model. This option is not practical, as it would require implementation of an ISO (Independent System Operator) model in the inter-connected gas system. Such a model would require substantial re-structuring of current pipeline owner/operators and re-structuring of contracts currently in place between pipeline owners and shippers. This is neither practical nor desirable.

TXU notes that **Option 3 – The city gate scheme** has been based on the ERAA’s “strawman proposal”. TXU endorses the ERAA model as a valid and sound starting point for discussions around the required form of market. While TXU agrees the ultimate model may or may not be as defined by the ERAA concept proposal, TXU does believe the ERAA strawman has the sorts of characteristics required ultimately in a market model.

However, we do not necessarily agree all the legal and regulatory structures outlined under Option 3 are required. We suggest further work be undertaken in this regard to ensure a low cost, light-handed solution is achieved. This would be consistent with one of the MCE’s stated principles, being “...institutional requirements responsive to and reflective of the needs of the market and market participants”. TXU does believe the co-regulatory model adopted for GMCo and REMCO should be considered, as it is one way of achieving the stated principle in relation to institutional arrangements.

COMMENTARY ON ROLE OF GOVERNMENT

TXU endorses the ERAA position that, to be effective and least cost, a gas market should be designed, developed and managed by industry rather than governments. However, industry recognises that the market must meet governments’ objectives of transparency and certainty. The gas market functions should be managed by an industry owned, independent, market-responsive body.

The most important objective is to achieve a robust market framework that minimises governments’ role in the operation of the market, and particularly allows the market to operate commercially to the maximum extent possible under a supply constraint situation before government intervention.

While we advocate that industry should lead this process, we believe there is value in governments taking a facilitatory role where required. We also suggest it is appropriate for industry to work co-operatively with governments to ensure a mutually acceptable outcome.

We endorse the view from the ERAA that an appropriate next step is for industry to commence discussions around the development process. The report back to Government proposed in the ERAA submission will assist in providing certainty and confidence for industry and government alike of the direction of gas market development.

In conclusion, TXU calls on the MCE to continue its program of seeking to accelerate the development of the Australian gas wholesale markets. We urge the MCE to be sure that, whichever approach might be adopted, development of the market occurs so that emergency and supply constraint situations are handled by market mechanisms. For further discussion on these matters, please contact me on (03) 8628 1244.

Yours Sincerely

Peter Carruthers
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