Western Power

15 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/Madam,

Thank you for the opportunity to comment on the Allen Consulting Group ("Allen's") report to the Ministerial Council on Energy titled "Options for the Development of the Australian Wholesale Gas Market" ("Options Paper"). As a user and retailer of gas in West Australia, we have limited our comments to the application of the options in the Perth area.

Allen's correctly identified the highly concentrated nature of the gas market in West Australia and the low level of supporting infrastructure. As well as a relatively low volume of gas being sold into the gas distribution network (15% of total sales according to Allen's), this is sold through several sub-networks primarily off the one transmission pipeline. This lack of infrastructure limits the ability for participants to enter into gas supply and capacity contracts, and is likely to limit the success of any market mechanism the MCE chooses to introduce. Certainty around pipeline regulation to enable further infrastructure investment is of far greater importance to West Australian gas consumers than the market developments considered by Allen's.

The introduction of competition for retail gas supplies to large users has highlighted the difficulty existing market participants have in adjusting their wholesale capacity and gas positions. In particular, owners of firm transmission capacity have little incentive (and no compulsion) to sell capacity in parallel with changing retail positions. At a constrained delivery gate point ownership of transmission capacity can be used as an effective barrier to competition. This situation will only be exacerbated with the introduction of full retail competition in gas from 1 July 2007.

Consequently, Western Power acknowledges the appeal of Option 3 and Option 4, which provides for the allocation of transmission capacity through the city-gate and market-carriage mechanisms respectively. Within appropriate constraints due to the limited number of participants, the market-carriage model could work in West Australia. Due to the large number of delivery gate points with limited throughput capacity in Perth, the city-gate mechanism would need to be implemented in conjunction with significant infrastructural investment (or multiple city-gates). Option 2 does not contain a mechanism for managing transmission capacity constraints and would result in an immaterial change from the current environment.

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Western Power's support for any change to the wholesale market mechanism in West Australia will be dependent on the detailed market design and how it interacts with other gas market and gas pipeline regulations. For example, the interaction between a wholesale market design proposal and the Retail Gas Market is critical. Proposals that lead to an improved environment for infrastructure investments will be regarded favourably.

This submission was prepared with the input of both our Generation and Retail business units. Should you have any questions please contact either myself or Frank Tanner (Generation – 08 9326 6324) or Mark Nielsen (Retail – 08 9326 4435).

Yours faithfully

GREG DENTON
EXECUTIVE MANAGER – STRATEGY AND REFORM

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