

28 August 2014

Ms Kate Ryan
Group Manager, Development and Capacity
Independent Market Operator
PO Box 7096
Cloisters Square, Perth WA 6850

Via email: market.development@imowa.com.au

Dear Ms Ryan

CME feedback on options for a wholesale gas spot market in Western Australia

The Chamber of Minerals and Energy of Western Australia (CME) is the peak resources sector representative body in the state. CME is funded by its member companies, which generate 95 percent of the value of all mineral and energy production and employ 80 percent of the resources sector workforce in Western Australia.

The state's resources sector is diverse and complex, covering exploration, processing, downstream value adding and refining of over 50 different types of mineral and petroleum resources.

In 2013, the value of Western Australia's mineral and petroleum production was \$113.8 billion, accounting for 91 per cent of the state's total merchandise exports and thus representing the majority of Western Australia's 43 per cent contribution to Australian merchandise exports. Furthermore, royalty payments to the State Government are forecast to total \$6.1 billion in 2013-14.

Energy is a critical input to, and export from, the state's resources sector operations. Affordable energy supplies are important for ensuring the sector can continue to deliver economic benefits to the state and national economies.

CME congratulates the Independent Market Operator (IMO) for its efforts to support the development of efficient energy markets in Western Australia, and welcomes the opportunity to comment on the draft report investigating high level design options for a regulated wholesale gas spot market in the state.

CME also notes the release on 13 August 2014 of the government's Electricity Market Review discussion paper, which similarly seeks feedback on the benefits of developing a gas supply hub. Feedback obtained through this consultation process should be considered in conjunction with feedback on the discussion paper.

Gas market development in Western Australia

The domestic gas market in Western Australia has historically been developed through long term bilateral contracts between gas producers and consumers (including the state), which have underwritten investment in gas production projects and supporting infrastructure, such as pipelines and, recently, gas storage. Gas spot markets have also been developed by the private sector.

CME supports this industry led market development, which will soon see Western Australia move to seven domestic gas processing facilities as the Gorgon and Wheatstone projects, currently under construction, join the operational North West Shelf, Varanus Island, Devil Creek, Red Gully and Macedon projects. The capacity from the increasing number of domestic suppliers, through these new and recently commissioned projects, will be important for meeting the state's future domestic gas demand.

Improving transparency and liquidity assists entry for new market participants, fostering further competition and leading to improved economic outcomes for the state. To this end, CME supports efforts to develop the state's gas market through the provision of supply, demand and price information to participants.

However, government led policy interventions in the state's energy markets should only be considered where there is quantifiable evidence of market failure or net public benefit. For a proposed wholesale gas spot market, the benefits for participants need to be quantified and considered against any costs or administrative requirements imposed on participants.

In 2013, the government launched the Gas Bulletin Board and Gas Statement of Opportunities with the aim of improving transparency in the gas market. While CME supports the policy objective, it remains concerned by the equity of the cost recovery model and overall costs associated with the administration of the Gas Bulletin Board.

CME therefore supports the guiding principles outlined in the draft report for the development of any regulated wholesale gas spot market design in Western Australia, and reinforces the need for any design to minimise costs for participants and apply a user pays cost recovery mechanism.

Independent and transparent governance arrangements, with industry oversight of the process, are also important for ensuring participants have confidence in the development and operation of a wholesale gas spot market. It is not desirable to have the government acting as the market rule maker, whilst also being a participant in market development through policy positions on primary energy, infrastructure development and exploration.

Design options for a wholesale gas spot market

CME supports, in-principle, the consideration of design options for a wholesale gas spot market in Western Australia.

CME considers an incremental approach to market development, such as that outlined in the 'base design', to be an appropriate model with which to begin industry consultation for the development of a wholesale gas spot market. Such an approach also reduces the risk for market participants by minimising the extent of change required to existing arrangements.

Additional features such as expanded hub locations, longer term forward products and pipeline capacity products, which are options outlined in the 'extended model', may improve market outcomes, albeit at an increased cost and administrative requirement for participants.

As a wholesale gas spot market matures, additional features could be considered for inclusion, subject to a rigorous cost benefit analysis and supported by industry consultation on the implications of any changes.

The IMO may be well placed to operate a wholesale gas spot market from its experience as administrator of the Wholesale Electricity Market and Gas Bulletin Board. However, the IMO should be seeking a low capital and operational cost model, which may be best delivered by adapting an existing platform available in Australia. Private sector participants have established such platforms and government led interventions should not undermine the capital investment made by the private sector. If existing platforms cannot be leveraged, the costs and benefits of any custom designed model need to be quantified.

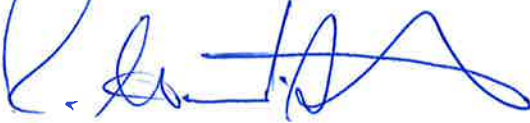
It is also important to note the possibility of a change in remit for the IMO, subject to the recommendations for reform resulting from the Electricity Market Review.

Conclusion

CME welcomes the opportunity to provide input towards improving the state's energy markets and looks forward to further discussion on the potential development of a wholesale gas spot market in Western Australia.

Should you wish to discuss this further, please contact Benjamin Hammer, Policy Advisor – Infrastructure and Economics, on 08 9220 8527 or b.hammer@cmewa.com.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Reg Howard-Smith', with a large, stylized initial 'R'.

Reg Howard-Smith
Chief Executive