



04 April 2014

Ms Sarah McKelvie
Australian Energy Market Operator
Level 22, 530 Collins Street
Melbourne VIC 3000

Dear Ms McKelvie

Wholesale Market AMDQ Procedures (Victoria)

Alinta Energy welcomes the opportunity to comment on APA Group's proposal which aims to assist with management of select risks in inter-pipeline trading.

Efforts by market participants, like APA Group, to facilitate the development east coast gas markets are supported by Alinta Energy and reflect one of the strengths of the Australian industry. The gas wholesale consultative forum play a key role in this regard.

Notwithstanding this, having considered the papers provided by the Australian Energy Market Operator (AEMO), Alinta Energy retains some concerns with the APA Group proposal and is not convinced this procedure change should be implemented at this time, if at all.

Alinta Energy understands the logic of aligning AMDQ¹ in the DWGM with firm capacity on non-DWGM pipelines to create a single procedure operating across both pipelines. However, the merits of that single procedure are undermined if it has the effect of discounting the value of AMDQ.

As the proposal is stated, it would appear to have the effect of making AMDQ valueless at certain times where a holder of AMDQ did not have a corresponding firm right on the non-DWGM pipeline. In essence, assignment of AMDQ is contingent on pre-existing firm capacity rights. Whether this is the intention, the proposal effectively prioritises firm capacity over AMDQ.

It is possible that smaller participants, regional operators and new entrants are more likely to get access to AMDQ than have established long-standing firm capacity contracts on non-DWGM pipelines. As such, the proposal, if it went ahead, would be advantageous for large incumbent national operators at the expense of competing but less established participants. The proposal has not given consideration to the efficiency implications of such an outcome.

To understand the significance of this development, which is directed at gas flows from Victoria to New South Wales, it is worth conceptualising an opposing scenario.

If we were to consider North to South, instead of South to North flows, would it be considered appropriate to discount firm rights on the basis of AMDQ assignment? In such a scenario, firm rights would be valueless, and therefore not counted in scheduling, unless a participant had corresponding

¹ For simplicity, in this instance AMDQ refers to both AMDQ and AMDQ credits.

AMDQ in the DWGM. In this way, consideration of firm rights would be contingent on pre-existing AMDQ assignment and where AMDQ assignment did not exist those firm rights would be valueless at certain times.

Alinta Energy understands this is not the intent of the proposal. As such, it is difficult to imagine firm capacity holders, or the proponent, would consider this an appropriate outcome. It is likely arguments around pipeline investment certainty and the value of the firm contracts entered into would be raised to counter such a proposal, understandably so.

Thus, Alinta Energy suggests a more detailed analysis of the efficiency implications of the proposal is warranted and alternatives which appropriately value the rights of AMDQ holders and does not preference firm rights over AMDQ should be considered.

An additional consideration is the administrative costs associated with monitoring who holds firm gas transport rights on the interconnected pipeline or facility due to secondary capacity trading unbeknownst to AEMO and the operation of pipelines outside of the DWGM more generally. Thus if it proceeded the proposal may inhibit commercial transactions including capacity trading and tendering for AMDQ an additional efficiency consideration. It is suggested any proposal that undermines, not promotes, commercial solutions should be approached with caution.

One alternative is simply proportionally reducing the allocation for all parties in circumstances where multiple participants have AMDQ but a mix of firm and available capacities (and potentially vice versa when in the alternative direction). This would not discount the value of assigned AMDQ but acknowledge that at times of constraint some pro-rata reduction in allocations would be required.

This arrangement does not prohibit market participants from purchasing rights of their own volition which better align their interests or entering into contractual solutions with third parties. But it does not give a market wide preference to one form of right over another.

Further, while Alinta Energy appreciates that pipeline investment is backed by shippers who purchase firm capacity, that guarantee should not extend to expectations outside of the pipeline on which those rights exist. Rights on a single pipeline are not a guarantee of preferential access or entitlement over the whole supply chain.

To ensure delivery across the entirety of the supply chain participants need to manage each of the individual risks as they arise on commercial terms. In this way, Alinta Energy does not see the scheduling issues raised as a symptom of market structure even if they manifest in that way but an outcome of commerce that should be resolved as such.

A second alternative would be better aligning AMDQ with rights to transportation at specific intervals and allow purchase of those for specified terms through regular auctions. To this end, the regular auctioning of AMDQ for limited terms warrants further consideration. The manner in which this affects movement of gas between the DWGM and APA pipelines would need to be given considered thought, including whether those rights are separate to existing AMDQ and firm capacity.

Finally, Alinta Energy appreciates concerns that some participants may in fact be attempting to game the scheduling process given the issues identified by APA Group. Where this is the case Alinta Energy notes that it is important to ensure that the action is taken in accordance with existing faith provisions. Should those provisions not be sufficient then further consideration of their appropriateness should take place separate to this proposal.



Alinta Energy welcomes the opportunity to comment and the work undertaken by APA Group and the AEMO and looks forward to further consideration of this issue.

Should you have any queries in relation to this matter please do not hesitate to contact me on, telephone, (02) 9372 2633.

Yours sincerely

A handwritten signature in blue ink, appearing to read "J. Lowe". The signature is fluid and cursive, with the first letter being a large, stylized 'J'.

Jamie Lowe
Manager, Market Regulation