

4 May 2017

Australian Energy Market Commission and Climate Change Authority
Climate Change Authority
GPO Box 787
CANBERRA ACT 2600

Via email: submissions@climatechangeauthority.gov.au

Re: Joint Advice on Power System Security, Electricity Prices and Emission Reductions

To Whom It May Concern:

Australian Gas Networks Limited (AGN) is one of Australia's largest natural gas distribution companies. AGN owns approximately 23,000 kilometres of natural gas distribution networks and 1,100 kilometres of transmission pipelines, serving 1.25 million consumers in Victoria, South Australia, Queensland, New South Wales and the Northern Territory.

AGN welcomes the opportunity to make a submission to the Australian Energy Market Commission (the Commission) and the Climate Change Authority (the Authority) regarding its advice to the Minister for the Environment and Energy, the Honourable Josh Frydenberg.

We understand that the Commission and Authority will consider submissions already provided in relation to similar reviews that are currently underway, with a view to finalising its advice to the Minister by 1 June 2017. To this end, we note our submission to the recent *'Independent Review into the Future Security of the National Electricity Market'* (the Finkel review). In this submission, we:

- encourage the Government to ensure that emissions reductions are achieved in a balanced manner, with respect to the ongoing affordability and reliability of energy supply in Australia (i.e. the 'energy trilemma'); and
- outline the way in which the gas industry can assist in achieving emissions reductions whilst also balancing the cost and reliability of Australia's future energy supply, as we move toward a low carbon economy.

Further to this, we note that *'Gas Vision 2050'* has been released since we provided our submission to the Finkel review (provided as Attachment A). This document has been jointly developed by all parts of the gas sector from gas exploration and production, to transmission and distribution networks, to gas appliance manufacturers.

'Gas Vision 2050' provides a conceptual outline of how the gas sector can work collaboratively with the electricity sector to provide Australian homes and businesses with

reliable base load energy, whilst ensuring Australia can reach the Renewable Energy Target the Government has set for 2020.

We encourage the Commission and Authority to consider the contents of *'Gas Vision 2050'* in the development of their advice to the Minister, including how to support the sustainable decarbonisation of gas networks and would welcome an opportunity to discuss this document further.

Additionally, we consider that policy measures required to support a well-functioning gas industry in Australia are consistent with the scope of this review. For example, we consider that governments can facilitate an effective and efficient gas industry in Australia by:

- *adopting a science and evidence-based approach to gas exploration policy* – we consider that lifting the bans relating to onshore exploration of gas will result in increased supply of gas to the market, ensuring the costs of gas (and therefore energy costs borne by Australians) are efficient and in the long-term interests of energy customers.
- *ensuring a technology-neutral approach to policy* – we encourage the Commission and Authority to advocate for technology-neutral policy that provides a level playing field for all energy sources and does not adversely impact on any particular energy source.
- *adopting market-based emissions reduction mechanisms* – we support the introduction of market-based emissions reduction mechanisms to ensure that Australian residents and businesses are effectively incentivised to change their behaviour in order to reduce emissions, at least cost. An emissions intensity scheme is an example of a market-based mechanism that utilises the market to drive efficient emissions reduction outcomes for customers.
- *ensuring a well-functioning wholesale gas market* – the Commission and Authority should consider the impact of the reforms that are currently underway in relation to the wholesale gas market, which we consider are likely to improve outcomes in the market such as reducing barriers to gas supply (e.g. price).

In relation to this last point, we also note that there is a greater role for Government in ensuring effective wholesale gas markets in Australia, such that the gas industry is effectively utilised to assist in the achievement of emissions reductions in a balanced manner, with respect to price and reliability of energy supply.

Through engagement with our business customers, it is clear that a key concern relates to gaining access to a competitive supply of natural gas over any contracting period (particularly for longer-term contracts). Customers tell us that often they will receive only one compliant quote, on inflexible terms and on a 'take it or leave it' basis.

Consequently, we encourage the Government to consider additional 'market making' reforms in order to ensure (to the extent possible) the improved transparency and liquidity of wholesale gas markets.

To this end, we note that the energy regulator in the United Kingdom, the Office of Gas and Electricity Markets (Ofgem), has recently implemented reforms in the wholesale electricity market. As Ofgem comments:

"Liquidity in the wholesale electricity market in GB [Great Britain] was in a period of decline since 2001 and is lower than other energy and commodity markets, including some European electricity markets. Ofgem's Energy Supply Probe in 2008 found that low liquidity in the electricity market was a concern, as it created a barrier to new entry into supply markets and a source of competitive disadvantage for independent suppliers."

Secure and Promote was introduced to improve liquidity in the GB wholesale power market to help underpin well-functioning, competitive generation and supply markets. This benefits customers through downward pressure on bills, and greater choice of suppliers.”¹

More particularly, the ‘Secure and Promote’ reforms undertook to deliver the following:

- promote the availability of products that support hedging by introducing a set of minimum service standards for trading between eligible suppliers and the largest generators;
- promote robust reference prices for forward products through a market making obligation on the largest vertically integrated companies; and
- secure near-term market liquidity through a reporting requirement of day ahead trading of the largest vertically integrated companies and the largest independent generators.²

Although the ‘Secure and Promote’ reforms have not been implemented long, Ofgem has reported that there has been a notable improvement in liquidity in the wholesale market over the two years since the reforms were introduced.³

We encourage the Commission and Authority to consider the reforms introduced by Ofgem to further improve the liquidity of Australia’s wholesale gas market, so that the gas industry can fully support Australia’s transition to a low carbon economy by providing reliable, base load energy at an affordable price.

Please contact either Ashley Muldrew (08 8418 1115) or myself (08 8418 1129) if you would like to discuss the matters raised in this submission further.

Yours sincerely,



Craig de Laine
General Manager – Strategy and Regulation

¹ Ofgem, ‘Wholesale Power Market Liquidity: Annual Report 2016’, https://www.ofgem.gov.uk/system/files/docs/2016/08/wholesale_power_market_liquidity_annual_report_2016.pdf, page 2.

² *Ibid.*, page 4.

³ *Ibid.*