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A few words.

21 October 2016

Dr Michael Vertigan AC
Examination of the Coverage Test
COAG Energy Council Secretariat
GPO Box 787
Canberra ACT 2601

Submitted via email: energycouncil@environment.gov.au

Dear Dr Vertigan,

Examination of the current test for the regulation of gas pipelines

AGL welcomes the opportunity to comment on the examination of the current test for the regulation of gas pipelines Consultation Paper (Consultation Paper).

AGL is one of Australia's leading integrated energy companies and largest ASX listed owner, operator and developer of renewable generation. Our diverse power generation portfolio includes base, peaking and intermediate generation plants, spread across traditional generation fuel sources as well as renewable sources. AGL is also a significant retailer of energy, providing energy solutions to over 3.7 million customers throughout eastern Australia.

AGL has a long history of involvement in Eastern Australian gas markets and aside from delivering gas to its numerous customers, AGL also utilises gas in power generation, is a gas 'shipper' and owns gas facilities. AGL has also actively participated in gas market reviews led by both the Australian Energy Market Commission (AEMC) and Australian Competition and Consumer Commission (ACCC). The views expressed in this submission leverage on AGL's considerable market experience and previous contributions to the policy debate.

While not the focus of the Consultation Paper, AGL welcomes the ACCC's East Coast Gas Inquiry (ACCC Inquiry) findings regarding gas supply. Increasing the quantity of gas available by removing existing obstacles to the supply of gas should be at the heart of considered reforms. AGL notes that new supplies in a tight supply and demand environment would be expected to place downward pressure on end user prices.

AGL noted in its submission to the ACCC Inquiry that second only to increased gas supply, access to economic and tradeable transmission capacity is fundamental to an efficient gas market and ensuring that supply is maximised. In other words, the market should operate efficiently and with sufficient flexibility, allowing gas to be moved in multiple directions to where it is valued most.

AGL's submission to the AEMC's East Coast Wholesale Gas Market and Pipeline Frameworks Review Discussion Paper flagged that a form of regulated pipeline coverage or a move to a market carriage model could drive necessary improvements to market liquidity.

Market Carriage

The current contract carriage model has delivered substantial private sector investment in gas transmission infrastructure in the Eastern Australian gas market (outside of the Declared Wholesale Gas Market). However, AGL acknowledges concerns that the contractual terms associated with these investments limits transparency and liquidity in the trading of capacity on these assets. AGL considers that a move to market carriage would address these concerns, while improving efficiency.

AGL recognises that, as changes to existing arrangements may have adverse implications for current and future investment in gas transmission assets, a move to market carriage would require a phased transition, which recognises existing property rights.

Pipeline Coverage

AGL supports consideration of the ACCC's proposed market power test for pipeline coverage. AGL remains of the view, expressed in response to the Harper Review Draft Report in November 2014 that the disparity of bargaining power between pipeline operators and shippers is leading to economically inefficient outcomes and negatively impacting market depth and liquidity.

Pipeline coverage, as it currently stands, is not the perfect solution to redressing this imbalance in bargaining power. Regulated prices typically consist of specified reference tariffs, while other charges are excluded and instead subject to negotiation. Having all charges fall within the access arrangement for a covered pipeline may be one way of targeting this aspect of the negotiating relationship.

AGL considers that the proposed market power test for pipeline coverage may just provide a sufficient threat of regulation that will move access prices closer to efficient levels and improve the negotiating position of access seekers vis-à-vis pipeline operators.

Having said that, AGL would be concerned at any regulatory intervention that hinders investment in new pipelines or additional pipeline capacity, where such capacity is sought by the market. Any regulatory shift will need to ensure that incentives to invest are appropriately maintained. For example, AGL considers that the ACCC's proposed option of an automatic 15 year no-coverage determination for a greenfields pipeline would be appropriate, should a new test for pipeline coverage be progressed.

If you have any queries about the submission or require further information, please contact Liz Gharghori at lgharghori@agl.com.au or on 03 8633 6723.

Yours sincerely,

Simon Camroux
Manager Wholesale Markets Regulation