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Independent Market Operator
Attn: Group Manager, Development and Capacity
PO Box 7096
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(Via email: market.development@imowa.com.au)

Dear Ms Ryan

RE: DEVELOPMENT OF A WHOLESALE GAS MARKET IN WESTERN AUSTRALIA

The Australian Petroleum Production & Exploration Association (APPEA) is the peak national body representing Australia's oil and gas exploration and production industry. In Western Australia (WA), APPEA represents the interests of the owners and operators of all current and known future gas production facilities registered on the WA Gas Bulletin Board.

APPEA welcomes the opportunity to provide comments to the Independent Market Operator (IMO) on the potential development of a wholesale gas market in WA. APPEA makes the following observations on the proposal:

1. In the main, the principles and basic design work undertaken by Market Reform for the Gas Advisory Board (GAB) provides a framework by which current and future gas market participants can consider further evolution of the WA gas market.
2. However, there appears to be a step missing in the process to date, that is, an assessment of any gaps in the existing market structure that requires establishing a government regulated wholesale gas market in Western Australia.
3. Industry experience shows that where a gap in the market is identified, the market is best placed to develop and implement a solution. With that in mind, APPEA does not at this stage see a need to formally regulate trading in WA's wholesale gas market.

Principles of gas market trading

The guiding principles developed by the GAB for the Market Reform report *High Level Design for a Gas Market in Western Australia*[1] are generally supported by gas producers in WA. For APPEA's members, the critical principles of any market mechanism are voluntary participation and cost efficiency.

Of concern to APPEA though is the market design proposed appears, by the suggested funding mechanism, to place the costs of building and operating a new wholesale gas market potentially on to registered Gas Producers, who may have chosen not to participate in this market mechanism. The proposed funding model is also inconsistent with the approach taken in other gas markets in Australia (such as the Short-Term Trading Market or the Declared Wholesale Gas Market in Victoria).

[1] Market Reform (2014), *High Level Design for a Gas Market in Western Australia – Gas Advisory Board Draft Report*, p.7.

Given the concentrated nature of the WA gas market[2], search costs are relatively low compared to other jurisdictions (for example Qld; USA). Comparatively low transaction costs enjoyed by over-the-counter traders will act a barrier to liquidity. For any market to work effectively, it also needs both commodity (gas) trading and capacity (pipeline) trading.

There are also concerns that a regulatory driven market mechanism has the potential to force market participants to use the service, as has been suggested for the wholesale electricity market in WA[3]. The recovery of costs of any market mechanism should be borne by those market participants who willingly chose to use such services. APPEA understands that this is the case for a number of existing market mechanisms currently operating in WA.

Assessment of market gap

It is clear from the process undertaken that a step is missing in this wholesale gas market development process, which is to ascertain if there is a need for the introduction of a government regulated gas market mechanism.

History has shown, through the evolution of gas trading mechanisms such as the Henry Hub (USA) and the National Balancing Point (UK), for example, that gas market participants, be they physical or financial, are best placed to address gaps in the market and deliver efficiently operating, and importantly voluntary, market mechanisms.

There are a number of market trading mechanisms (bilateral and spot) currently operating in the WA gas market. These mechanisms have been established to meet the evolving needs of the market. APPEA believes that elements of the market design developed by Market Reform could be considered by existing or future market participants, to further develop existing mechanisms or establish new market mechanisms to meet any market gaps identified by industry.

Conclusion

APPEA acknowledges the work undertaken by Market Reform on behalf of the GAB and appreciates the opportunity to provide comments on the potential development of a wholesale gas market in WA. It is clear from the feedback of APPEA's members that gas producers do not at this stage support the GAB or the IMO seeking Government approval to establish a government regulated wholesale gas market in WA. Such considerations should be left to the industry to develop a solution to any identified market gap.

To discuss any aspect of APPEA's submission, please contact Mr Adam Welch – Senior Policy Adviser at awelch@appea.com.au or 9426 7205.

Regards,

Damian Dwyer
Director – Economics

[2] Electricity Market Review Steering Committee (2014), Electricity Market Review – Discussion Paper, p. 42.
[3] ibid, p. 45.