



(Date)

Ms Kanwaljit Kaur  
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Australian Competition and Consumer Commission  
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Dear Kanwaljit,

**RE: Victorian Gas Industry Application for Re-Authorisation of Market and System Operations Rules**

As you are aware, ENERGETX has already written to the ACCC in respect of the above matter. Since writing our initial paper, ENERGETX has become aware of a supplementary submission made to the Commission by Texas Utility dated 5 September 2002. Please accept this document as ENERGETX's response to the issues raised in the Texas Utility supplementary submission.

**22<sup>nd</sup> July 2002**

The central premise in Texas Utility's supplementary submission is that the current design of the Victorian gas market is flawed and that the events of 22<sup>nd</sup> July 2002 provide clear evidence of this failed market. ENERGETX's view is that the attendant prices for the 22<sup>nd</sup> July gas day, constituted the true value that participants placed on injections (as represented in the injection bids), and the market dynamic represented participant actions where there was no evidence of anti-competitive behaviour (as articulated in VENCORP's separate report to the ACCC on the events of this gas day).

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Unlike the conclusions reached by Texas Utility, ENERGEX maintains that a spot price of \$9.20/GJ and Ancillary Payments of \$156K do not provide prime facie evidence that the market design is flawed. Certainly, with the benefit of hindsight we suspect that some participants may have preferred a different outcome, but we do not believe that this provides either the Commission or the market with a compelling reason to mandate an hourly/nodal model in any subsequent reauthorisation of the MSO Rules.

Whilst it may be enticing to create alternative market models for these days of system stress and to test working assumptions against these models, it is important to acknowledge that any conclusion reached as a result of this process, without substantial analysis and widespread consultation is at best conjecture. ENERGEX maintains that it would be reckless in the extreme for industry to adopt a different market carriage regime based on one participant's analysis of a particular pricing outcome on one gas day (albeit a day of curtailment).

Rather than resulting from the failure of the market design, ENERGEX suggests that many of the so-called "perverse outcomes" identified by Texas Utility were caused by secondary issues such as the failure of gas fired generators to respond in a timely manner to VENCORP's curtailment instructions.

ENERGEX also questions Texas Utility's claim that "the muted market price sends poor investment signals to participants". There are numbers of examples of Victoria's infrastructure development since market start including Vic hub, new gas fired generation, enhanced on shore/off shore exploration and the development of new gas fields such as Minerva and Patricia Baleen (and proposals for Thyalcine/Geographe and Yolla)

### **A way forward**

Regardless of one's predilection for a particular market design, ENERGEX believes that debate on this matter should be conducted at a higher level. From ENERGEX's perspective, the quintessential issue is not whether an hourly/nodal market provides a more efficient outcome than the current daily single zone model, or even whether another mutation of the market carriage regime is more appropriate. Rather, ENERGEX believes that the matter, which should be the focus of the ACCC in considering Texas Utility's supplementary submission is – what process best enables the Victorian gas industry (being a collective body of end use customers, and interested and in some cases competing commercial businesses) to decide which market model to adopt in the coming years.

ENERGEX's clear preference is that decisions as fundamental as those involving the adoption of different trading intervals and locational specific prices, should not be the province of any single participant and certainly should not be mandated by the ACCC without extensive debate amongst affected participants. Whilst we believe that the views of Texas Utility will provide a valuable contribution to a wider debate on these matters, ENERGEX nevertheless maintains that it is important to allow all views to be heard. If this results in a "look back" approach (as suggested by Texas Utility), then we argue that the benefits of this process will serve to provide a better business case for adopting any recommended design changes. In the absence of this measured and carefully managed process, the risk to participants is that industry will adopt the wrong solution based on a knee-jerk reaction by individual members.

As advised in ENERGEX's previous submission to the ACCC, it is our firm belief that the most effective venue in which to consider such profound matters is via the internal consultative forums provided by VENCORP. We acknowledge that this process is necessarily more protracted, but we would point to the benefits of consultation universally accepted by all Regulators.

ENERGEX urges the ACCC to permit the Victorian gas industry to adopt a more inclusive process for considering the matters raised by Texas Utility. We further suggest that the Commission utilise the existing consultative forums provided by VENCORP for determining these issues.

Yours sincerely

Don Vigilante  
Energy Regulation Manager