

29 August 2014

Independent Market Operator
Attention: Ms Kate Ryan
Group Manager, Development and Capacity
PO Box 7096
Cloisters Square WA 6850
By email only: market.development@imowa.com.au

Dear Ms Ryan

RE: Development of a Wholesale Gas Market in Western Australia

Energy Access Services takes this opportunity to provide comments on the Independent Market Operator's (IMO) proposed development of a wholesale gas market in Western Australia, and the high level design suggested by Market Reform.

Energy Access Services Pty Ltd (EAS) is a privately owned entity which operates a wholesale gas market platform in WA. Our platform was developed with the support of a number of well-known WA gas market participants. It is an automated and independent trading platform custom-made for the small but growing WA spot and short term gas wholesale market (which we understand is less than five per cent of the total WA market).

The WA wholesale gas market is a developing but functioning market, with a number of current avenues for selling or buying gas, including master spot agreements offered by producers, bilateral agreements as well as a plethora of formal and informal swap arrangements - as well as our Energy Trading Platform (ETP). All of these options are currently available to sellers/buyers of gas on the majority of WA's high pressure gas pipelines. These options for buying or selling spot and short term gas also provide genuine sellers/buyers of gas with invaluable transparency with regards to availability and current pricing levels.

It appears that the IMO executive, and a vocal minority on the IMO-selected Gas Advisory Board (GAB), is of the view that WA requires an additional process for transacting spot gas in WA, in addition to the existing processes available today. Yes, in the event that there were no avenues to purchase or dispose of spot gas this approach may be appropriate - but not in a market where a number of alternatives are readily available to active gas market participants.

We are not sure on what basis the IMO Board, IMO (and its GAB) has concluded that the WA spot market is failing or if there has been any analysis in this regard. It is therefore confusing to us and the majority of industry participants that we have consulted with, why the IMO has jumped to progress investment in a high level market design and then run an industry engagement process. Critically, why didn't the IMO executive establish if there is a real (rather than perceived) problem in the current spot market that justifies a costly and time consuming exercise that at the end of the day will be paid for by WA's gas users.

The IMO documentation states that one of the main requirements for a spot market in WA is the establishment of an efficient, transparent and independent trading platform and robust settlement and prudential arrangements.

Our company EAS provides an independent trading platform known in the market as the Energy Trading Platform (ETP) which meets (and exceeds) the vast majority of the listed criteria.

It should be noted by the IMO Board and the IMO appointed GAB that neither the IMO executive nor its consultant (Market Reform) approached EAS to ascertain what services are offered and the cost of those services to the market participants.

As a company that has successfully established an automated trading platform in this marketplace, EAS questions the IMO estimated development costs of between \$1M and \$1.5M. From our experience this is unrealistically low given the significant efforts required to develop all facets of a well-functioning operational platform including a set of standardised commercial documents. EAS also believes the annual operating cost estimate of between \$0.5M and \$0.7M to be unrealistically high.

The Market Reform high level spot market design is based on specified guiding principles. Please refer to attachment 1, which compares those principles with the services currently offered by the ETP.

As a private operator that has taken on the development and operating risk of establishing a trading platform for this market with high governance and security provisions, we remain concerned about:

- What appears to be a very premature position that the market is problematic
- The lack of analysis of the options and capacity of what is already on offer in the market
- Potential IMO-led market intervention



Energy Access Services Pty Ltd
PO Box 716
West Perth WA 6872

admin@energyaccessservices.com.au

The impact of any IMO-operated/supported gas market platform which competes with private sector innovation and investment is highly damaging and contrary to market-driven solutions.

Yours sincerely

(sent electronically)

Maree Arnason
Founding Director

Attach

ATTACHMENT 1:

The following table compares those IMO/Market Reform suggested principles with the services currently offered by EAS on our Energy Trading Platform for the WA market.

IMO's Specified Guiding Principles	Energy Access Services (EAS) Electronic Trading Platform (ETP)
<p>Facilitate competition between buyers and sellers</p> <p>The gas market should facilitate competition between potential buyers and sellers of gas and pipeline capacity through an efficient and cost effective trading mechanism.</p>	<p>Yes. Offered by EAS.</p> <p>The ETP facilitates competition by providing buyers and sellers the functionality to submit offers and counter offers to buy and sell gas at any inlet point, or outlet point (subject to seller having pipeline capacity) on all high pressure pipelines in WA.</p> <p>The ETP provides for Firm gas, Interruptible gas and Imbalance trading.</p>
<p>Maximise participation</p> <p>Participation in the gas market should be voluntary and should be accessible to as many wholesale gas market participants and traders as possible.</p> <p>The gas trading hub should be designed, to the extent practicable, to meet the needs of potential trading participants.</p>	<p>Yes. Offered by EAS.</p> <p>The ETP was implemented in late 2010 and is available to all WA gas market participants on a voluntary basis.</p> <p>Following Member feedback additional functionality has been introduced.</p>
<p>Minimise transaction times and costs</p> <p>The market arrangements for the formation and settlement of transactions should be simple and efficient and should minimise the total transaction times and costs to participants.</p>	<p>Yes. Offered by EAS.</p> <p>Standard commercial documentation (including Market Rules) apply to all Members. Transactions resulting from the automatic matching of Buy and Sell offers are subject to these documents and Market Rules. Buyers are required to provide security which is managed in consultation with EAS' Treasury Provider. EAS provides</p>

	<p>settlement statements each month.</p> <p>Since the launch of the platform in late 2010, we have continued to refine our services, the automation of the platform and membership/transaction costs.</p>
<p>Enhance transparency</p> <p>Transaction prices should be published to give transparency to the value of gas and pipeline capacity. Statistics on traded quantities should also be published.</p>	<p>Yes. Offered by EAS.</p> <p>Quantity and price is advertised on the ETP and is freely available to all Members. In addition, the ETP can also display statistics as and when required.</p>
<p>Anonymous trading</p> <p>The identities of participants involved in trades should remain confidential except where the identities are required for gas delivery purposes.</p>	<p>Yes. Offered by EAS.</p> <p>All offers submitted by Buyers and Sellers are advertised anonymously. Once offers are automatically matched in the ETP a Trade Confirmation Notice is automatically sent detailing the parties to the transaction, price, quantity, duration and delivery point.</p> <p>In addition, the ETP automatically issues a member email alert when there is new activity on the platform. This is structured to occur at 1000 and 1400 hours and shows quantity, location and duration. It does not highlight the trading party.</p>
<p>Full collateralisation of settlement risks</p> <p>Settlement risks should be estimated and monitored and should be fully collateralised by trading participants.</p>	<p>Yes. Offered by EAS.</p> <p>All Buyers are required to provide a Bank Guarantee as security. These are managed with the EAS' Treasury Provider. Buy offers cannot be submitted to the ETP if the sum of Buy offers exceeds the amount of security provided.</p> <p>This activity is automated and security levels are restored post settlement on a monthly basis.</p>
<p>Avoid the requirement to change gas pipeline arrangements</p>	<p>Yes. Offered by EAS.</p>

<p>The gas market should not obligate changes to existing pipeline scheduling and commercial arrangements but should not preclude evolution of these arrangements by industry.</p>	<p>Once the ETP automatically issues a Trade Confirmation Notice it is up to the parties to contact the Pipeline Operator to receive/deliver or process an Imbalance Trade. There is no need to change existing pipeline scheduling and commercial arrangements.</p> <p>In addition, the ETP can readily cater for new functionality.</p>
<p>Maximise consistency with existing Shipper / Producer trading conventions/processes The gas market conventions/processes should, to the extent practicable, be consistent with conventions /processes already established in Western Australia.</p>	<p>Yes. Offered by EAS.</p> <p>The ETP, with its high-quality standardised commercial documentation (including Market Rules), caters for the established conventions and processes for all WA pipelines.</p> <p>It should be noted that nine industry foundation members assisted in the creation of these documents and the process took over a year. These documents have continued to evolve and have been updated annually.</p>
<p>Independent governance of trading arrangements Appropriate governance arrangements should exist so that there is a level playing field for trading participants and there is confidence in market outcomes.</p>	<p>Yes. Offered by EAS.</p> <p>EAS has strict governance arrangements that apply to all Members and participants on ETP. All trades are matched automatically by the ETP in accordance with the Market Rules which are typically enhanced once a year. EAS' Treasury Provider creates Usernames and Passwords, settles contracts with EAS and monitors payment by the Buyer to a Holding Account.</p> <p>In addition, members can nominate viewers in their organisation to watch their traders'</p>

	<p>activity. Each company has their own member-only area where all buy and sell bids are collated including the price offered.</p>
<p>Minimise system impacts on participants</p> <p>The gas market data exchange conventions should minimise inconsistencies with existing participant systems used for similar functions in Western Australia and elsewhere in Australia.</p>	<p>Yes. Offered by EAS.</p> <p>ETP was developed with industry and is customised for the WA market. It has been developed with existing WA data exchange conventions in mind, and its simple structure allows its Members to transact gas by using current processes to allocate gas to the correct parties.</p>
<p>Cost recovery</p> <p>The cost of implementing and operating the gas market should, to the extent practicable, be recovered from gas market participants recognising uncertainty in the level and growth of transaction volumes. The cost recovery arrangements should be relatively simple, efficient and cost effective in and of themselves.</p>	<p>EAS has taken on this risk.</p> <p>EAS inherently accepted the risks associated with developing its ETP and that included the uncertainty in the level and growth of transaction volumes. In addition, we were supported by nine industry foundation members representing a cross-section of small/ large players and buyers/sellers who pre-paid their first year of membership.</p> <p>We have continued to refine our product in response to market and member requirements. This investment has been at our own cost.</p> <p>EAS charges are simple, efficient and transparent. We charge an annual membership fee for standard and large members and a trading clip in relation to fixed and interruptible trades. There is no charge to members for imbalance trading.</p>