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Independent Market Operator
Attn: Group manager, Development and Capacity
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By email: market.development@imowa.com.au

Dear Kate

DEVELOPMENT OF A WHOLESALE GAS MARKET IN WESTERN AUSTRALIA

Synergy welcomes the opportunity to make a submission to the Independent Market Operator's (IMO) consultation on the development of a wholesale gas market in Western Australia.

Given the integrated nature of Western Australia's energy markets Synergy is supportive of developments which:

- Lead to greater transparency in domestic gas markets;
- Lead to greater liquidity in domestic gas markets (this is demonstrated by Verve Energy¹ having taken significant commercial steps to strengthen the security and liquidity of the Western Australian gas industry through its underwriting of the Mondarra gas storage facility); and
- Facilitate the long term planning and development required to meet Western Australia's future gas supply and demand needs.

However, in noting this support Synergy considers that all developments in this sphere should be in response to a specific industry need or current market failure, be low cost (both

¹ Effective from 1 January 2014, the Electricity Generation Corporation trading as Verve Energy changed its name to Electricity Generation and Retail Corporation trading as Synergy. This name change was instituted to reflect the merger of Verve Energy and the Electricity Retail Corporation trading as Synergy, as detailed in the Electricity Corporations Amendment Bill 2013 (WA) (passed by the parliament of Western Australia on 12 December 2013 and received Royal Assent on 18 December 2013).

in compliance and financial costs for participants and other stakeholders), provide meaningful benefits, and reflect the unique nature of the Western Australian gas industry.

Synergy is not convinced that there is a specific industry need or current market failure which requires the development of a gas supply hub in Western Australia, nor would it be likely to pass a cost benefit assessment, at the current time. The State's gas market is characterised by bilateral contracts between small numbers of producers and users. While smaller new entrant users might benefit from such a hub, it is not clear that the benefits to such users would exceed the costs. Synergy notes that a discussion paper developed for the IMO recognises that, while cost recovery from voluntary participants would be ideal, this may not be feasible and thus further cost recovery from industry or government may be appropriate. Unless there are clear and quantified externalities, the latter cost recovery models would be inefficient and therefore argue against such a proposal.

Synergy considers that there are currently very well established short term bilateral trading opportunities for all gas market participants and the limited size of the domestic gas market in Western Australia may provide a barrier to trading and liquidity on a facilitated market (the marginal uptake of trading services provided by Gas Trading Australia and Energy Access should be taken into consideration in this regard).

Synergy considers that, as there seems to be no specific deficiencies in the existing bilateral gas trading arrangements, introducing a gas trading hub would introduce a level of complexity/cost that is not warranted in a Western Australian context.

Synergy notes that the development of the Gas Services Information Regime (Western Australian based Gas Bulletin Board (GBB) and Gas Statement of Opportunities (GSOO)) has been in operation for a little over a year, this increased market transparency may contribute to improved short term bilateral trading market dynamics. Whether this is the case should be investigated prior to moving to developing facilitated trading arrangements.

Finally, Synergy notes that consideration should be given to working with Gas Trading Australia and Energy Access to identify whether any improvements could be made to improve the services that these platforms offer prior to any government/regulatory intervention.

Should you require any additional information please contact me by email at: Jacinda.papps@synergy.net.au or by phone on: (08) 9424 1917.

Yours sincerely



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SENIOR REGULATORY ANALYST