



23 April 2019

Andrew Pirie
Senior Advisor
Australian Energy Market Commission
andrew.pirie@aemc.gov.au

Dear Andrew,

RE: Qenos submission to proposed DWGM rule changes

Thank you for the opportunity to provide a submission on the issues and questions raised in the consultation papers associated with the proposed DWGM rule changes.

Introduction

Qenos Pty Ltd ("Qenos") is Australia's sole manufacturer and leading supplier of polyethylene. Polyethylene is the raw material used in the manufacture of plastic products including water tanks, pipe, film and bottles for household chemicals. The company employs approximately 1000 direct employees and contractors across its two large manufacturing sites at Botany (New South Wales) and Altona (Victoria).

Qenos manufactures ethylene and three types of polyethylene (low, linear-low and high density). The ethylene produced on the Botany site is from ethane transported by a 1400 km dedicated pipeline from South Australia's Moomba processing plant. The Altona site, sources its ethane from Bass Strait via Longford and Long Island Point processing plant via a pipeline across Port Phillip Bay.

With an annual turnover of approximately \$800 million, Qenos is involved in substantial value-adding processes to Australia's indigenous raw material reserves through its manufacturing operations.

Qenos is a trade exposed business that operates in highly competitive markets where prices are determined by the price of imported products. Qenos has no control or influence over these prices in order to achieve a pre-determined return.

Qenos is a large gas user consuming 7 PJ's of natural gas and when you include ethane (a derivate of natural gas production) which is used as a feedstock in the manufacture of ethylene, its facilities can consume over 40 PJ's p.a. This makes gas and the gas market a vital part of our business.

From 1 January 2015, Qenos became a market participant in the Sydney STTM. This was being used to facilitate wholesale gas agreements supplying the Botany (NSW) manufacturing operation. It further became a market participant in the DWGM from 1 January 2017. During 2017 and 2018 Qenos was purchasing gas for its NSW Botany operation in Longford and transporting this gas through the DWGM and Culcairn to Sydney. During these 2 years of transporting gas through the DWGM, Qenos experienced some financial liabilities that were not anticipated. Currently Qenos is not transporting gas through the DWGM, but is still a registered participant with some daily injections / withdrawals from Culcairn depending on forecast usage and market price.



Feedback on DWGM Rule changes

Overall Qenos fully supports the direction of the AEMC of the proposed rule changes to the DWGM. In our view the system needs to be made friendlier for new and smaller participants or for those participants that use the market as means of interstate trading (like Qenos)

Forward Trading Market

- Qenos supports the introduction of this type of platform as an alternative avenue to source gas and to lock in (hedge) price risk.
- Our only concern is the potential additional costs imposed on the market to implement and operate the platform and whether or not this would further increase the barrier to participation and liquidity. Additionally we would be concerned if the system was implemented and resulted in little liquidity, then the set up costs would need to be borne by all participants even if there was no benefit generated.

Simpler Wholesale Price

- Qenos supports this recommendation as we see it as a fairer way of allocating the congestion uplift charges. As the Qenos Botany plant did not have any AMDQ associated with it specifically we were unable to hedge against congestion uplift charges. As per the recommendation we believe these charges should be smeared across all participants and not just attributed to those without AMDQ.
- The proposed rule changes would make it easier for participants like Qenos to manage costs. It would make moving gas from Longford to Culcairn more attractive and easier to anticipate the total costs associated with purchasing and transporting gas.

DWGM Improvement to AMDQ Regime

- Qenos supports the rule change to make AMDQ more liquid in the market.
- The process proposed allowing AMDQ to be held for shorter periods of time, would be favourable and make entering into future GSA's with delivery at Longford more attractive.
- During 2017 / 2018 Qenos was exposed to significant costs associated with not have AMDQ and finding ourselves not scheduled or curtailed in respect to injection tie breaking. This resulted in significant Take or Pay liabilities associated with our gas supply agreements.
- The proposed rule changes seem like they will make it easier for participants to acquire AMDQ for periods of time that match gas supply agreements which would alleviate potential issues with injection tie breaking.

Thank-you for the opportunity to review the proposed rule changes to the DWGM. If you would like to discuss further, please don't hesitate to contact me on 03 9258 4420

Regards

Wendy Holtz

Feedstock and Energy Category Manager