

1 April 2016

Mr John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH
NSW 1235

Dear Mr Pierce

Australian Energy Market Commission Gas Day Harmonisation Consultation Paper

AEMO welcomes the opportunity to comment on the Australian Energy Market Commission's (AEMC) Gas Day Harmonisation Consultation Paper, which forms part of the National Gas Rule Change Request and Proposal on the Gas Day Start Time Harmonisation of Eastern Australian Gas Markets.

The rule change proposal considers a change to the gas day start time for the Gas Supply Hub (GSH) and Short Term Trading Market (STTM) only. It is not clear to AEMO whether the intent of the rule change is to harmonise the gas day start time for upstream facilities (production, storage), pipelines and distribution networks across the east coast. AEMO strongly suggests that although the STTM and GSH markets are located at the end of point-to-point pipelines, all east coast gas market arrangements, including these upstream, pipeline and distribution networks should be included within the scope of the change process.

AEMO recognises that harmonising the gas day start time across all upstream, pipeline and distribution networks would increase the implementation cost and complexity. However, without harmonisation across the east coast, complications would arise when the STTM and GSH operational and commercial undertakings interface with other pipelines and producers operating on a different gas day start time. AEMO considers that without these inclusions, the benefits of the proposed rule change are likely to be undermined and hence questions whether this work should be undertaken at all.

AEMO looks forward to engaging further with you during the course of the rule change as required. If you would like to discuss the contents of this submission further, please do not hesitate to contact Violette Mouchaileh on (03) 9609 8551.

Yours sincerely,



Peter Geers
Executive General Manager, Markets

Cc:
Attachments: AEMO submission on Gas Day Harmonisation Rule Change Consultation Paper

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Question 1: Inconsistent timing for gas day events in the STTM

- a) ***Do the different gas day start times in the STTM hubs contribute to the unnecessary complexities as suggested by the COAG Energy Council? If so, please provide further information on the nature and extent of these complexities.***

The different gas day start times at the STTM hubs does not contribute to the complexity of AEMO's market operations or that of the market systems. The STTM market systems are automated to run market actions at an offset to the gas day start time.

Question 3: Potential benefits of proposed solution

- a) ***If all the STTM hubs and the GSH had a gas day start time of 6:00am EST, what would be the benefits (including any avoided costs) to your business, the wider market and consumers? Over what period of time would the identified benefits accrue and to which parties?***

A harmonised gas day start time of 6:00am would not impact AEMO's operations as the market systems are automated to run market actions at an offset to the gas day start time.

- d) ***Will setting the gas day start time for the STTM and GSH to 6:00am EST benefit participants by way of supporting the development of financial risk management tools? If so, how?***

Gas day harmonisation is not likely to have a direct impact on supporting the development of financial risk management tools.

Potential issues associated with the proposed solution

The GSH is a voluntary market for the wholesale trading of physical gas. The gas day start time for operational activities and the determination of allocated quantities at a hub are set out in Gas Transportation Agreements (GTAs). A change to the gas day start time for the GSH does not mean that all arrangements at that hub will change to the new gas day start time.

To avoid a whole set of new and additional risks associated with different gas day start times, AEMO considers it important for contracts associated with all pipelines and upstream arrangements to be amended to reflect the new gas day start time. Without changing the gas day start time defined in contracts there is a risk to participants, and the efficient operation of the market, associated with there being different gas day start time definitions across the facilities connecting at a hub. This is a particular concern for the GSH, where a misalignment in gas day start times may deter participants from trading in the GSH given its voluntary nature and could impact on the ability of participants to trade gas between connected facilities at a hub. A logical result may be that participants take these trades off-market to mitigate the risk imposed by the gas day change.

Question 4:

- a) ***Will COAG Energy Council's proposal to align the STTM and GSH gas day start time to that currently used in the Victorian DWGM minimise the total implementation cost of the proposed change for the east coast gas market?***

Aligning the proposed gas day start time with that of the Victorian DWGM would minimise the implementation costs of the proposed changes for AEMO. The STTM's were implemented to cater for different gas day start times – using offsets rather than set times so the same code can be used across all STTM hubs. Whereas in the DWGM there are many market and operations activities carried out during a gas day, many of which are hard coded to occur at a specific time of day. As such, there would be more material changes to the DWGM market systems.

The initial activities associated with the shift of the gas day start time for the Victorian DWGM would include:

- Alterations to gas day reference times within the systems. This will require modifications to the systems, supporting databases and interfaces to reference the new time. A number of these systems have a hardcoded gas day start time and are not configurable through any interfaces. A considerable amount of work would be associated with analysis of the DWGM systems to identify all of the necessary system changes, changes to code and the subsequent testing of the market systems.
- The market systems that do not have a hardcoded start time are based on the hour segregation, which occurs on the hour, every hour. If this was to change to every hour, but on the half hour, then it is likely to require extensive changes to the DWGM market systems and to industry participant systems.
- AEMO would need to reassess its scheduling procedures and processes (and potentially other systems), if a fixed end of day linepack target is to be continued with the new gas day start time.
- Reprogramming would be required for DTS custody transfer meters and potentially distribution meters assuming these changes will flow through to the retail market. Initial discussions with APA surrounding a cost estimate for DTS meter work indicated that it could be a cost of up to \$1 million.

An ongoing issue that would be associated with a change to the Victorian DWGM gas day start time is the potential misalignment of scheduling intervals with the morning gas peak. It is desirable to align the scheduling intervals (first scheduling interval occurs at 6:00am – gas day start time) so that the morning gas peak is entirely captured in one period to avoid inappropriately spreading the costs and effects across off peak periods. If the gas day was to start later it would split the morning peak between gas days (and schedules). This was one of the primary drivers for the change to a 6:00am gas day start time in the Victorian DWGM in the past (previously started at 9:00am). This would be a continual issue if the gas day start time was to change.

Question 5: Implementation costs of the proposed solution

a) If the STTM and GSH gas days are amended to start at 6:00am EST, what changes would be required to business':

i) Infrastructure and IT systems;

Gas Supply Hub:

For AEMO the proposed gas day start time can be implemented in the GSH through configuration only. No functional changes would be required. The only area where the GSH will be affected is the balance-of-day product calculation (which uses the start time 8:00am AEST for Wallumbilla currently and will use the start time of 6:30am AEST for Moomba). This change will simply be a data change.

Short Term Trading Market:

For AEMO the proposed gas day start time in the STTM can be implemented through changes to the configuration of the scheduling application.

Changes to both the GSH and the STTM would require system testing and a planned release.

ii) Procedures and processes; and

AEMO would be required to make minor modifications to the Retail Gas Market Procedures (for QLD, NSW and ACT) and the STTM Report Specifications to amend the gas day start time and the timing of daily market activities.

AEMO would consult on the changes with industry in accordance with the standard procedure change process. It is expected that this task would take no longer than 6 months to complete.

The GSH Exchange Agreement will also need amending to reflect the new gas day start time. This will go through a similar consultation process as the documents described above.

iii) Contractual arrangements

As discussed in question 3, AEMO sees it critical that participant contracts with pipeline operators (and other facilities) are amended to achieve harmonisation of the gas day start time across the east coast gas markets. AEMO has no role in the modification of these contracts.

What is the estimated cost of making these changes and who will bear that cost?

The estimated cost of making changes to AEMO's Infrastructure and IT systems, and Procedures and Processes is approximately \$100,000. These costs would be borne by participants in the STTM and GSH.

b) Would the proposed gas day start time have an ongoing business cost? What is the estimate of this cost and who will bear that cost?

The proposed gas day start time would not have an ongoing business cost to AEMO, only an initial business cost.

c) Would the proposed change to the STTM and GSH gas day impact on businesses that are outside of these facilitated markets? What are these impacts and their estimated costs? Who will bear these costs?

AEMO considers that it is important to include end-to-end gas production and delivery chain, not just the facilitated markets, when considering the harmonisation of the gas day start times. A transition including all upstream, pipeline and distribution networks would include costs borne by businesses that lay outside of the STTM and GSH markets and have traditionally not been participants.

d) What is an appropriate method to manage transitional arrangements leading up to, and on, the day that the new gas day start time would commence?

AEMO sees value in implementing a legislative change to the gas day start time to aid the necessary amendments to GTAs and Gas Sale Agreements (GSA) to avoid risks associated with the proposed change. As discussed above, complications would arise with the operational and commercial interfaces with pipelines and producers operating outside the STTM's and GSH's if they continue to operate to different gas day start times.

e) Given the level of liaison and cooperation that will be required between pipelines, shippers and market participants is there a need for a market institution to provide oversight of implementation and market readiness?

Question 6: Implementation Timeframe

a) If the proposed rule is made, what are the necessary steps to implement it? What is an appropriate period for implementation to occur?

In response to question 5(e) and question 6, AEMO sees it critical to define the scope of the gas day start time harmonisation to include all upstream, pipeline and distribution networks alongside GSH and

STTM markets and participants to achieve the full benefit associated with making this change to the market.

If a market institution was assigned to provide oversight of implementation and market readiness, the AEMC would need to consider what tools would be required to incentivise participants outside of the STTM and GSH to align their gas day start times to 6:00am EST. Under the rule change proposal there are no measures that could be taken by the market institution to ensure there is a harmonised implementation of the new gas day start time.

A legislative change to the gas day start time would aid the necessary amendment of GTAs and GSAs so that they adhere to the new gas day start time and minimize the requirements for a market institution to intervene in its implementation. Legislation would ensure a transition to the new gas day start time is completed at a single point in time to minimise the risks associated with the change and to realise the benefits of the proposal.

AEMO sees no benefit in harmonising the gas day start time if it is only applicable to those participants directly involved in the STTM's and GSH's.