



## **Submission to AEMC GRC0033**

### **Introduction**

The Australian Pipelines and Gas Association (APGA) welcomes the opportunity to provide feedback on the Australian Energy Market Commission's (AEMC) Draft Rule Determination on GRC0033: the National Gas Amendment (Enhanced Information for Gas Transmission Pipeline Capacity Trading) Rule 2015 proposed by the CoAG Energy Council (the Draft Determination).

APGA is the peak body representing Australia's gas transmission infrastructure. Its members build, own and operate the gas transmission infrastructure connecting the disparate gas supply basins and demand centres of Eastern Australia, offering a wide range of services to gas shippers, producers, retailers and users.

APGA is supportive of reforms that will improve the environment for capacity trading and provide useful information to market participants without introducing major regulatory intervention in the successful commercial frameworks that facilitate infrastructure access and investment. Enhanced capacity trading assists shippers on pipelines in managing volume and price risks associated with longer-term contracts. APGA considers that an enhanced secondary capacity market will complement and support the primary capacity market as the Eastern Australian gas market adapts to the anticipated increased volatility of gas flows resulting from the establishment of an LNG export industry in Queensland. An enhanced secondary capacity market also provides increased ability for market participants to respond to opportunities to access short-term gas supplies.

### **Assessment of the Draft Determination**

APGA considers the Draft Determination sets out a light handed regulatory approach that will reduce transaction costs and provide information that, combined with other industry-led initiatives, can foster a more active secondary capacity market. The Draft Determination details new information obligations that are in accordance with the information gaps and timeframes discussed during the consultation process that informed the rule change proposal.

Several of the new obligations reflect the proposals made by industry during the consultation process.

This demonstrates the complementary nature of government reform processes and industry-led initiatives. Government reform processes have provided a framework for discussion and a timeline for action that has led to the development of the industry proposals for information reflected in the Draft Determination. These processes have also contributed, in part, to the incentives of the gas transmission industry to develop and implement initiatives such as the operational capacity transfer service and capacity listing services.



Importantly, a decision to adopt a more intrusive regulatory approach would undermine the environment within which industry can innovate and rapidly implement appropriate solutions. As any major regulatory intervention is likely to take years to implement (this current light handed course of action was agreed to in December 2013 and is still to be implemented), pursuit of heavy handed regulatory options risks stagnation of the market with the effective ‘handing over’ of market development responsibility from industry to governments and regulators.

APGA supports all the information obligations proposed in the Draft Determination.

In particular, APGA considers the AEMC’s defining of uncontracted primary pipeline capacity as ‘primary pipeline capacity available for sale’ appropriate. It is important that pipeline operators are able to exercise judgement when determining this figure. Submissions to the AEMC and the Draft Determination itself note the relevance of contractual options in determining the level of primary pipeline capacity available for sale. Increasing interest in short-term arrangements and flexible ‘on call’ services will also have an effect on the amount of primary pipeline capacity available for sale. The reported level of primary pipeline capacity for available for sale is unlikely to be derived from a simple calculation deducting the sum total of contracted firm capacity from the nameplate capacity of a BB pipeline.

There are two issues APGA wishes to raise with the AEMC.

### **Provision of numerical capacity estimates in maintenance information notices**

The Draft Determination sets out that Bulletin Board (BB) facilities will be required to provide a numerical estimate of the capacity impact of a maintenance event. However, the Draft Determination is underestimating the resources required to add this new requirement to maintenance planning:

*The costs of providing this information should be relatively minor. Numerical capacity estimates are either already provided, or would be calculated at the same time that a maintenance event is being planned. The additional effort required is expected to be small in the context of planning a maintenance event.*

APGA is aware of only one BB pipeline operator that provides a numerical capacity estimate already.

Further, pipeline operators have direct experience in having to provide numerical estimates of the capacity impact of a maintenance event for the Western Australia and have found it to be a costly exercise.

Pipeline operators take regulatory information obligations very seriously. The provision of incorrect information can expose them to penalties under the National Gas Rules (NGR). It is clear from the



commentary that it is expected the numerical capacity estimate will be used by market participants to inform commercial decision making. From page 35:

*Ideally, other market participants could use this information to identify constraints, which could be useful for capacity trading and portfolio optimisation decisions.*

Notwithstanding that disclaimers associated with BB information state that the information should not be relied upon, pipeline operators must be mindful of the potential use of information and make every effort to ensure a meaningful number is provided.

The development of a capacity estimate itself does not have to be a costly exercise, as discussed below. However, it is not typically an existing practice, particularly at the time of scheduling maintenance, and to be conducted in accordance with good gas industry practice, any estimate would likely require vetting through more than one level of management.

As such, it introduces a new process to maintenance planning that cannot be automated and requires attention from multiple people, including senior executives, within a company. It is foreseeable that the additional resourcing required, particularly in the development and implementation of new processes, is far more costly than anticipated in the Draft Determination.

### **A numerical capacity estimate in accordance with good gas industry practice**

The NGR defines good gas industry practice as:

***good gas industry practice** means the practices, methods and acts that would reasonably be expected from experienced and competent persons engaged in the business of providing natural gas services in Australia, acting with all due skill, diligence, prudence and foresight and in compliance with all applicable legislation (including these rules), authorisations and industry codes of practice.*

APGA has consulted with pipeline operators and has found that it is not current practice for maintenance planning processes to include the detailed capacity modelling that occurs when determining short-term capacity forecasts, scenario planning or expansion options.

Detailed modelling is a complex exercise conducted by specialist engineers with substantial computing resources. Pipeline operators fully utilise their existing resources and capabilities for the above mentioned activities. A requirement to conduct detailing capacity modelling would impose a substantial new cost on pipeline operators, as new resources would have to be allocated to expand modelling capabilities to forward planning of maintenance exercises.

A numerical capacity estimate, to be supplied in an early maintenance information notice, would meet good gas industry practice if it is the best estimate of experienced and competent persons



within a pipeline operator. Each pipeline operator will have its own processes to determine the estimate and it would be outside existing practice of the NGR or the AEMO BB Procedures to be prescriptive in detailing how such estimates should be achieved.

If the maintenance information notice is being supplied within seven days of the planned maintenance date, the actual capacity impact should have been modelled for the seven day short-term capacity outlook and could be included in the maintenance information notice. Over time, market participants will be able to compare early high level estimates with detailed modelling and draw their own conclusions regarding the accuracy of forward estimates to inform their own planning.

### **Cost recovery for new obligations should be addressed immediately**

Cost recovery has been referenced in most, if not all, of the information related rule changes since the implementation of the BB. APGA has certainly raised it in its engagement with every process.

On each occasion, it is deemed that the incremental costs of the particular rule change are relatively low and it is appropriate to defer reform of the cost recovery provisions to some later date. Even the 2012 rule change that was specifically targeted at reforming cost recovery provisions only concerned itself with the processes through which pipeline operators would provide evidence of costs and how those costs would be assessed by the AER.

The current cost recovery provisions only apply to the information obligations detailed in rules 173 and 196.

It is clear that the role and purpose of the BB has evolved since its implementation in 2008 and will continue to evolve in years to come. APGA welcomes the AEMC's commitment to considering cost recovery provisions in its Stage 2 Final Report of its Review of Wholesale Gas Markets and Pipeline Frameworks. This consideration will not be conducted in time to address the establishment costs of the new obligations set out in the Draft Determination.

The new information obligations detailed in the Draft Determination are likely to have associated costs well above those anticipated by the AEMC. It is clear that information such as the numerical capacity estimate is considered useful for the commercial decisions of market participants including portfolio optimisation and risk management.

APGA maintains that information obligations that have a primary purpose of informing the commercial decisions of market participants should be fully cost recoverable through BB mechanisms by BB facility operators. It is not appropriate that facility operators try to recover these costs through negotiated outcomes from shippers, it is usually market participants that are not shippers on a particular pipeline that consider the information most useful.



In acknowledgement that the cost recovery provisions are being reviewed in light of the evolving role of BB, the AEMC should extend the existing cost recovery provision to the new rules in the Draft Determination detailing new information obligations that serve the purpose of informing commercial decisions.