



31 March 2016

Australian Energy Market Commission
PO Box A2449
Sydney South NSW 123

GRC0036: National Gas Amendment (Gas day harmonisation) Rule 2016

The Australian Pipelines and Gas Association (APGA) welcomes the opportunity to provide comment on the CoAG Energy Council's Rule Change Proposal to harmonise the gas day start time across Eastern Australia's facilitated markets.

As advised in APGA's response to the Stage 1 Report of the Commission's Review of East Coast Wholesale Gas Markets and Pipeline Frameworks Review, APGA considers that a move to harmonise the gas day start time across the East Coast seems to be a sensible step to support greater connectivity and liquidity in the market as a whole. This does not mean it is a costless step.

Alternate rule change proposal

The rule change proposal focuses on the changing of gas day start times for the facilitated markets across the East Coast. It does so with recognition that the gas day start times in Gas Supply Agreements (GSAs), Gas Transmission Agreements (GTAs) and possibly other contractual arrangements are likely to need to change to align with the new gas day start time.

The rule change proposal assumes this will happen through negotiation. With regard to some gas transmission pipelines, it would be a far more practical and clearer change process if the change is required through regulation. It is expected that all contracts (GTAs or not) contain clauses that enable terms and conditions to be altered to maintain compliance with legal and regulatory requirements. If there was a rule requiring all gas supply and transportation agreements to have a gas day start time of 6:00am EDT, this would alleviate the need to negotiate this clause in all contracts.

On this occasion, a regulatory driver for change is appropriate because:

- Gas day start times are referred to in other markets (retail FRC) and supply agreements;
- not all pipelines, suppliers or retailers serve facilitated markets; and
- from a pipeline perspective, on pipelines that do serve facilitated markets, not all shippers participate in facilitated markets.



If a rule change is made as currently proposed, some parties may have limited incentives to negotiate changes to contracts. This could lead to protracted and potentially incomplete contract renegotiations. This is not unreasonable, as (in the case of pipelines) shippers that have no interest in participating in facilitated markets may have little incentive to incur any costs arising from a change from existing gas day start times.

If it is deemed that harmonisation is likely to deliver a net benefit, APGA considers a more efficient option would be for the Commission to consider an alternate rule that would require facilitated markets and facilities/market participants¹ to have a consistent gas day start time.

APGA does not have firm views on how this requirement could be imposed on each category of market participant.

A rule change requiring a change to gas day start time for gas transmission pipelines (and presumably other market participants/facilities of relevance) will reduce the time required for implementation and limit the need for a market institution to oversee implementation.

Such an alternate rule change will lower the costs of harmonisation but will not remove them. It is clear pipeline operators, and other market participants, will face costs arising from the need to physically change gas day start times on numerous pieces of plant and equipment. Estimates of these costs are best provided by market participants responsible for making these changes.

Any benefits arising from harmonisation of the gas day start time accrue primarily to those market participants that actively participate in multiple facilitated markets. Many participants, including gas pipelines, small producers and retailers, are likely to face costs but accrue little to no benefits. As a principle for any reform, it is appropriate that mechanisms are developed to ensure that the parties benefiting from the reform bear some of its cost.

Demonstrating clear net benefit

As a matter of process, APGA is concerned that the rule change proposal provides only a cursory analysis of the expected benefits of a harmonised gas start time. Whilst there is a common sense understanding that 'one start time is simpler than three', it should be noted that:

- the introduction of STTMs and the GSH are relatively and very recent initiatives respectively;
- implementation of these markets were all under the responsibility of a single agency, AEMO;
- a number of market participants have been active in the development of all markets; yet
- there has been an absence of calls for the market start times to align during development or post-implementation.

This leads APGA to assume that the benefits of harmonisation are low.

¹ Contracts needing to change may be either between infrastructure service facilities and market participants or between market participants.



Now that the East Coast gas market is in the position where there are three gas day start times, it is insufficient to assert that 'one start time is simpler than three'. It must be demonstrated, in accordance with CoAG's Best Practice Regulation guideline², that the benefits of such a change outweigh the costs, and that the change is therefore in the long-term interests of customers.

If you would like to discuss this further, please contact me on (02) 6273 0577 or sdavies@apga.org.au.

Yours sincerely

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² https://www.coag.gov.au/sites/default/files/coag_documents/coag_best_practice_guide_2007.pdf