



2 April 2014

Ms Victoria Mollard
Project Leader
Australian Energy Market Commission
Level 6, 201 Elizabeth Street
Sydney NSW 2000

RULE CHANGE PROPOSAL GRC0024

Dear Ms Mollard

The Australian Pipeline Industry Association (APIA) welcomes the opportunity to comment on the *National Gas Bulletin Board Capacity Outlooks* rule change proposal GRC0024 (**the Proposal**). APIA has been an active participant in the extensive consultation processes leading up to the Proposal and is comfortable that the information obligations proposed are low in incremental complexity and cost and will provide additional information to gas market participants.

APIA considers the Proposal does not adequately address cost recovery implications for Bulletin Board (**BB**) facility operator for potential costs associated with the proposed information obligations.. The Proposal appears to justify not utilising the existing BB cost recovery mechanism for the proposed obligations on BB facility operators based on an assessment that there are benefits arising to BB facility operators from this proposal. Specifically, these benefits are assessed to arise through improved coordination of maintenance. In APIA's view, the benefits arising from this rule change have not been demonstrated through evidence or accurate estimation. There is no evidence that maintenance coordination issues are occurring, and BB facility operators have not raised maintenance coordination as an issue that needs addressing. Despite this, if APIA interprets the cost-benefit analysis in the Proposal correctly, the claimed benefits of improved coordination comprise

94% of the benefits brought by this proposal, which ranges from hundreds of thousands of dollars in the low case to millions of dollars in the high case.¹

APIA also questions the Proposal's reliance on the work done for the Independent Market Operator in Western Australia by Sapere Research Group to demonstrate benefit. This work was widely rejected by Western Australian market participants and should not be reused or relied on by AEMO or the AEMC in assessing this proposal.

In a relatively minor and low cost rule change proposal such as the one under consideration, it might be tempting to dismiss issues of efficient allocation of costs and cost recovery. However, it is fundamental to effective gas market governance that rule change proposals are accompanied by thorough cost-benefit analyses. Further, in proposals where obligations are imposed on some market participants to deliver commercial benefits to others, it is appropriate that the costs of those obligations are recovered through the mechanisms contained in the National Gas Rules. This issue is explored in more detail in APIA's response to Question 2.

Drafting of the rule

The title of proposed rule 165 and 171 refers to 'production facility operators' and 'pipeline facility operators' respectively, yet proposed rule 168 refers to 'BB storage providers'. The use of the acronym 'BB' should be consistent across all references to these three types of facility operators.

Answers to Questions

Question 1 Information provision and transparency

(a) What level of information do gas market participants require to effectively carry out their operations?

As noted above, APIA does not consider that the lack of availability of public information on maintenance is a material issue for pipeline operators

(b) Does this data and information need to be published in a standardised format (for example, in a spreadsheet) for ease of interpretation?

Publication is a matter for AEMO and throughout the consultation process it has been presented as a simple matter for AEMO to collate maintenance reports from BB facility operators and publish it.

In terms of data provision, if the costs of this rule change proposal are to remain low, it is absolutely necessary that facility operators are able to continue current practice with regard to maintenance notifications and are only required to provide existing maintenance notices to AEMO. Any move to standardise data provision will lead to systems costs that will significantly increase the costs associated with this Rule change proposal, and would negate APIA's support for this proposal.

¹ Page 8 of the Proposal sets out that the coordination benefits contribute 17% and risk management contributes 1.1% for a total of 18.1%.

(c) Does this data and information need to be provided at regular intervals to be of use?

Short-term information will be provided daily. Maintenance notices will be provided when maintenance is scheduled to occur. This provides short term information to the market on a regular basis, and maintenance information on the same timeframe as it is provided to shippers on the pipeline. This addresses any information asymmetry concerns between shippers and non-shippers on pipelines.

Question 2 Efficient allocation of costs

(a) What are the expected one-off establishment activities/tasks and costs in implementing this rule change? Please provide an indication of the magnitude of these costs.

(b) What are the expected on-going activities/tasks and costs in complying with this rule change? Please provide an indication of the magnitude of these costs.

(c) Are there other expected activities/tasks and costs associated with this rule change that have not been identified? If yes, please provide an indication of the magnitude of these costs.

AEMO's presentation of these costs in the Proposal is adequate if the Proposal is implemented as envisaged, particularly in relation to maintenance notifications. Consultation to date has led facility operators to expect to be able to provide AEMO with existing maintenance notifications and have them published by AEMO. Until the Build Pack detailing the process for submitting these notifications is released, it is unclear if AEMO will impose new standardised formats for such notifications on facility operators. Changing systems to meet any standardised format can impose costs significantly higher than currently anticipated.

Whilst APIA considers the presentation of costs adequate, the rule change proposal has failed to discuss allocation of costs. In APIA's view, it is not in the intent of the National Gas Objective to impose costs of one section of market participants to the commercial benefit of other market participants (it is a different matter to impose costs to increase public good). The Proposal puts forward that the measures it sets out for improved information will assist all market participants in managing price risk, a key commercial activity of all market participants.

The Proposal purports to provide benefit to BB facility operators to offset the costs associated with the obligations by minimising the risk of:

significant costs to BB facility operators, as they may have to make last minute changes to timing of maintenance projects to avoid a clash or overlap. (page 3)

It should be noted that no facility operator has raised this risk at all in the discussions, let alone claimed it is material. Similarly, no facility operator has reported that:

The lack of public data can make it difficult to plan maintenance at a BB facility at a time that will not clash with maintenance at other BB facilities. (page 2)

Gas facility operators have effective processes in place to manage scheduling issues and ensure scheduled maintenance events not impede gas supply. Gas transmission pipeline operators will typically have contractual obligations to ensure this does not happen. APIA considers there is no

evidence that the coordination issue presented exists, let alone is a material risk to the efficient operation of gas markets.

APIA notes that AEMOs costs for the implementation of this rule are stated at \$262,000 + inflation for ongoing costs. These costs, as are all costs incurred by AEMO, will be recovered from market participants.

Industry costs are estimated at \$103,000. These costs will fall solely on BB facility operators and are not proposed to be recoverable. Compounding the costs presented by the proposal, increased information obligations also pose increased compliance risks to facility operators, with enforceable penalties for failure to comply.

In short, the Proposal poses new costs for facility operators, no benefits, no prospect of recovery through efficient allocation of costs and penalties for failure to comply with the new obligations.

In this particular case, the incremental changes have low complexity and effort for pipelines. This does not imply the issue of cost recovery can be set aside. As a matter of principle, it is not appropriate for costs to be imposed on facility operators through new obligations that deliver commercial benefits to other market participants while not providing an avenue for cost recovery to facility operators. The Commission should consider modifying the cost recovery provisions of the Bulletin Board to ensure that all parties providing the data on which the Bulletin Board relies are entitled to recover the efficient costs incurred in doing so.

Generally, APIA also cautions against imposing greater regulatory information requirements without appropriate cost allocation, as this can lead to increased market distortions. With prudent cost allocation, market participants will weigh the cost versus the benefit of any additional regulation. However, without appropriate cost allocation, the incentive for the recipients of the benefit to be efficient with regulation diminishes. This can lead to, increased low-value or non-value adding requirements. These may result in inefficiencies and increased costs to the gas customers in the long run.

Question 3 Confidentiality issues

(a) Are there any confidentiality issues for participants or customers surrounding the publication of short-term or medium-term capacity outlook information?

Given facility operators must already be sensitive to confidentiality issues when providing maintenance notices it is unlikely there should be any issues arise from their publication. Similarly, an aggregate three day capacity outlook is already published on the BB, there should be no new confidentiality issues arising from extending this to a seven day outlook.

(b) If confidentiality issues arise, which party (or parties) is best placed to manage such issues? Are there any costs involved in the management of such issues?

Facility operators are best placed to manage any issues that may arise.

Question 4 Other ways of achieving the proponent's policy objectives

- (a) Do stakeholders agree with AEMO that the rule change is a low-cost way to improve information provision? If no, are there any alternative ways of achieving the same policy objectives?**
- (b) If an alternative way of achieving the same policy objectives is identified, does this raise any specific issues or considerations related to information provision and transparency, the efficient allocation of costs, or confidentiality?**

The Proposal sets out a low-cost way to improve availability of information. However, as stated above, the final costs of meeting the proposed obligations will not be known until the Build Pack implementing the proposal is complete.

If you would to discuss any of these issues further, please contact me on (02) 6273 0577 or at sdavies@apia.asn.au.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Steve Davies', with a stylized flourish at the end.

STEVE DAVIES
Policy Adviser