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Australian Energy Market Commission
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By email to: submissions@aemc.gov.au

**Submission: Australian Pipeline Industry Association
National Transmission Planning Arrangements**

The Australian Pipeline Industry Association (APIA) welcomes the opportunity to provide a submission in response to the Australian Energy Market Commission's (AEMC's) Issues Paper on National Transmission Planning Arrangements. This review is being undertaken at the request of the Ministerial Council on Energy, and reflects the recommendations of the Energy Reform Implementation Group (ERIG), as endorsed by COAG.

It is critical that, in developing the framework and implementation plan for the national transmission network planning function, there is clear recognition of the differences between gas and electricity transmission. The gas transmission industry, through APIA, requests that the AEMC have proper regard to these differences and the possible consequences for gas transmission should any of the recommendations made in regard to electricity be imposed on the gas transmission industry.

Further, APIA believes that the gas transmission industry should not be within the scope of the National Transmission Network Development Plan. The issues that give rise to the need for central planning in electricity transmission do not apply in gas transmission. Rather, the gas industry has developed in response to market incentives, with new investment underpinned by bilateral contracts. As such, there is little evidence to suggest any barriers to investment exist in the industry that would necessitate a central planning function.

Although not addressed in the AEMC paper, it should be noted that the current economic regulatory system for gas transmission itself may provide a disincentive for appropriate investment in gas transmission infrastructure.

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Australian Pipeline Industry Association Submission to the AEMC's National Transmission Planning Arrangements: Issues Paper

The Australian Pipeline Industry Association (APIA) welcomes the opportunity to provide a submission in response to the Australian Energy Market Commission's (AEMC's) Issues Paper on National Transmission Planning Arrangements. This review is being undertaken at the request of the Ministerial Council on Energy, and reflects the recommendations of the Energy Reform Implementation Group (ERIG), as endorsed by COAG.

National Transmission Plan

It is critical that, in developing the framework and implementation plan for the national transmission network planning function, there is clear recognition of the differences between gas and electricity transmission. The gas transmission industry, through APIA, requests that the AEMC have proper regard to these differences and the possible consequences for gas transmission should any of the recommendations made in regard to electricity be imposed on the gas transmission industry.

APIA believes that COAG's goal of strengthening the national character of energy market governance should be achieved through the establishment of frameworks that do not discriminate against commercially driven market development for the gas industry. This approach recognises the clear differences that exist between gas and electricity markets, necessitating different approaches to planning and market development.

It is therefore important that, in establishing the scope of the review, the AEMC should recognise these differences and ensure that there are not unintended or undesirable consequences for the gas transmission industry emerging as a result of its consideration of issues in the electricity transmission sector.

Differences between gas and electricity transmission

In its submission to the ERIG review, APIA noted the key differences between gas and electricity transmission. These differences have important implications for the development of policy. The key differences are:

- *Physical* – gas has different physical characteristics to electricity. Specifically, gas can be stored in pipelines, allowing demand fluctuations to be met by stored supply. This



differs from the situation in electricity where production and consumption are instantaneously matched;

- *Market arrangements* - gas has less-complicated market and dispatch arrangements. This is because gas:
 - has relatively more predictable long-term flows and demand;
 - has much lower variability of short-term and medium-term flows;
 - rarely experiences instances of congestion and, if it occurs, congestion is generally more predictable;
 - has no complex network interactions as occurs in the electricity industry (these occur in electricity networks as electricity flows along the path of least resistance);
 - has a well-established and accepted commercial bilateral contracting market for both gas and pipeline services.
- *Investment* - gas pipeline investment is typically entrepreneurial in nature and is underpinned by bilateral contracts. By comparison, the vast majority of electricity transmission investment (excluding market interconnectors) is centrally planned and recovered by inclusion into network asset bases and then by average (regulated) pricing approaches;
- *Planning* - the role of market co-ordination and planning is more important in electricity than it is in gas, due to the interconnectedness of the electricity network. Also, due to the instantaneous nature of electricity flows, immediate correction of market supply/demand imbalances is critical. This is less of an issue for gas due to the storage ability of pipelines and, therefore, the ability to run down linepack in order to match supply and demand;
- *Production* - gas production occurs at sites where gas is found. The location of gas production is, obviously, unplanned and often results in pipelines being located in remote areas. The location of electricity production can be planned with reference to current infrastructure and loads;
- *Inputs* - gas is a major fuel source for electricity production. In most states, it is reasonable to view gas as an input into electricity production rather than a competing energy source (in many new power station proposals gas is competing with coal and other fuels, and is expected to compete with renewable energy sources in the future);
- *End-user markets* - natural gas usage is more concentrated than is electricity usage, with a few large users, for example, power stations (including mine site power stations), major manufacturing and fertiliser plants. For example, some major pipelines - 800km plus - only serve 3 or 4 end users. Electricity transmission assets typically serve a much larger number of end users.



All of these factors have significant implications for the investment framework and planning functions, highlighting the importance of recognising the differences between gas and electricity when developing policies.

The concerns that have led to this proposed enhanced national transmission planning function in electricity transmission do not apply in gas transmission. Historically, pipeline investment has grown in response to demand, with investment underpinned by bilateral contracts. This suggests that there are limited barriers to investment and contracting and, as such, concerns raised with respect to electricity markets regarding the need for central planning to facilitate interstate investments are not applicable in gas.

Moreover, electricity transmission (which retains some government ownership) is much more state based than is gas transmission. Pipeline owners are not confined by state boundaries, and there is no concept of regional boundaries and regulatory tests for determining the viability of new investment. Commercial incentives should deliver the necessary confidence in the state of development in the gas transmission sector.

In light of the above, APIA requests that the AEMC's review be mindful of these differences and, therefore, clearly define the policies that are relevant in the context of electricity transmission. This includes clarifying that the AEMC's review does not establish any precedent regarding possible planning frameworks to apply in the gas industry. In this regard, APIA notes that the benefits of adopting an independent gas market operator are still being considered.

Critically, on the question of the scope of the National Plan, APIA does not believe this plan should apply to gas transmission. This issue is addressed below.

The review should clearly recognise the different issues and market circumstances that apply to the gas transmission industry compared to electricity, and that these differences should not be overlooked in the move toward 'consistent' energy-market governance.

General principles for planning

APIA submits that it is essential that the approach taken in developing the enhanced network planning function should focus on facilitating efficient market outcomes through the provision of information to market participants. This is consistent with the approach where transmission network service providers (TNSPs) remain accountable for transmission investment, operation and performance. APIA considers that the following high-level principles should underpin the planning framework:

- *TNSP accountability for investment decisions* – this implies that the National Transmission Network Development Plan (NTNDP) should in no way be binding on TNSPs. Rather, its role should be to facilitate investment through the provision of information rather than to direct investment. This reflects a broader principle that



investment should be market-driven, and not the result of centralised planning and decision-making. The review should ensure these principles are clearly established in the planning framework.

The review should also ensure that these principles are consistently reflected in the AER's decision-making process with respect to TNSP revenue determinations – that is, it should clarify the role of the NTNDP, if any, in the AER's revenue determinations. APIA considers that, while it may be appropriate for the AER to have regard to the NTNDP in assessing a TNSP's revenue proposal, it should not be binding on the TNSP;

- *Consistency with the National Electricity Market (NEM) objective* – in considering options in light of the NEM objective, the emphasis should be on promoting efficient investment for the long-term interests of consumers. As highlighted in the policy debate leading up to the recent changes to gas and electricity transmission legislation, a long-term focus is critical when considering long-lived infrastructure assets. A shorter-term focus could undermine the aim of achieving efficient investment;
- *Competitive neutrality with gas* – it is intended that the NTNDP will outline the broad development of the power system including current and planned network capability as well as prospective generation development options. The NTNDP framework should establish the principle of competitively neutrality between electricity and gas-fired generation.

APIA provides the following comments on specific issues raised in the Issues Paper.

Scope of the National Plan

The AEMC has sought comments on the degree to which the areas of power generation, gas transmission and electricity transmission and distribution should be in the scope of the national plan, and what specific functions should the NTP have to give effect to this.

APIA believes that the gas transmission industry should not be within the scope of the NTNDP. As outlined above, the issues that give rise to the need for central planning in electricity transmission do not apply in gas transmission. Rather, the gas industry has developed in response to market incentives, with new investment underpinned by bilateral contracts. As such, there is little evidence to suggest any barriers to investment exist in the industry that would necessitate a central planning function.

Given this, there is a risk that imposing a centralised planning function through the inclusion of gas transmission in the NTNDP may distort market-driven investment and,



hence, adversely impact on efficient investment in the industry. Clearly, this is inconsistent with the NEM objective.

Aligning review of TNSP revenues

The AEMC has asked for comments on the costs and benefits of aligning the timetables for transmission revenue determinations.

APIA does not support aligning review timetables simply on the basis of improved network planning. Any consideration of this issue should carefully assess the impact on the quality of decision-making as a result of the AER undertaking multiple reviews concurrently. By creating such a 'peak' in AER workload, the ability of the AER to adequately consider the merits and particular circumstances of individual TNSP proposals could be compromised, increasing the risk of regulatory error. Costs associated with such errors can far outweigh any benefits from integrated planning.

To the extent that timeliness and consistency across regulatory decisions are regarded as a benefit of this approach, APIA believes that these issues have been more than adequately addressed in the emerging new regulatory frameworks, including the NEL/NGL, rules and AER guidelines.