



21 April 2011

Australian Energy Market Commission

Marc Tutaan  
Project Leader

Via online submission at [www.aemc.gov.au](http://www.aemc.gov.au)

Dear Mark

**NATIONAL GAS AMENDMENT (STTM DATA VALIDATION AND PRICE SETTING PROCESS) RULE 2011**

The Australian Pipeline Industry Association (APIA) welcomes the opportunity to comment on the proposed rule change under consideration by the Australian Energy Market Commission (AEMC).

APIA supports the intent of the rule change, and the operators of existing STTM pipeline facilities have worked closely with the Australian Energy Market Operator (AEMO) to determine an appropriate new submission time for pipeline data and arrangements for the validation of this data. As such, APIA has no issue with the detail of the proposed rule change before the AEMC.

With regard to the questions posed by the AEMC in the Consultation Paper, APIA does not have feedback or concerns with Questions 1, 2 or 4. In regards to Question 3, APIA does consider there is an option that delivers a better market result than the current proposal.

**TREATMENT OF DATA THAT BREACHES VALIDATION AND IS NOT CONFIRMED**

As noted throughout AEMO's submission, measures to address high price events are being implemented through the National Gas Rules (NGR) and the STTM Procedures (the Procedures). As set out in the draft rule, there is a new provision at 414 (2A) that states:

*An STTM facility operator must provide information, in accordance with the STTM Procedures, to allow AEMO to validate and substitute data in accordance with subrule (2)*

The procedure referred to is currently subject to a Proposed Procedure Change under AEMO processes. Clearly, the rule change and the procedure change are linked.

The amendments to the ex ante market process detailed in 3.1 of AEMOs submission detail a new data validation process to allow potentially erroneous data that could cause a high price event to be identified. Under the process, data that breach validation thresholds (set by each STTM facility) will cause a confirmation request to be sent to a pipeline. A pipeline will then be able to confirm the data, or submit new data.

In the proposed procedure referenced in the draft rule 414 (2A), section 7.1.4 (a)(vi) states:

*If AEMO does not receive a confirmation or an updated notice under subparagraph (iii), it must retain the values under rule 414 (1)*

This provision in the proposed procedure means that data that breaches the validation test and is unconfirmed (suspect data) will still be used by AEMO to determine the ex post ante price.

APIA believes that such data should be considered materially suspect, and it would be preferable to use the confirmed facility default, as would be the case if a pipeline failed to provide any data at all. **If the default is used as a substitute for the data that breached validation and did not get confirmed, it further reduces the risk of erroneous pipeline data causing high price events.**

APIA does not disagree that the currently proposed rule and procedure changes reduce the risk of high price events due to data error. However, it is the stated intention of the rule change and the procedure change to minimise the risk of such events occurring. In line with risk management principles, it is appropriate to reduce the risk As Low As Reasonably Practical (ALARP).

APIA considers the better outcome for the market is to reduce the risk of high price events due to pipeline data error ALARP, and the use of the default data in the validation and confirmation process will enable this.

APIA is aware of several arguments in favour of using the suspect data, including:

**Suspect data may be correct.** This is true, however APIA contends that on the balance of probability it is more likely to be incorrect. In the case when the data is correct, a prudent pipeline will be aware that it is going to breach the validation threshold (set by the pipeline itself) and will be ready to confirm it. APIA has prepared a Guideline on STTM Information Management for Pipelines and will be considering advice to this effect following finalisation of the rule change process. It is in the case where the data is incorrect that the pipeline is more likely to fail to confirm the data.

**AEMO should not be making value decisions on pipeline data.** APIA does not consider this to be a decision point for AEMO. If the use of the default is written into the procedures, AEMO is not making a decision on the data. Pipelines will set the parameters for the validation test that is to be applied under this rule change, and are best placed to make the decisions concerning use of data. STTM pipelines are all in agreement that it is preferable to use default data over suspect data.

**If default data is used, pipelines have no incentive to try and correct data errors.** As outlined in AEMO's submission, pipelines have advised it would likely take 2-3 hours to correct data errors, which cannot occur in the maximum 90 minutes available under the current proposal. It is highly likely that a pipeline will submit its default when data error leads to a validation breach.

**If default data is used and the risk of high price events is removed entirely, pipelines have no incentive to provide quality data to the STTM.** Pipelines have obligations to meet under the National Gas Law (NGL) and NGR as do all gas market participants. The vast majority of these obligations do not have potential multi-million dollar wealth transfers associated with them and are still met. Pipelines treat their obligations seriously and strive to meet them to the best of their ability, regardless of the potential consequences.

**There is also a situation to consider when a pipeline does not submit data by 9:30am.** In this circumstance, a pipeline is able to submit data by 11:00am. Correct data that breaches validation could be submitted at 10:59am. With no time for a confirmation to occur, under APIA's proposal the default would be used and the market price would not reflect the reality of the day. This is not a desirable outcome, and could be worked around by requiring the data to be submitted in time for a validation test to occur. At this stage, APIA does not have details of how long this might be. The procedure may require that data is submitted by 10:45 (as appropriate) in the case it is not submitted by 11:00.

There are scenarios that can be conceived that provide further justification for either the suspect data or the default data to be used. Ultimately, a decision should be made based on the data that minimises the risk of pipeline data error leading to high price events. This is the intent of the rule change proposal and the procedure change proposal as written in the documents under consideration by the AEMC. The use of the default data in place of suspect data further reduces the risk to the market. This must be considered the better outcome.

On page 12 of its submission to the AEMC, AEMO has presented reasons the proposed rule contributes to the National Gas Objective. APIA considers the National Gas Objective is better served in all cases by further reducing the risk of high price events due to suspect data to the Short Term Trading Market by substituting suspect data for default data.

Please feel free to contact me on (02) 6273 0577 or [sdavies@apia.asn.au](mailto:sdavies@apia.asn.au) if you would like to discuss this submission further.

Yours sincerely



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