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13 August 2015

Mr Ben Noone
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Dear Mr Noone,

APA Group (APA) welcomes the opportunity to comment on the Australian Energy Market Commission (AEMC) consultation paper on the proposed Rule change for Enhanced Information for Gas Transmission Pipeline Capacity Trading.

APA supports the intent of the Rule change process as a mechanism to help facilitate secondary capacity trading. APA considers that the Gas Market Bulletin Board could better achieve its objectives through revision of the current definitions of supply and demand zones. Current zone definitions are out of date and this means that gas flows are not being accurately represented. Addressing this issue will substantially increase available market information.

APA believes that some of the increased information publication proposals set out in the AEMC consultation paper may be addressed through better representation of the market under the current scope of the Bulletin Board. APA notes that this work is currently being considered by the Australian Energy Market Operator (AEMO), and by the AEMC as part of stage 2 of its gas market review, and encourages integration of the processes looking at the Bulletin Board to ensure that the Bulletin Board redevelopment project is targeted and does not impose unnecessary compliance and AEMO Bulletin Board costs on market participants.

Please call Alexandra Curran on 02 9275 0020, if you would like any further information.

Yours sincerely



Peter Bolding
General Manager Regulatory & Strategy



CONSULTATION PAPER

National Gas Amendment (Enhanced Information for Gas Transmission Pipeline Capacity Trading) Rule 2015

Introduction

APA Group (APA) welcomes the opportunity to comment on the Australian Energy Market Commission (AEMC) consultation paper on the proposed Rule change for Enhanced Information for Gas Transmission Pipeline Capacity Trading.

APA supports the further development of the secondary market for pipeline capacity. Along with supporting the further growth of the gas market as a whole, a strong secondary capacity trading market has the potential to increase pipeline throughput, as well as support new investment in pipeline capacity by giving shippers an avenue through which they can trade out of existing contracted positions. APA recognises that there has not been significant demand for trading of pipeline capacity to date. APA notes that a couple of entities involved in LNG project developments advocate that their projects have the potential to stimulate this market.

APA strongly believes that market-driven solutions that respond to any new demand for traded capacity driven by the LNG industry, should be the preferred solution for the continued development of the market.

APA agrees with the AEMC that the ability to trade secondary capacity is a component of a well-functioning gas market.

APA supports the AEMC recommendation to enhance the value of the Bulletin Board by making it a more comprehensive source of available information on the gas market. One of the key issues with the Bulletin Board as it currently stands is that data is not accurately represented and is incomplete. Unless this fundamental flaw in data presentation is addressed through redefinition of Bulletin Board zones and moves to ensure all production, demand and pipeline data are appropriately represented, then market participants will still be left with at best a partial view of the market and at worst a misleading view. APA strongly recommends that work commenced by AEMO to rectify issues with current data representation is completed as a matter of urgency.

By providing a clear and accurate picture of the daily gas market, the Bulletin Board would prove to be a very powerful tool for participants to understand and participate in the east coast gas market. APA further believes that clear provision of this fundamental information may make some of the additional proposals set out in the AEMC Consultation Paper, such as linepack information, redundant.

Issue 1 Barriers to secondary capacity trading

1. Is there currently unmet demand for secondary pipeline capacity? If not, under what circumstances and over what time frame could there be increased demand?

Parties wishing to source secondary pipeline capacity have a number of mechanisms to access this capacity through current arrangements, namely bare transfer, assignment and operational capacity transfer. APA is not in a position to comment on how much demand is unmet for secondary capacity through these mechanisms, however it notes that parcels of primary capacity have been advertised on the APA capacity trading website without generation of any significant interest.

Additionally, contracted but unutilised pipeline capacity is made available on the day as Interruptible capacity which can be nominated prior to or during the gas day. This capacity is available under standard terms and conditions and is advertised on a near real time basis on APA's Capacity Trading website.

2. In your experience, to what extent are search and transaction costs a barrier to secondary capacity trading? Would the information proposed in the rule change request reduce these costs?

APA supports better information provision to the market to support the gas market, and to facilitate capacity trading. Better and more targeted information is likely to reduce transaction costs, though APA is unable to determine the extent to which transaction costs, as opposed to other factors, are influencing the current level of trade in secondary capacity.

APA considers that a priority should be to address identified deficiencies in the current Bulletin Board, in particular to zone definitions to clearly show daily gas flows in to and out of clearly defined zones. APA believes that this simple reform is more likely to yield benefits to the gas market as a whole at the same time as supporting pipeline capacity trading.

APA largely supports the additional information provisions canvassed in the COAG Energy Council Rule change proposal and the AEMC Consultation Paper, as complementing the current scope of Bulletin Board reporting. These areas of additional reporting could offer marginal improvements to market transparency. Real gains could be made through achieving an accurate portrayal of all gas market flows, including the LNG providers, as is reflected in the current scope and intent of the Bulletin Board.

In addition to reform to the Bulletin Board, APA is working to lower transaction costs associated with capacity trading through its capacity trading facility and website.

3. What costs would be incurred in providing the additional information proposed in the rule change request and this consultation paper?

The cost of providing information for publication on the Bulletin Board is not limited to whether that information is currently available to the pipeliner. Mandatory periodic reporting obligations bring with them system development, validation and compliance



costs that can dwarf the direct costs of acquiring information from meters or other operating systems.

These costs will vary depending on the type of information required and its reporting frequency. For the proposed changes, APA provides the following comments on each requirement:

- **Uncontracted/uncommitted primary capacity** – As previously estimated the main cost for provision of this information is in the establishment of processes and systems with on-going costs likely to be relatively minor.

APA questions the requirement for a 36 month outlook. This proposed outlook period has not been raised in any consultation on this requirement to date, and the rule change proposal does not state why this timeframe was chosen and how it would support capacity trading, which is generally for terms of less than one year. The longer term outlook would increase the costs and uncertainty related to published information (particularly in relation to the exercise of shipper option rights under contract), and is something that is not seen in any other market. APA had previously submitted that a 12 month time horizon would be appropriate.
- **Contact details of contracted shippers** - The actual cost for provision of this information would be relatively minor as the requirement would essentially be a manual process completed monthly, however provision of contact details would be best provided by Shippers direct to the Bulletin Board operator rather than the pipeline operator acting as an intermediary or aggregator. It is unclear how the pipeline operator could ensure that the published information was accurate and up to date where it was relying on the shipper to provide information to it for which the shipper had no direct obligation for accuracy or currency.
- **Secondary capacity trading** - As previously estimated the main cost for provision of this information is in system and process costs in the order of \$50,000-\$60,000 for all APA assets with on-going costs likely to be relatively minor. It should be noted, however, that this information is likely to represent only a subset of actual traded capacity, and a more direct obligation on shippers to advise the Bulletin Board operator of all capacity trades (including bare transfers) is more likely to collect accurate data on the size and scope of the secondary market, and therefore yield more accurate public policy information, which appears to be the main intent of this obligation.
- **Detailed facility data** - The actual cost for provision of this information would be relatively minor as the requirement would essentially be a manual process, and require only limited updating once provided to the Bulletin Board operator for publication.
- **Gas flow data, aggregated Receipt** – This requirement will require a one off modification to systems to develop and send this report, given the current files include delivery data. System costs to develop, test and implement are envisaged to be in the order of \$50 000.
- **Gas flow data, disaggregated** - This requirement will require a one off modification to systems to develop and send this report, given the current files include delivery data. System costs to develop, test and implement are envisaged to be in the order of \$50 000.



Issue 2 Other benefits from additional information

4. What other benefits will the proposed additional information provide to market participants and stakeholders?

Benefits will likely be limited to the general improvements in gas market supply and availability that may result from these initiatives.

5. Is the new role proposed for AEMO an appropriate mechanism for monitoring compliance with Bulletin Board registration and reporting requirements? Is proposed subrule (9) too prohibitive?

APA considers the provision of disaggregated data for Bulletin Board compliance purposes and the role AEMO is to play is appropriate, however the proposed subrule (9) is too prohibitive. Given that this information is already provided to AEMO on a voluntary basis by APA for Bulletin Board pipelines it would be efficient and of more value for AEMO to use that information for GSOO purposes as well.

Issue 3 Granularity of proposed data

6. Is the proposed granularity sufficient to address the issues raised by the rule change request and summarised in section 3.1 of this paper?

APA considers the proposed level of granularity is appropriate to address the issues in a relatively low cost manner. Additional granularity is likely to drive significant additional costs and would need to be considered carefully against expected benefits.

7. Do you have any concerns regarding the data resolution, reporting frequency and outlook periods? Does the proposed rule contain a sufficient level of detail on data granularity?

APA is concerned about the proposed 36 month outlook for un-contracted capacity. Provision of commercially sensitive information of this nature will have significant impacts on pipeline operators and potentially shippers (where they are identified through reporting of shippers by size), and APA would question the requirement for such a long outlook period. This requirement is something that is not seen in any other market and the requirement appears to be unrelated to development of a short term capacity trading market. APA considers that a 12 month outlook period would be more appropriate and in line with the expected duration of capacity trades, which are generally for less than 12 months.

This timeframe would deliver the benefits of providing the market with a clear outlook of available primary capacity relevant to potential secondary capacity trades, while also ensuring that the outlook period reflects a reasonable expectation of actual spare capacity, and limits the risks to pipeliners and shippers that this information will be misinterpreted in capital markets.



Comments on specific Rule change proposal

While not canvassed specifically in the consultation paper, APA has identified some specific issues with the details and drafting of the Rule change proposal.

Nameplate capacity by zone

The Rule change proposal discusses the provision of 'nameplate by zone'. The delivery capability of a pipeline is related to its configuration. This means that flows to one delivery point can impact the capacity of the pipeline to deliver gas to another delivery point.

This interdependency makes the concept of a nameplate capacity (physical capacity) by zone very difficult to determine and quite misleading to the market, as it would likely count the same pipeline capacity several times, as that capacity could be made available at alternate delivery points, but not all of them at once. For example, on the Moomba Sydney Pipeline, deliveries to the Canberra lateral are dependent on Wilton deliveries— a reduction in Canberra deliveries would increase capacity to deliver gas at Wilton and vice versa. The capacity of a zone is therefore not just a function of the physical characteristics of a pipeline, but its more immediate contractual or flow characteristics. It is therefore not possible to establish a meaningful value for nameplate capacity by zone, that is, a stable capacity over time – this is a value better determined in relation to a pipeline as a whole.

Capacity at gate stations

The Rule change proposal includes a requirement for the pipeliner to provide to the Bulletin Board specific information on gate stations. In many cases, these facilities are not owned by the pipeliner, and the pipeliner may only have very limited information in relation to their configuration.

This information requirement should be expressed as a requirement on the gate station facility owner/operator (which could be a distribution business), to provide accurate information to the Bulletin Board.

Cost recovery

APA is concerned that the Rule change proposal does not give adequate consideration to pipeliner cost recovery in relation to these additional information requirements. APA does not believe it is appropriate to characterise these additional requirements as immaterial. Pipeliners have been subject to a number of incremental changes to information requirements in recent years, each being characterised as immaterial, but in total these costs can be significant.

APA considers that a basic principle should be that those parties that benefit from information provision should pay the costs of its provision – this principle should be applied regardless of whether the costs are considered to be material to the party that incurs the obligation.



Issue 4 Other information gaps

8. To what extent would these additional categories of information address the issues raised in the rule change request?

These changes in isolation will only partly solve the issues, particularly the ability to understand gas flows. The current Bulletin Board zone definitions do not reflect the current market dynamics in that they do not accurately reflect bi-directional flows and do not include all gas flows as certain facilities are exempt. Addressing issues with representation of current data should be a matter of priority as this alone will significantly improve understanding of gas flows around the east coast market.

9. How would these categories of information be useful to you if they were be published on the Bulletin Board?

APA consider the quantum of any benefits provided from additional information provision is best determined by trading participants, however it should demonstrate clear benefits for the whole industry in line with the National Gas Objective.

Publication of further information around Storage Facilities is required to provide a complete picture of the supply/demand dynamics of the market and should be progressed for that reason alone.

10. What costs are involved with reporting these additional categories of information?

APA provides the following comments on costs to provide the additional information on assets relevant to its operations:

- **Medium Term Capacity Outlook, 365 capacity outlook** - The cost to provide this data is not insignificant due to the systems and processes required to collect maintenance information for the extended period and assign the relevant capacity for that period. Currently, capacity restriction data is calculated for the short term capacity outlook; however establishment of system process and procedures to capture a 365 day capacity outlook for WA assets has incurred costs in the order of \$400 000.

APA considers that it would be more meaningful and lower cost to provide the market with medium term capacity outlooks through a traffic light system, which showed whether a pipeline was subject to reduced capacity because of maintenance (amber) and whether that reduction is likely to impact firm deliveries (red). This type of indicator is more meaningful than a capacity number which does not reflect whether market flows are likely to be impacted on a given day.

- **Linepack** - This requirement will require a one off modification to systems to develop, test and implement the sending of the report. There are also on-going costs for daily validation processes, which was found with STTM to be significant. APA questions the value of this data to the market, and its bearing to capacity trading, as discussed later in this submission.



11. Do you have confidentiality concerns or consider there are other risks associated with publishing this data?

APA has no issues with confidentiality of the proposed additional information categories.

12. Having regard to the scope of the AEMC's more preferable rule making power, are there any other information gaps or potential solutions that should be considering during this rule change process?

As stated previously the most significant issue with the current Bulletin Board data is misrepresentation through poor or outdated zone definitions. Until this matter is rectified, any further work to enhance transparency will be largely ineffective.

Issue 5 Storage facilities

13. How would more additional information on storage facilities be useful to you?

APA considers provision of data on storage facilities is necessary to provide a complete picture of market dynamics and should be pursued.

14. Would reporting by storage facilities that are currently covered by the exemption criteria result in the provision of useful information?

APA considers this information would be essential in providing a full picture of system capability.

Issue 6 Medium term capacity outlook

15. What has been your experience with providing or using the medium term capacity outlook data since the National Gas Bulletin Board Capacity Outlooks rule came into effect in January 2015?

APA considers the current provision of medium term capacity outlook data is an appropriate first step and has provided consistent information to all existing and potential Shippers. APA would also suggest that the information could be further enhanced to provide traffic light style indicators to show a forecast of the effect maintenance activities are likely to have on deliveries.



16. Would a centralised medium term capacity outlook for all BB facilities be useful to you?

AEMO has previously commented that collation and analysis of data into a standard view could be easily provided as part of the Bulletin Board operation at a much lower cost than modifying the multiple of systems of data providers.

Issue 7 Linepack

17. Would more information on linepack be useful for market participants and lead to more efficient decisions and response to events?

APA questions the usefulness of raw linepack data given its propensity to misinterpretation.

If the purpose of the request for linepack information is to provide additional input into the supply/demand balance provided by the Bulletin Board, then this would be better addressed by the complete and accurate representation of existing data requirements and APA would recommend that until this fundamental issue is rectified, meaningful analysis of further missing information cannot be made.

If the provision of linepack information has been suggested so Shippers can make their own assessment of a pipeline's delivery or storage capability, then this information in isolation can be quite misleading and potentially subject to misuse. Determination of these abilities is best provided by pipeline operators who have complete information on pipeline's physical and contractual characteristics on a daily basis. This information would be best indicated to the market through the current LCA flag indicators. These flags could be made to reflect smaller sections of the pipelines to match zones (as in WA) and also include a mechanism to show the early indication of any potential for issues that may affect pipeline operations. APA notes that only a Procedure change would be required to reform the definitions for LCA flags to make them more meaningful, if this is considered necessary.

18. Are there alternative ways in which market participants can access information on short term opportunities? Can changes in linepack be understood through the analysis of other information already existing or proposed in the rule change request?

APA does not consider appropriate analysis of raw linepack data can be made based on current or proposed levels of public information and that to provide the information required to do so would breach the confidentiality of Shippers' commercial arrangements, and require a sophisticated understanding of pipeline flow dynamics. A far better measure of pipeline's deliverability is the current LCA flag methodology, perhaps with some review of the current flag definitions.



Issue 8 Supply nominations

19. Is there value in this information being published? To what extent are supply nominations complementary to information currently available on the Bulletin Board?

APA considers this information would be appropriate and useful.

Issue 9 Alternative solutions

20. Do you consider any of these alternative options to be more preferable than additions to Bulletin Board reporting obligations? If so, for which categories of information would these alternatives be more appropriate?

APA considers the best method to report the mandatory information requirements is through Bulletin Board obligations, however the extent of this information needs to be consistent across the industry and represented in such a way that it provides a clear and concise view of industry operations. There is a role for further information through the proposed alternative mechanisms for information specific to particular assets or businesses.

21. Should the Commission consider any other ways in which participants can disclose the proposed information to interested stakeholders?

No.

Issue 10 Transitional arrangements

22. How much time is reasonable for participants to transition to providing: uncontracted capacity information, shippers' contact details, data from secondary capacity trading platforms and additional gas flow data?

Depending on the final requirements, appropriate transition periods will be required to modify and test systems and procedures. The timeframe for such changes, from release of the AEMO build pack, would be envisaged to be between six and twelve months depending on the change.

23. What transitional arrangements would be appropriate for the provision of the information categories discussed in section 5.2?

Twelve months would be appropriate transition period for the categories of information discussed in section 5.2.