

APIA submission to the Energy Reform Implementation Group Discussion Paper – November 2006

Overview

The Australian Pipeline Industry Association (APIA) represents the gas transmission pipeline industry in Australia and welcomes this opportunity to comment on the Energy Reform Implementation Group (ERIG) discussion paper.

As the ERIG is aware, gas transmission has different market and operational characteristics from electricity transmission and is still in early stages of its market development. The gas transmission industry has overwhelmingly developed in private ownership subject to the disciplines of the capital market. Many recommendations in ERIG's discussion paper seek to bring these disciplines to electricity supply markets.

Developments in Gas Market Structure

The Discussion Paper identified recent developments in the gas industry, in particular the Gas Market Leaders Group (GMLG) and the possible introduction of a short term trading market for gas (pp. 206, 209).

APIA supports a market-based trading system, but would like to highlight the GMLG finding that there remain some obstacles to the immediate introduction of an STTM that need to be addressed before such a system is introduced. APIA believes that development of an STTM should not progress without further work on this matter.

APIA supports the GMLG's recommendation on bulletin boards to facilitate trading, and for further investigation of the feasibility of an STTM. Issues to be considered in the development of an STTM proposal include:

- ensuring existing contractual rights are not directly or indirectly overturned;
- ensuring consistency between access arrangements and the STTM structure;
- ensuring the STTM does not create investment and/or commercial distortions between pipelines;
- ensuring that the rules of a STTM can be physically supported and

- ensuring an accurate and thorough assessment of the cost and value of the STTM design options is undertaken in order to avoid suboptimal design.

Specific examples of issues that could arise in an STTM include:

- The STTM could provide incentives for shippers to seek access to capacity constrained delivery points to which the shipper had no pre-existing rights. Shippers who have contractual rights to those capacity constrained delivery points could be prevented from gaining access .
- The STTM could allow a shipper on a flow controlled pipeline to create a significant imbalance on a connected pressure controlled pipeline. Shippers on the pressure controlled pipeline would be allocated imbalance charges as a result of the actions of a shipper on the flow controlled pipeline. This could have implications for a shipper's willingness to ship on pressure controlled pipelines. Those pipelines would probably convert to a flow controlled system. Such a scenario would result in multiple flow controlled pipelines serving a single demand centre, with the potential for major balancing difficulties for distribution networks.
- The STTM would have the potential to distort markets if shippers accumulated imbalances until remedial action was required to restore linepack. This could result in a high short-term price on one day - with the possibility that the cost would not be allocated to those parties who had contributed to it over a number of days, but only to those parties who incurred an imbalance on the previous day.
- The STTM could provide for inclusion of some regional areas' customers. It is important that sufficient regional areas are included so that investment decisions between transmission pipelines would not be distorted.

APIA broadly supports the ERIG preliminary findings for "greater standardisation of future contracts, pipeline access and supply points for pricing across the market" (p210). APIA believes that standardisation is already developing with increased physical pipeline interlinkages.

Cross Ownership

APIA is also concerned that ERIG has not provided a clear draft position on cross-ownership of regulated and non-regulated assets. While it is correct, as outlined in the ERIG document (p26,) that gas and electricity, including gas and electricity transmission, compete with each other in some instances, it should be noted that gas

production and transmission are often an input into the electricity generation process, rather than a competitor. In these cases, they combine to offer a fuel product and compete with coal and other fuel types. It would therefore be inappropriate to ban a gas producer or a gas-fired electricity generator from owning a gas transmission line. Also, while gas and electricity directly compete in smaller, residential and commercial heat raising applications (eg domestic hot water), in larger, industrial heat raising activities (eg minerals processing, power generation), gas tends to compete with other fossil fuels (eg coal , fuel oil) rather than electricity. Therefore, to the extent the fuels and infrastructure do not compete, concerns about cross-ownership should not be a major concern, and APIA believes that issues of cross ownership should be judged on the merits of the actual assets and situation as is the approach under section 50 of the Trade Practices Act.