

APIA Comments on the STTM Reviews Phase 1 Discussion Paper

The Australian Pipeline Industry Association (APIA) and the operators of pipeline facilities within the Short Term Trading Market (STTM) have been actively involved in the original and ongoing development of the STTM. APIA, as the peak industry body representing Australia's gas transmission industry, presents the following comments to the Australian Energy Market Operator (AEMO) as the common position of the operators of STTM pipeline facilities.

Part 1: Gas market information

General Comment

The imposition of additional information requirements must be consistent with the National Gas Objective. For information requirements to promote the long term interests of consumers there must be a demonstrated benefit to the market from preparing and disclosing additional information. This benefit must outweigh the cost of its provision, such that the market is prepared to compensate the cost of its provision.

APIA notes that almost all of the additional information referred to in the Discussion Paper would be required to be supplied by pipeline facility operators. APIA considers that general support for these types of information is insufficient justification for mandating its provision. It would be insufficient (and inconsistent with the National Gas Law (NGL)) for the National Gas Objective to be deemed to be satisfied because the majority of participants were supportive of the availability of particular information. It is likely that the majority of market participants will not face an additional regulatory burden or significant additional costs arising from increased information obligations placed on pipeline facility operators, and may therefore be supportive of their availability without considering the potential cost or benefit.

In addition, APIA would like to highlight the fact that each pipeline has long-standing systems in place to meet the information requirements of its contractual obligations, and the reporting of near-real or real time data has not been requested by shippers or required in gas markets to date. The capital costs of pipeline infrastructure and systems are recovered over long-term contracts and there is little flexibility in existing systems.

Many of the proposed data requirements relate to information available in respect of the Declared Wholesale Gas Market (DWGM) in Victoria. For example, the Discussion Paper notes that system line-pack data and gas flow data are available to the DWGM in Victoria. It should be noted, however

that the DWGM has a significantly different market design compared to the STTM, and information necessary in respect of that market may not be necessary or cost effective for the STTM.

Nearly all gas consumed in Victoria passes through the DWGM, the market carriage based Victorian Transmission System (VTS), to deliver gas. In contrast, the STTM on the other hand is a gas balancing market across multiple pipelines providing gas users in the STTM hubs flexibility to manage marginal gas consumption. Given the significant differences in the nature of the two markets, the information requirements of those markets are not equivalent, therefore the benefits of preparing and publishing particular information are not equivalent across the two markets.

Further, AEMO provides the data for the DWGM. As AEMO operates the DWGM on a full cost recovery basis, the cost of this information is borne by DWGM participants.

System line-pack data

APIA agrees with the comment that system line-pack data is important during system stress events. AEMO currently has powers to gather this (and other) information upon the occurrence of a Contingency Event (Rule 440 (2)(b) in the National Gas Rules and STTM Procedure 9.3.1). During such events it is anticipated that pipeline operators, AEMO and market participants work closely to manage and minimise the scale of such events. The Australian pipeline industry has demonstrated its ability and willingness to manage supply events for the good of gas markets on numerous occasions.

For the day-to-day operation of the market, as long as line-pack is adequate to ensure a pipeline's stated capacity can flow to the STTM hub, its actual magnitude is irrelevant to the market. An indication of linepack adequacy is already provided to the Gas Bulletin Board.

On some pipelines, linepack belongs to the pipeline operator who may use it to provide services such as park and imbalance services. Providing the information to the market more generally regarding linepack that is in fact under contract may lead market participants to assume that operational line-pack can be drawn on by the market with little or no operating consequence for a pipeline, which is not the case at all. A rapid depletion in line-pack will impact a pipeline's capacity over several days and could possibly lead to curtailment.

In comparison with the DWGM, APIA notes that in days of peak demand, the amount of gas that passes through the DWGM is sufficient to deplete the Victorian Transmission System twice over. Line-pack data is therefore relevant to the DWGM. This is not the case for the STTM hubs.

Gas flow data

As the STTM is a day-ahead market, it is appropriate decisions are made based on forecast and nominated information. Actual gas flows during the day seem to present little value.

It is important to note a significant difference to the DWGM in regard to the provision of gas flow data. The VTS has the sole purpose of transporting gas in the DWGM. Every metering, injection and withdrawal point has relevance to the DWGM. This contrasts with pipelines supplying STTM hubs, which have numerous injection and withdrawal points outside the STTM hub. In some instances, withdrawal points are to a single customer, and any information on gas flow data at these points would expose commercially sensitive information of these customers.

System adequacy information

Comparisons of system adequacy information to the National Electricity Market (NEM) are irrelevant. The NEM is an inter-dependant, centrally controlled market that requires instantaneous supply and demand matching.

Short-term system adequacy information is already provided to the STTM in the three day capacity forecasts provided daily by pipeline operators. This is the most up-to-date information and is the only information that market participants should rely on to manage their own gas demand.

In terms of the provision of maintenance schedules to the market, APIA notes that after 12 months of operation of the STTM, market participants have not yet provided any evidence that access to maintenance schedules during this period would have improved or modified their market actions. As such, APIA does not accept the need for the provision of this information.

APIA also believes that the provision of this information is unnecessary, and likely to raise more questions than answers. At the start of the year pipeline operators develop maintenance schedules based on known maintenance requirements, and expected operational conditions. On any given day, maintenance schedules may not be followed due to a number of reasons (such as safety issues, mechanical problems or general redeployment of resources to higher priority tasks). A good example of this, and one which does potentially impact capacity in a material way, is planned engine overhauls. Engine overhauls are “run hours based” and when an engine is taken off line will in theory impact on the capacity of the pipeline. The overhaul will be undertaken depending on the utilization throughout the course of the year. As such, whilst it might be predicted that something be done in March, it could well actually occur in July or later or earlier.

What is more important, and certainly more reliable, is the up-to-date information provided in the three day capacity forecast.

Market notices and communication

Examples of situations where AEMO considers it requires more operational information to inform participants would be useful. The AER has the ability to acquire such information as required, as demonstrated during the May 2011 MOS fluctuations in Adelaide.

Part 2: Market Design

Broader market design

The paper identifies that the STTM to date has performed consistently with the original design objectives. APIA holds the view that 12 months of operation is too soon to consider revisiting the original design objectives. The market should be allowed a reasonable amount of time to make minor modifications through the STTM Consultative Forum process and to enable a quantitative cost benefit analysis of its impact on gas markets. Once a full accounting of the costs and benefits of a well embedded STTM is known, it is appropriate to consider the costs and benefits of significant changes to its design framework.

There is little need to consider the requirements of the DWGM and the NEM when considering the STTM market design. Further to APIA's note above that the STTM is a balancing market, with most gas consumed at STTM hubs and on the east coast of Australia supplied under bi-lateral contracts.

Those facilities that operate in gas markets and the NEM, primarily gas-fired power stations, have the contractual arrangements in place needed to respond between the two.

As a balancing market, there is no demonstrated need for the STTM to enable participants to balance gas supply across infrastructure more than once a day. When considering fundamental design changes, AEMO and market participants must consider the costs such changes will impose on STTM facilities, which are not designed for near real time information provision.

Part 3: STTM demand hubs

APIA agrees with AEMO that looking at extending the STTM into new demand hubs at this stage is premature. As stated above, APIA is of the firm view that the STTM should be allowed to operate for a reasonable amount of time to allow it to establish. At that point, a quantitative cost benefit analysis should be conducted, which would better inform a discussion on the desirability and potential benefit of extending the STTM to other geographic hubs.