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RE: NATIONAL GAS EMERGENCY RESPONSE PROTOCOL

A3P – Australian Plantation Products and Paper Industry Council appreciates the opportunity to make a submission on the Issues Paper: *National Gas Emergency Response Protocol*. A3P's membership includes significant gas users involved in the manufacture of paper products, reconstituted wood products and sawntimber. The combined gas use of the industry is approximately 2.0% of the total Australian gas consumption.

Summary

A3P supports the development of a Gas Emergency Response Protocol to deal with situations where there is market failure. Specific comments on issues raised in the paper include:

- Any response to a gas emergency that is agreeable to the market participants affected, including users, is preferable to Government intervention.
- Measures should be implemented to distribute the costs of an emergency more evenly amongst users and along the supply chain.
- Critical elements of the supply network should be identified and measures implemented to invest in inter-connections that relieve bottle-necks and create back-ups should the critical elements fail.
- A central planning function, such as a National Gas Supply Planner, would provide significant ongoing benefits.

The plantation products and paper industry produces and sells more than $12 billion of product each year. It employs 50 000 people in plantation operations, sawmills and paper manufacturing plants, mainly in rural and regional areas.

The industry produces 15 million tonnes of wood annually, and processes this wood into products including 3 million tonnes of paper and 3 million cubic metres of sawn timber.

The industry is heavily trade exposed, depending on competitively priced, reliable energy supplies to maintain a commercial edge and is unable to readily pass costs through to customers. Energy supply and pricing is critical in the formula that determines industry growth and investment.

A3P supports the completion of the Council of Australian Governments' program to make energy markets truly efficient, delivering reliable energy supplies at prices that enable energy-intensive industries to remain internationally competitive.

A3P has maintained an active and constructive role in the energy market reform program on behalf of its members. Any market exists to satisfy the needs of consumers. The reform of energy markets must maintain the needs of consumers as the principle objective of the market and its regulation. The proposed Market Objective for the National Electricity Law would be equally applicable to gas markets: "to promote the long term interests of consumers of (gas) with respect to price, quality and reliability of (gas) services, and economically efficient investment and innovation".

General Comments

A3P supports the development of a Gas Emergency Response Protocol. The Moomba incident of January 2004 demonstrated the potential for significant and widespread impacts from damage to a crucial piece of infrastructure. As the document notes in a number of places, the impact and costs of a gas emergency are borne to a substantial extent by users, particularly large users.

A protocol is required to deal with situations where there is market failure. Any response to a gas emergency that is agreeable to the market participants affected, including users, is preferable to Government intervention. A market-based response may be either pre-organised, or at the time of the emergency.

The following specific comments are provided on a number of issues raised in the paper.

Costs of Gas Emergencies

The Issues Paper notes that curtailment of gas use is more easily achieved through a small number of large users than a large number of small users. It also notes that this order of curtailment may not reflect the relative economic value of gas to the various users.

Practically, there is probably no feasible alternative to curtailing large energy users in a gas emergency. This is particularly apparent when it is considered that the integrity and safety of the gas transmission and distribution systems is dependent on maintaining a minimum pressure in the system. The costs for re-pressurizing the network will be extensive and would have to be borne by all consumers. However, the Issues Paper does not sufficiently explore options for more even distribution of the costs of an emergency, amongst users, and along the supply chain.

The costs of curtailment of supply to a major industrial user may be significantly more than the value of the gas or the loss of production. It may also include equipment or process damage resulting from forced rapid shut down; loss of production time; and start-up losses. In many cases it is not feasible to rapidly turn processes off without incurring significant damage or downtime. Because of this there are a number of key aspects that have to be considered.

1. It is essential that the lowest cost approach to managing a gas supply emergency is identified. This is in the community interests

2. The new gas emergency protocols should identify which of the large gas users can quickly respond to a gas curtailment (and to what extent) without suffering major costs of equipment failure or significant shut down and start up costs.

3. A number of businesses have the ability to change from gas to higher priced fuels with minimum disruption. Such consumers should be identified and financial support given them to ensure these alternatives are able to be used. This follows the principle used in the supply of electricity where certain consumers maintain standby power facilities in readiness for contributing to the regional power supply.

4. As the gas curtailment will impact on a relative few (large) consumers for the benefit of all, the most appropriate method for recompensing those businesses must be identified. This follows the principle in the electricity system which rewards those reducing supply when demand and/or prices are high.

Users who forcibly or voluntarily curtail supply should be compensated for the impact. The value of this compensation could be recovered from users whose supply is maintained during the emergency, a charge on all users or, most appropriately, from the business (es) where the emergency was caused.

I understand such an approach may be similar to that employed in the UK. It is also noted that the UK approach places a high priority on procuring additional supplies to minimise the extent of user curtailment necessary.

Production and Network Investment

One of the main causes for the loss of gas supply in south east Australia lies with the domination of the gas supply system by two gas producers – at Moomba and Longford where failures in the past decade have led to severe gas supply restrictions. There must be a declared and actively driven decision to increase the numbers of independent gas supply points into the gas network.

Critical elements of the supply network should be identified and measures implemented to invest in inter-connections that relieve bottle-necks and create back-ups should the critical elements fail.

While this is not directly related to the response in the event of an emergency, it will be effective in reducing the likelihood of an emergency and increasing the ability to find alternative supplies.

The occurrence of a network failure and the magnitude of its impact are both clearly related to the robustness of the system and the back-ups for critical elements that have been built in to the system. It is unreasonable for end-users (predominantly the large industrial customers) to bear the costs of network failure during an emergency if there has not been sufficient investment in these elements.

There needs to be a clear differentiation of investment in augmentation for reliability purposes and opportunistic investment. This is to avoid consumers having to pay for over-investment in the gas supply system. Investment in the network should be commercially driven, but a planning function such as outlined below will assist in identifying opportunities for appropriate investment for ensuring improved reliability in the network.

Support Mechanisms

A number of support mechanisms are canvassed in the Issues Paper, these include a code of conduct for information sharing; a National Gas Emergency Co-ordinator; and a National Gas Supply Planner.

As noted above, a central planning function, such as a National Gas Supply Planner, would provide significant ongoing benefits, identifying network constraints and areas where the system can be made more robust. It would be logical then for the same entity to coordinate the response to any emergency.

The planning function should be undertaken by an entity that is, and is perceived as, independent from any market participant. There are suitable examples within electricity markets for how such a function can be administered.

Communication Protocols

The development of a communication protocol is mooted in the Issues Paper. A3P supports the preparation of such a protocol. It should include immediate and ongoing communication with end users during an emergency, particularly those users whose supply may potentially be curtailed. This communication should include the full extent of the emergency, timelines for recovery, expected curtailment of usage and arrangements for compensation of users.

Thank you for the opportunity to make a submission on the Issues Paper. A3P looks forward to the release of the Options Paper and the opportunity to provide further input. If you have any questions please contact me at the address above or at miles.prosser@a3p.asn.au

Yours sincerely

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