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By email: MCEMarketReform@industry.gov.au

Re: National Gas Emergency Response Protocol Issues Paper

AGL welcomes the opportunity to comment on the National Gas Emergency Response Protocol Issues Paper (*the Issues Paper*). As a result of its interests across the supply chain, and particularly having regard to its experience with the incident at Moomba in January this year, AGL is well placed to comment on the Issues Paper.

For ease of reference, this submission uses the same numbering as in the Issues Paper.

While AGL has responded to the queries posed in the Issues Paper, AGL considers that the Issues Paper raises a number of matters that require significant discussion between industry and government and the most effective way of progressing the development of an Emergency Response Protocol is for a working group to be established.

AGL also notes that the time for considering submissions is relatively tight and repeats its call for meaningful consultation.

3.1 How effective is the market in managing a gas shortfall?

Summary

AGL considers the current market is effective (within the constraints of the availability of gas and haulage) in ensuring ultimate delivery of gas to customers where there is a gas shortfall, and that the ability of the gas market to manage emergency situations has improved, but there are still areas where further improvements could be made. AGL believes that improvements should be driven by the need to better manage risk across the industry.

Improvements in managing emergency situations in recent years

The ability for the gas market to manage emergency situations has increased significantly in recent years. In particular, new supply sources and increased interconnection between regions have facilitated cross border flows for both portfolio management and at times of supply shortfall.



Improvements still required

However, there are still some areas where improvements are required. In considering what improvements are required, it is worth considering the event that occurred at Moomba in January of this year. The sequence of actions taken to deal with that event involved government setting the allocation parameters, following which industry managed the event. AGL's concern however, was the allocation parameters had a substantial cost impact on certain members of the industry.

The over-riding of commercial arrangements left industry participants with the choice of interrupting supply to their customers or seeking alternative supplies. AGL's response was to seek alternative short term supplies, involving additional costs. AGL's purchasing decisions were complicated by uncertainty over specific details of the government's decision. The additional costs were borne by both AGL and its customers.

While additional supplies of gas were available in January of this year, there is no certainty that alternative supplies would be available if such an event occurred at a different time of the year.

Accordingly, in developing an Emergency Response Protocol, AGL believes that the following principles are critical:

- (i) *Clear principles and process defining when and how jurisdictional powers will be invoked and when intervention will end.*

Intervention would typically be required where the system security is at risk or where the market is unable to clear itself through commercial arrangements. It is important to all affected parties that there be a clear statement of the circumstances under which intervention would occur. Clear principles and processes should be developed in consultation with industry.

- (ii) *Clarity in relation to the principles that will apply once jurisdictional powers are invoked*

Clarity about the principles that will apply once jurisdictional powers are invoked is important so that there is greater certainty for industry and governments. The need for clarity can be demonstrated by considering what might have occurred had the Moomba incident occurred during a time of high demand in Victoria.

In January, South Australia was able to source gas from Victoria. However, at a time of high demand in Victoria, South Australia may have been unable to obtain Victorian supply, as Vencorp would likely constrain exports to maintain system security.

This emphasises the importance of clarity about the processes for and basis on which curtailment would occur and that there is a mechanism for "valuing the gas".

- (iii) *A mechanism or arrangements that ensures participants commercial arrangements are kept whole in the event of an emergency (eliminating inter-jurisdictional and participant cross subsidies)*

In the event of emergencies where governments direct the flow of gas, retailers need to have the ability to recover costs. Any recovery mechanism should be applied across all jurisdictions.

Introduction of escalation procedures

AGL supports a mechanism that allows the industry to manage situations to the greatest extent possible before government intervention occurs and allows market responsiveness through demand side management and the trading of gas to manage the situations across regions.

Industry is best placed to make decisions on how to move gas across regions and manage this movement in a way that is least cost and most efficient.

AGL suggests that an appropriate mechanism would be the introduction of escalation procedures that provide clear principles and processes for intervention and according to the severity of the event.

The implementation of effective escalation procedures should result in better management of emergency situations by providing certainty to participants and governments as to how situations will be managed and by improving the information flows.

The escalation procedures would set out a number of levels of emergency event and detail for each level the actions and information required. The lowest level of escalation procedure would involve a description of the event, duration, market impact, and actions to be taken by participants to prepare to manage the situation if the situation were to be of longer duration or greater impact. Each higher stage would involve further action such as reducing load.

An emergency coordinator would be responsible for the management of the escalation procedures. Similar escalation procedures exist in other markets and have proven to be effective in managing emergency situations.

3.2 How can information on supply and demand be shared?

AGL recognises that, in an emergency, there may be a need to share information on supply and demand. However it is important that the level of disclosure is appropriate and there is a recognition of and protection of commercially sensitive information.

The information required for emergency management falls into two categories. Firstly, there is a requirement to understand the overall capability of the system on an annual basis. This allows participants and governments to have an understanding of the capability of the system to deliver gas to the various regions. However obtaining an understanding of the overall capability of the system is not an easy task as there are many variables that will affect the overall system, such as weather, pipeline pressures, producer flow rates etc.

Secondly, information is required to be provided in the event of an emergency situation. Information disclosure can be managed as part of this process by providing information to the emergency coordinator.

At low levels of severity, and where information is not of a commercially sensitive nature, it may be that participants can share this information, such as duration of event, specific reason for event.

However, as an event escalates and information becomes increasingly commercially sensitive, information could be provided to the emergency coordinator. The emergency coordinator must be required to follow clear rules about use and disclosure of information.

3.3 What are the options for timing of Government involvement under a protocol?

This question contains an implicit assumption that government involvement is required. AGL considers that to the extent possible, industry should manage emergency situations with clear principles and processes as to when and how government will become involved. If

events are of such a nature that governments need to be involved, then a consultative forum is required with all governments involved having clear predetermined parameters for involvement. These parameters should include clear parameters for directing gas flows and broader directions to industry.

As discussed above, AGL supports the introduction of escalation procedures as an effective way of managing emergency events. The escalation procedures should define the timing of involvement of the consultative forum.

3.4 What are appropriate principles for gas sharing between jurisdictions?

AGL considers that appropriate principles for sharing gas are that:

- Commercial arrangements should not be overridden without compensation.
- No one participant or customer group should cross subsidise another;
- There should be an equitable sharing of supply shortfalls between jurisdictions having regard to the differences between jurisdictions in terms of gas users and usage.

The detailed principles need to be determined in advance, recognising that supply shortfalls can occur for different reasons.

3.5 How should demand for gas-fired power generation be managed during an emergency?

The treatment of individual customers is, in the first instance, a matter for the curtailment protocols within each jurisdiction, and gas fired power generation should follow directions issued pursuant to those protocols, like any other customer. That said, gas fired power generation has unique characteristics including its impact in the National Electricity Market and the fact that it represents a different proportion of available generating capacity in the different jurisdictions. It would seem reasonable that the escalation procedures mentioned earlier, and the actions to be taken at each level, would make allowance for these characteristics of gas-fired power generation. The escalation procedures would also need to take into account other factors, such as the relative ease of rationing gas and electricity.

3.6 How can market participants' commercial rights be better recognised?

AGL welcomes the need to better recognise market participants' commercial rights. AGL recognises that this is a difficult question. At present, jurisdictions have the ability to over-ride commercial or contractual rights of participants. While AGL recognises that this may be required at times of emergency, it is important to recognise the inter-connected nature of the current gas market. Participants have diverse portfolios with varying contractual arrangements across several regions.

It is therefore essential that decisions that are made recognise this impact and that solutions are put in place to ensure equitable outcomes across all participants.

AGL envisages that where trading arrangements provide a transparent market price (or prices) for gas, then that market price would provide a basis for the market to manage scarce supply at the lower levels of the escalation procedures. Where such a transparent price is not available, or in any case at the higher level of the escalation procedures, AGL envisages that a default value of gas will need to be established to reflect the cost of alternative supply and transportation arrangements.

3.7 Are current jurisdictional powers effective?

AGL has some concerns with the current jurisdictional powers, as they focus on directing flows of gas and preventing flows between states. Such an approach is likely to cause difficulties if emergency events were to occur at a time of high demand across all regions.

AGL considers that solutions need to be more focused on allowing industry to manage situations to the extent possible.

3.8 What is the most appropriate scope for a protocol?

AGL supports the scope of the protocol that is set out in the Issues Paper.

3.9 What is the most appropriate form for a protocol?

AGL supports a protocol that provides certainty to the market and industry. Accordingly, AGL considers that it is imperative that the form of the protocol is one which the key decision makers support.

3.10 What is the most appropriate content for a protocol?

It has been suggested that the Protocol could cover the following matters:

- Emergency response coordination
- The extent to which market based mechanisms should continue before intervention is required;
- Information provision requirements;
- Roles and responsibilities of Governments;
- Roles and responsibilities of market and responsibilities of market participants and end-users;
- Gas sharing arrangements;
- Communication protocols

AGL supports the content of the protocol and suggests that a working group comprising industry and government should further consider these issues.

3.11 What are the most appropriate/effective emergency communications protocols?

It is paramount to have effective communication in the event of an emergency. AGL considers that active management of communications protocols is imperative and suggests that a list of key personnel should be developed and provided to an emergency coordinator.

3.12 What support mechanisms are necessary?

AGL is supportive of industry managing situations to the extent possible with government only intervening where the market is unable to clear itself or system security is at stake. However, AGL supports the introduction of an emergency coordinator to manage emergency situations. The involvement of the emergency coordinator should be set out in escalation procedures. The emergency coordinator would provide a mechanism for informing industry and governments while, at the same time, protecting the commercial integrity and sensitivity of market participant's information during these events.

If you have any queries please do not hesitate to contact Peter Geers, Manager Wholesale Gas Strategy, on (03) 9201 7564.

Yours sincerely

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