

24 September 2004.

The Manager
Energy Market Reform Team
National Energy Market Branch
Department of Industry Tourism & Resources
GPO Box 9839
CANBERRA ACT 2601

Via email: MCEMarketReform@industry.gov.au

Dear Sir

DRAFT PRINCIPLES FOR GAS MARKET DEVELOPMENT

APIA welcomes the opportunity to comment on the Issues Paper published by the MCE Standing Committee of Officials to stimulate discussion on possible principles for gas market development.

APIA notes that the MCE issues paper is very general in nature, raising questions on issues that can at best be described as “emerging” in the Australian context. The gas market principles outlined in the paper are vague and generally lack the definition required to develop a good understanding of the underlying objectives that Senior Officials wish to achieve through this initiative.

As a primary principle, APIA believes that the MCE must affirm their commitment to market based outcomes which evolve over time to meet changing needs. There should be an explicit recognition that the gas sector is fundamentally different from electricity and that the needs of gas market participants will be considered on their merits, separate from any arrangements which apply to the electricity sector. In particular the MCE should not seek to impose perceived desirable features if they are not viewed as being desirable or necessary by industry participants at the present time.

APIA reiterates the importance in the next stage of the process of not overstating the linkages between gas and electricity markets and notes that the Productivity Commission, in its review of the national gas access regime, has concluded (finding 11.2)

“While there are some issues common to the electricity and gas supply sectors, there are significant differences, including in relation to market structure, the size and maturity, market rules, nature of energy generation and transportation technology. These differences have implications for investment, risks and appropriate regulation.”

The primary area of interest to MCE Ministers (clearly demonstrated by the role of infrastructure integration in allowing an effective response to the Moomba supply crisis) should be to ensure removal of impediments to gas infrastructure development. This would enhance opportunities for gas-on-gas competition, contribute to greater supply security and minimise the impact on customers of any future gas supply incidents. The issues facing pipeline investors has been the

subject of a major review by the Productivity Commission and the most pressing need for the pipeline sector is to implement the recommendations.

There are two specific issues APIA wishes to raise in this letter:

- The role of the consultancy study to investigate future options for Australia's gas market and infrastructure; and
- The need for jurisdictions to consider certain aspects of emergency response arrangements, irrespective of any wholesale gas market arrangements ultimately developed by industry.

In relation to the first point above, APIA notes that arrangements for the consultancy including terms of reference have not been discussed with industry. In order to encourage a market based approach APIA contends that industry participants including infrastructure owners should be consulted on the terms of reference for the review as well as the relevant background which needs to be considered (eg recognising that despite recent gas supply "emergencies" in south east Australia, the market has functioned effectively and in a coordinated manner with minimal supply interruptions to priority and essential services).

In relation to the second point above, two areas where jurisdictions could make a more effective contribution in providing clarity on emergency arrangements are:

- Provide a definition of when emergency situations would actually apply, ie. in response to the very real threat to system integrity; and
- Set out clearly to industry a set of curtailment priority lists (developed in consultation with affected industry participants) so that all market participants are aware ahead of any potential emergency of the response path needed.

In this regard, the MCE could usefully consider the guiding principles that have been used to successfully manage liquid fuel supply interruptions for around 20 years in Australia through the Liquid Fuel Emergency Act 1984. These principles include:

- The intention that, where possible, industry and consumers should be allowed to manage shortfalls without government intervention
- Governments have a responsibility to prepare contingency plans against possible supply emergencies
- The policy of successive Australian Governments to allow market forces to manage supply arrangements in all but the most critical circumstances
- The need for governments to identify clearly under what circumstances intervention would be appropriate and, if so, what methods of intervention would be the most efficient and effective.

For example, APIA would be very interested to hear whether any progress has been made on the inter-government agreement on cross border trade. It has now been several years since industry was consulted informally on the draft document.

APIA is finalising a submission responding to the MCE Gas Market Paper in more detail and this will be forwarded as soon as it has been completed.

Yours faithfully

Allen Beasley
Chief Executive Officer