



Gas Market Leader's Group

Proposal for Gas Market Bulletin Board

Comments

On

Business and Data Requirements for a Gas Bulletin Board

by

The Major Energy Users Inc

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1. Introduction

The Major Energy Users Inc (MEU) welcomes the opportunity to provide comments on the Bulletin Board Business and Data Requirements Issues Paper. The MEU represents major energy using companies operating in Queensland, New South Wales, Victoria, South Australia and Tasmania.

There is a fundamental issue that is often overlooked in regards to the gas market and its operation. If there are no consumers seeking gas, there is no gas market. Equally, the supply of gas is extremely concentrated, and there are rights given by the community to the providers of gas supplies, which effectively grant a monopoly or near monopoly to gas pipeline service providers. The clear implication of this observation is that the supply side of the gas market must recognise that in return for the monopoly or near monopoly position granted to them by the community, they have an obligation to provide sufficient information to the community so that the community can be satisfied that the monopoly or near monopoly rights granted are not being abused.

Even if there is to be a robust and truly competitive market in the supply of natural gas, there will continue to be the need for such information to be provided. In this regard, the MEU does not consider that the very limited number of gas production centres and gas transportation facilities currently operating in the gas market provides a robust and competitive market. Indeed, the MEU considers that in reality, such a market is unlikely to ever operate in this country due to the need for non-duplication of new facilities in order to provide the needed scale to provide competitively priced gas and so provide Australian industry with the advantage of having the low cost energy supply needed to maintain international competitiveness for their products.

The MEU strongly supports the establishment of a Bulletin Board as a major platform in accelerating the development of a competitive national natural gas market. Currently the gas market is extraordinarily “opaque” (lacks transparency), with consumers having little or no access to data about the supply of gas which would allow them to make sensible and informed decisions in relation to establishing their gas supplies, and when they are subject to compulsory constraints in supply.

An example of this total lack of transparency concerns the recent compulsory constraint of supply experienced by large gas users in NSW. Many users were constrained off supply by the distribution network owner/operator, yet there was no emergency declared by the NSW government. So far, there has been no detailed explanation to the public as to why the constraint occurred or the reasons behind the decision for why gas that was nominated for delivery by

these users was compulsorily acquired by the pipeline operator for maintaining system security.

A platform, such as the Bulletin Board, coupled with a properly designed and competitive short term trading market for gas, would provide a readily usable tool for providing much needed transparency in the current gas market arrangements.

Additionally, it will enhance the further development of gas as a major energy and raw material source for major industrial users. These mechanisms would also enhance market capabilities in managing gas supply disruptions (by linking up with NGERAC) and defer governmental interventions in managing emergencies.

The MEU has, for some years, actively been promoting the concept of the Bulletin Board (BB) as a platform to help manage gas supply disruptions and to defer governmental intervention short of a gas supply emergency. The BB should contain adequate demand, supply and pipeline capacity data that would facilitate gas market participants to manage their short-term risks, post 'overs' and 'unders' on the BB and allow for bilateral trades to occur.

From the perspective of major gas customers, it is important that key principles be adhered to in order to under-pin the establishment of the Bulletin Board (and the Short Term Trading Market).

Whilst acknowledging that the BB is not intended to provide pricing signals or mandatory trading of imbalances, there will nonetheless be price and volume data that could provide the basis for short-term trading of imbalances between contracting parties and for managing risks. When opportunities arise or circumstances dictate. The BB could be a platform that will provide some demand, supply, capacity and (perhaps) price information that will facilitate contracting of imbalances.

Against that background, the following are considered key principles that should inform the development of a BB (and the STTM):-

1. There should be as much **transparency** as possible or as necessary to facilitate trade between contracting parties. This principle allows users of gas to better understand the operation of the gas market so that they are able to make informed decisions in the way they source and use gas, and to be assured that monopoly or near monopoly rights granted to gas supply entities are not being abused.
2. **Information** logged on the BB should be **robust** and **accurate**.

3. **Property rights** are inviolable and cannot be unlawfully taken away without just compensation
4. All contracting parties are treated **equitably**
5. **Prudential** requirements must be identified and logged
6. **Dispute resolution** processes must be available and independent
7. There must be access to **compensation** in the event of commercial disputes, information mis-specification or error, or any technical actions.
8. Any opportunities for **gaming** by monopoly or near monopoly entities and/or the provision of **unintended market incentives** must be minimised.

Against this background, the MEU responds to the questions and issues posed in the Issues Paper in the following sections.

2. Pipelines and Facilities Included or Excluded

The MEU agrees with the proposal to include all major natural gas pipelines, and connected production and storage facilities that interconnect and/or supply major demand centres. It is important, in order to facilitate short-term trading, that pipeline capacity and any other facilities that could constrain trading inter-regionally or intra-regionally, be covered.

The MEU agrees that small capacity pipelines or facilities (say, <20TJ/day), dedicated laterals and spurs and gathering lines, including those where capital contributions have been made by users, should be excluded. However while there is support for exclusion of such pipelines and facilities, it is important to note that some smaller facilities may be significant within the supply arrangements for each load or production centre. Accordingly, MEU support is conditional on any decision to exempt a pipeline or facility from having to provide information is made in the full awareness of the significance of the facility and/or pipeline within the specific location.

The MEU is concerned that having explicit criteria for permitting exclusion can lead to facilities which may well be significant being inappropriately excluded, when inclusion would benefit gas consumers or a party dependent on a monopoly or near monopoly asset.

3. BB Data Requirements

The MEU agrees with including the NGERAC standing data (involving production and pipeline “nameplate” capacity ratings – updated as material changes occur) and for there to be a daily demand outlook data for the next 7 days.

There is **no** value in including data that is not correct or providing a reasonable expectation of the future. In other words, data must be as valid, accurate and as robust as is possible and there should be constraint on permitting changes and variations which have no underlying legitimacy; this requirement is essential, in order to minimise the potential for gaming.

In particular, there are certain changes which must be incorporated, especially those impacting on capacity, maintenance, planned outages and resumptions.

In the interest of transparency, historical data (aggregated only to the extent needed to preserve commercially sensitive data about consumers) relating to demand, production and pipeline delivery quantities, should be published on a daily basis.

In addition, data should be published on historical production and supply for the previous gas day by facility or common injection point and for aggregated data to the point of delivery or ‘supply hub’. Historical data must be retained and readily accessible for future use by any party.

4. Publication of Data

The MEU agrees with publishing the following data by individual pipeline and by aggregate hub/jurisdiction

- Forecast summer and winter peak days (with and without gas fired generation
 - provided annually via jurisdictions
- Aggregate delivery nominations for next gas day should be published
 - for each production facility
 - for each pipeline
 - in aggregate for Hubs and/or Jurisdictions

- Aggregate forward (daily delivery) nominations; e.g. up to 7 days – as per contract/market obligations be published
 - for each production facility
 - for each pipeline
 - in aggregate for hubs and/ or jurisdictions

We noted that views were specifically sought on desirability/potential value of publishing:

- aggregate delivery nominations for next day **by individual pipeline**
- actual daily pipeline deliveries for previous gas day – as aggregate hub/jurisdiction, **by individual pipeline, and by production facility.**

We are aware that there are parties who prefer that the provision of data to be minimised, even to the extent where data from competing production facilities and pipelines might be aggregated. There will be disaggregated information that will be made available to the BB operator and the MEU cannot see that such aggregation will provide a benefit to NGERAC or to consumers.

Equally, the MEU can see that such aggregation will reduce transparency in the market, and may permit a monopoly or near monopoly entity to have an advantage over consumers in any discussion on gas price or availability. As noted above, any reduction in transparency (an inevitable outcome of aggregating data) should be opposed, as it provides a commercial advantage for one party over another, and therefore is not in the long term interests of consumers.

It is noted that the data providing an indication of the security of the gas system is planned to be published in the form of “traffic lights”. This approach has some merit in that it provides a simplistic and visual indication of the status of the production facilities and the pipelines. What this avoids though, is an ability for NGERAC, market traders and consumers to identify if there is adequate capacity in the pipelines to “ride through” a potential or incipient emergency.

For example, the limited information acquired by consumers in relation the recent NSW constraint off supply would seem to indicate that the Moomba to Sydney pipeline (MSP) was, in the period before the constraints, operating at relatively low line pack, requiring Moomba to “top up” the linepack each weekend. This approach led to the potential of insufficient supply should there be even a minor problem. As MEU understands, the weekend before the

constraint, Moomba was unable to fully replenish the line pack creating the potential for loss of supply. If line pack had been kept at a higher level, then perhaps the constraint might not have occurred.

There is doubt that MSP would have indicated there was a potential problem in supply by it operating at low line pack levels at a time when demand might significantly rise. Thus the “traffic light” system might not have indicated the potentiality of the problem that ultimately did occur. Therefore, MEU is of the view that in addition to the “traffic light” approach, **each pipeline should be required to provide the quantity of gas stored in line pack on a daily basis.** This will allow consumers (and governments) to identify the amount of gas available in the system and the ability for the system to “ride through” an event which either significantly increases demand (such as extreme cold or hot conditions) or the loss or partial loss of a production facility.

The MEU also agrees with voluntary posting of Buy/Sell Offers for supply capacity at demand or supply hubs:

- capacity invitation to treat shippers, users or pipeliners
- supply invitation to treat from shippers, users or producers
- optional data includes applicable dates, quantity, price, description, Hub, open/closed status, contact details.

5. Updating Data

Data should be updated when changes that will have a material effect occur. Demand and supply data should be updated on a daily basis.

The proposal is that “static” data would be updated if there was a material change of 10% or 30 TJ/day, whichever was the greater. We are not convinced that 30 TJ/day or the 10% will properly represent a sound indication of the status of the market. In this regard we point out that a 10% variation in the output from Longford would cause massive constraints in the Victorian system if such a change occurred in late winter – even a loss of 30TJ/day at such a time would create hardship for consumers from both a supply and price viewpoint. Equally a reduction of 10% of Longford’s rated output in summer would not be a cause for concern.

We recommend that materiality needs to be driver of whether an adjustment in the static information should be posted rather than setting relatively arbitrary amounts.

6. Data Validation

The role of the BB operator in validating data is critical and advice to the market must be accurate and timely. Wide ranges in data are of limited value.

7. BB Use in Emergencies

During and after emergencies, the BB operator should post more frequently updated demand/supply capacity data.

Concern about unnecessary public and media confusion/panic are real, but this provides insufficient reason to restrict access to data to industry, jurisdictions and NGERAC.

Large consumers of gas are always constrained first in the event of an emergency. It is unreasonable for them to be both the parties directly impacted, and to be denied access to information that could enable risk management actions. To deny access to information is to remove the "raison d'être" for the establishment for the BB.

8. Cost Matters

It is noted that the matter of 'who pays' for the Bulletin Board is raised as an issue. This matter is already addressed in that the MCE and others have determined that it will be paid for on a 'user pays' basis. This is no different from the approach for funding NEMMCo and VENC Corp. Such a cost recovery could be based on a levy, deferment for 3-4 years ahead, or even applied on a user pays basis for each access.

Whilst small consumers tend not to see the costs for providing a market operator (and associated elements of operator activities such as the Bulletin Board), large energy consumers do see the costs of operator activities, as they are clearly detailed in their monthly invoices from retailers, marked as NEMMCo costs, etc. Just as transport costs are regulated and 'passed through' to consumers the costs for operating the system will be effectively regulated/oversighted by others. Being regulated costs they have been and will continue to be 'passed through' and the MEU sees that the costs for operating a Bulletin Board will be an element of the operation of the market, and therefore will be 'passed through'.

To consider that retailers, shippers or even pipeliners will pay these costs is fundamentally incorrect - it is consumers that pay them, even if they are effectively passed through the cost structures of others. To contemplate that

the supply side entities will absorb these costs, does not recognise a fundamental of business that a regulated charge (ie the same to all providers) will be differentiated from those costs which show the competitive position of the business vis-a-vis its competitors.

As it is users that will ultimately pay for the Bulletin Board, to limit their access to the data is patently inappropriate. Thus the Bulletin Board information should be readily available to all consumers, and the information on the BB should not be limited to those registered as Participants of the gas market. Otherwise, the whole purpose of establishing the BB to allow users and other participants to risk manage their gas operations, is completely defeated.

The MEU also notes that the decision has been made to award a contract (funded by the Commonwealth) for VENCORP and GMC to develop the Bulletin Board. The MEU considers this decision is both sensible and pragmatic, and therefore fully supports this approach.