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Dear Sir/Madam

NATIONAL GAS EMERGENCY RESPONSE PROTOCOL ISSUES PAPER

Origin Energy (Origin) welcomes the opportunity to comment on the MCE's National Gas Emergency Response Protocol Issues Paper. As a significant retailer and supplier of natural gas in the national market, Origin has been involved in assisting to resolve gas emergencies and supports the MCE's objective of increasing the certainty and transparency of the management of major gas supply interruptions.

Whilst supporting the MCE's objectives, Origin is mindful of the fact that with particular regard to the recent Moomba supply interruption, the industry responded and effectively managed all available gas supplies. Although this activity was not fully transparent it was successful and reinforces the argument that a suitable balance of achieving a greater level of visibility against the cost to do so is required. Origin therefore believes that the MCE's objectives can be achieved by incremental change to existing market processes rather than the establishment of a new wholesale market.

The National Oil Supplies Emergency Committee (NOSEC) is a model that the gas industry could emulate providing a cooperative industry and government solution to the effective management of major gas supply interruptions. The gas industry has proven that it can provide industry driven solutions to complex market issues such as the establishment of the Gas Market Company and Retail Energy Market Company as market operators to facilitate full retail contestability in NSW and SA. Origin would support the extension of these models to collate and control industry data, establish response processes under various scenarios and institute communication protocols for government to access during major supply interruptions.

Specific Comments to Issues Raised in the Issues Paper:

<p><i>How effective are current market arrangements in meeting gas shortfalls? Are there barriers to market effectiveness? What efficient options are there for recovering additional costs?</i></p>
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It is incorrect to suggest that the gas market is illiquid as short term trades do occur and the market has solved most gas supply shortfalls. However the volume of trades is low and does not justify the establishment of a wholesale gas market that has limited participants and supply options.

While each jurisdictional government has specific powers to intervene in facilities that exist in their state, the effective management of emergencies across state borders will

be problematic. If an industry based emergency management framework is to be successful a review of the application of jurisdictional legislation or a code of operation will also be required to ensure a unified non parochial approach to cross border emergency management.

Invariably the government will make directions during major emergencies which will have significant supply cost implications on retailers. Retailers have the ability to manage this cost risk with large customers via bilateral contracts, conversely the risk associated with mass market customers lays solely with the retailer. Under jurisdictional based price regulated regimes a retail tariff review may provide an opportunity for recovery of mass market emergency supply costs but this will inevitably involve a considerable time lag. Therefore regulated retail tariffs should include an in advance risk premium for the purchase and delivery of gas during emergency supply interruptions.

What option would provide the most effective exchange of information in an emergency?

A central industry owned and controlled entity would be the most appropriate information exchange repository. The industry body would ensure that information was kept up to date and in an appropriate format such that it could be provided to government on short notice. The information provided to this entity should be held on a confidential basis and only released in an aggregated form to industry participants and government during major gas emergencies.

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

Together with the industry based central information entity model, Origin believes that there would be a combined government and industry committee (similar to NOSEC) working above this entity. It would be this committee's task to establish a set of principles for the timing of government involvement under various scenarios. Government involvement could be quite early in the process but only in an information gathering role as industry believes that government should only intervene when there has been a market failure or when there has been significant property damage or threat to personal safety. The guidelines for VENCORP¹ determining the declaration of a level 5 emergency are a reasonable starting point for when government intervention should occur.

What are appropriate principles for gas sharing between jurisdictions?

Jurisdictional and perhaps even regional differences will dictate the varying degree of importance that natural gas has in these communities and therefore establishing a single set of principles for gas sharing during supply interruptions will be a difficult task. It may be the case that different principles are established for a range of emergency scenarios.

The concept of a national curtailment table covering say fifty sites sounds achievable, although debate over which particular sites would be extensive. However, due to jurisdictional differences a national curtailment table may not be ideal as it will probably not result in equal pain sharing across states and may not deliver the required load shedding in the appropriate location. Therefore greater emphasis should be placed on developing the right curtailment principles for various scenarios.

Even though the degree of difficulty to determine these principles will be comprehensive once completed they will provide the level of transparency, required by government and allow market participants to mitigate risk more successfully.

¹ VENCORP Emergency Procedures issue 4 item 6.2. Guidelines for determining the declaration.

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

The national electricity market (NEM) conveys accurate price signals to generators during normal operation and during periods of gas constraint. It is imperative that this market be allowed to continue during gas supply constraints to ensure all alternative generating technologies are fully utilised. Inappropriate market intervention will exasperate this market's ability to deliver the electricity needs of the NEM states. Government intervention should only occur when it has been determined that the delivery of essential electricity cannot be provided to the market due to a market failure condition.

Are current jurisdictional emergency powers effective?

A degree of compatibility of jurisdictional powers would be advantageous while managing cross border gas emergencies as this issue has caused confusion during recent gas emergency exercises conducted in Victoria. A review of these powers is required to determine the specific differences to ensure they are adequately addressed in the content of any MOU/protocol being agreed to by the jurisdictions. The availability of more information in a timely manner will support the effective management of emergencies by each jurisdiction.

What is the most appropriate/effective emergency communications protocol?

There appears no reason not to continue using existing communications arrangements currently used by jurisdictions. It is important to utilise existing arrangements where possible for cross border emergencies as they will be more familiar to most users and more readily used during a low occurrence event such as a major gas emergency.

Origin acknowledges that a more comprehensive proposal of the industry governed model is required to fully assess its potential to deliver more transparent and consistent emergency management. It is expected that the gas industry as a whole will provide this soon and Origin urges the MCE to give it due consideration.

Yours sincerely

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