



18 March 2005

Manager – Energy Market Reform Team
National Energy Market Branch
Department of Industry, Tourism and Resources
GPO Box 9839
CANBERRA ACT 2601

Dear Sir,

Re: National Gas Emergency Response Protocol Options Paper

Thank you for the opportunity to comment on the National Gas Emergency Response Protocol Options Paper issued by the Ministerial Council on Energy Gas Emergency Protocol Working Group.

Gas Market Company Limited and Retail Energy Market Company Limited, the market operators in NSW and the ACT, and SA and WA respectively, have prepared a joint submission on the Options Paper which is attached for consideration.

Should you require any further information or clarification of any of the issues raised, please contact Patricia McKenzie on (02) 9418 2660 or Steve Thomson on (03) 9607 8351.

Yours sincerely,

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Submission on the National Gas Emergency Response Protocol Options Paper by the Ministerial Council on Energy Gas Emergency Protocol Working Group

1. Introduction

The Gas Emergency Protocol Working Group (GEPWG) in identifying the Lead Agency Option, the Permanent Committee Option and the Central Agency Option set out in the National Gas Response Protocol Options Paper (the Options Paper) has also recognised that other combinations of features are possible and has requested feedback in this regard.

As the Gas Market Operators of the NSW/ACT and SA/WA retail gas markets respectively, the Gas Market Company Limited (GMC) and Retail Energy Market Company Limited (REMCo) have considered the options and the issues raised in respect of each of them, and wish to make a joint submission. This submission proposes a combination of the Permanent Committee Option and the Central Agency Options which

- provides an efficient, cost effective solution;
- allocates appropriate roles to Government and industry; and
- leverages existing industry organisations to support and implement the decision making process.

The proposed option establishes a Permanent Committee of Government and industry representatives as the decision making entity, and appoints a Co-ordinator to provide information gathering, information analysis, secretariat services and decision execution utilising the existing industry agencies of GMC and REMCo, which would jointly provide the services.

We have proposed this model, based on the preference for a joint government and industry committee to deal with emergency protocols expressed on behalf of the gas industry by the peak bodies Energy Supply Association of Australia, Energy Networks Association, Australian Pipeline Industry Association, Australian Petroleum Production and Exploration Association and Energy Retailers Association in their letter to the Standing Committee of Officials dated 19 November 2004.

This proposal relates to the organisational structures of the option. Issues relating to the changes necessary to the emergency powers, level of information necessary, representation on the Committee and other matters going to the interaction of Government and industry will be determined through this consultation process, and will be the subject of submissions by industry participants rather than the market

operators. This proposal has been designed to be sufficiently flexible to adopt the outcomes of the consultation.

2. Overview of the Proposal

This proposal promotes an appropriate allocation of the roles of policy and decision making, and administration and operation in the event of emergency, between Government and industry:

- The establishment of a Permanent Committee of Government and industry representatives as the decision making entity. This allocates the role of decision making on the exercise of emergency powers primarily to Government in consultation with industry, and provides a decision making body which can implement the MOU.
- The establishment of the role of Co-ordinator, to provide information gathering, information analysis, secretariat services and decision execution by an industry established entity. This recognises that while the determination of policy and decisions on the extent and nature of intervention are properly carried on at the Committee level, the operational aspects of emergency management are best and most efficiently carried out by industry, where such operational issues are core business.
- The appointment of GMC and REMCo to the role of Co-ordinator. This would leverage existing industry established agencies with management, communication and analytical capabilities to provide emergency management, reducing the costs of supporting the Committee and administering the industry in times of emergency. GMC and REMCo have, in implementing and managing full retail contestability in the gas markets in NSW, the ACT, SA and WA, demonstrated the ability to give effect to Government policy with Government and Regulator participation, while remaining accountable to industry. Consultation with the members of GMC and REMCo has established that retail and network operator market participants consider the co-regulatory model, which has been the subject of a previous submission to the MCE, is the preferred model for management of competitive aspects of the gas market, and this model is equally suitable for the management of emergency procedures. Between the personnel of GMC and REMCo and the staff of its common service providers, there is a wide breadth of industry knowledge which can provide informed advice to the Committee and cost effectively implement decisions of the Committee. GMC and REMCo, through its shared services and a single contact point, would jointly provide the proposed services as Co-ordinator, utilising existing communications systems, websites and administrative processes where possible and establishing any additional functionality required. GMC and REMCo also already have in place arrangements to protect the confidentiality of commercially sensitive information provided by participants. These arrangements would provide adequate protection for the new information that would be gathered as part of the responsibilities as joint Co-ordinator of gas incidents and emergencies.

3. Permanent Committee supported by GMC and REMCo as Co-ordinator

3.1 EMERGENCY RESPONSE COORDINATION (WITHIN AND EXTERNAL TO THE ENERGY SECTOR).

Principle

A permanent Natural Gas Emergency Committee (the Committee) comprised of jurisdictional officials designated under the MOU, gas industry representatives and gas end user representatives would be established to meet as required to manage gas emergencies which have inter-jurisdictional impact.

The Committee would be convened by and operate under a Terms of Reference provided by the MCE in consultation with industry, and industry participation would be mandated.

The Committee would be supported by GMC and REMCo acting jointly as Co-ordinator, to provide information gathering facilities, secretarial support, operational support and implementation of decisions.

Interpretation

The Committee provides a structure for the implementation of the MOU between jurisdictions as and when required, and the role of the Committee includes advice and decision making under the MOU.

The proposed model allocates the decision making role to the Committee, but could work equally if the Committee's role was limited to making a recommendation to the jurisdictions for decision, and then implementing that jurisdictional decision.

The Co-ordinator's role would cover information gathering, information analysis, secretariat services and decision execution utilising the existing industry agencies of GMC and REMCo to resource the Committee and implement the decisions of the Committee.

3.2 THE EXTENT TO WHICH MARKET BASED MECHANISMS SHOULD CONTINUE BEFORE INTERVENTION IS REQUIRED

Principle

Section 1.3 of the Options Paper establishes the principle of government intervention in the event of an emergency.

Interpretation

The Committee would advise jurisdictions on the point at which the market is assessed to have failed. The Committee would take responsibility for co-ordinating emergency responses consistent with the MOU. The Committee's assessment would be based on information provided by GMC/REMCo as the Co-ordinator, which would collate the information provided to it by industry.

3.3 INFORMATION PROVISION REQUIREMENTS

Principles

Industry would provide information on gas supply/demand to the Co-ordinator for collation and advice to the Committee. The Committee would inform industry through the Co-ordinator (GMC/REMCo) of its decisions regarding allowing the market to handle the incident or the use of emergency powers and directions on gas supply/demand allocation.

Non-interconnected jurisdictions could also utilise the services of the Co-ordinator (GMC/REMCo) at their discretion.

Interpretation

The level of information required by the Committee will be determined through this or future consultation processes. Once the level of information required is determined, the Co-ordinator will establish the process for submissions and analysis of the information.

The Co-ordinator (GMC/REMCo) in collating and analysing information can maintain the maximum degree of confidentiality available to participants in this process.

3.4 ROLES AND RESPONSIBILITIES OF GOVERNMENTS

Principles

Each jurisdiction's role would be to monitor the progress of any gas incident drawn to its attention through jurisdictional channels, to determine the extent and probable effects the incident may have on the jurisdiction, and to instruct the Co-ordinator (GMC/REMCo) to inform other jurisdictions and to convene the Committee.

Once the Committee has been convened it would assume responsibility for co-ordinating the emergency response and all jurisdictions would take on responsibilities as members of the Committee.

Jurisdictions that are not impacted by the incident would not need to be involved in the Committee.

Interpretation

The Committee would, through the Co-ordinator (GMC/REMCo), manage the exercise of the emergency powers, including:

- Advising Ministers, the Governor, the Premier/Chief Minister, and the Parliament on the extent and probable effect of any natural gas supply disruption
- Assisting jurisdictions in the preparation of proclamations for submission to the Governor and drafting regulations to control gas supply and demand
- Ensuring processes and plans are in place to manage the exercise of emergency powers in an efficient manner.

3.5 ROLES AND RESPONSIBILITIES OF MARKET PARTICIPANTS AND END-USERS

Principle

Gas system operators' emergency management plans would be updated to include the role of the Committee and the Co-ordinator (GMC/REMCo). In the event of a gas incident with the potential to threaten system security, the gas system operator where the incident occurs would notify the Co-ordinator (GMC/REMCo), which would notify the Committee, Government and all affected upstream and downstream production, storage, transmission, distribution and retail gas system operators of the incident.

If emergency powers are invoked, gas system operators would take directions from the Committee through the Co-ordinator.

If the MOU is invoked, gas industry representatives and end users may take on responsibilities as members of the Committee.

Interpretation

Each Natural Gas System Operator is responsible for the management of gas supply disruptions and the consequent effects within their section of the natural gas system. This management would be in accordance with its own response plan, the protocols of jurisdictional emergency plans and directions from the Committee through the Co-ordinator (GMC/REMCo).

Transmission, distribution and/or retail system operators, as appropriate, would notify customers of involuntary curtailment requirements under existing communication arrangements.

3.6 GAS SHARING ARRANGEMENTS

Principle

If gas curtailment is to take place under a National Curtailment Table, the Committee would take the lead role in developing a national curtailment table, supported by the Co-ordinator (GMC/REMCo).

In an emergency, the Committee would determine, according to the National Curtailment Table and allowing for transmission capacity constraints between regions, how much curtailment is required in each jurisdiction. It may also advise jurisdictions how curtailment would be allocated to each gas network and which end users should be curtailed, or these decisions could be made by the jurisdictions. Jurisdictional officials would work with the Committee and network operators to ration gas to small users.

Interpretation

The decision of the Committee would be implemented by the Co-ordinator (GMC/REMCo) acting together with the jurisdictions and industry participants.

3.7 COMMUNICATION PROTOCOLS

Principle

Communications protocols would be based on a combination of existing frameworks and new protocols based around the Committee.

Interpretation

The communication chain would have a structure such as:

1. Under jurisdictional emergency management plans, gas system operators would report a gas incident with the potential to threaten system security to the Co-ordinator (GMC/REMCo).
2. The Co-ordinator would notify the Committee, Government and all affected upstream and downstream production, storage, transmission, distribution and retail gas system operators of the incident.
3. The affected jurisdiction would instruct the Co-ordinator (GMC/REMCo) to convene the Committee.
4. The Committee would review supply/demand information provided by the Co-ordinator (GMC/REMCo) and review system capability based on analysis provided by the Co-ordinator.
5. The Committee would consider whether the market can continue to manage the incident and the need to invoke emergency powers.
6. If required an emergency would be declared and the Committee would determine control actions, and communicate these to market participants through the Co-ordinator (GMC/REMCo).
7. The GSOs would implement the control actions.

8. The cycle from 3 to 6 would be repeated.

The communications mechanism would be through a secure process operated by the Co-ordinator. A consistent structure for communicating the required information would be established and maintained by the Co-ordinator. If necessary, secure communication could be offered through the existing Virtual Private Network operated by GMC.

3.8 ISSUES TO BE CONSIDERED IN RELATION TO THIS OPTION

- Committee Chairmanship and decision making.

The issues raised in the Options Paper in relation to the Standing Committee would need to be considered for this proposal.

- Co-ordinator

GMC and REMCo as the market administrators for NSW, the ACT, WA and SA, are well placed to provide the role of Co-ordinator for the Committee. GMC and REMCo would jointly provide the services of the Co-ordinator to the Committee, and their joint membership covers much of the national market. GMC and REMCo already have in place a Deed of Co-operation, and share common service providers including for administrative purposes, the operations management team. As such, they would be able to offer a single point of contact in all circumstances, or jurisdiction specific services if they are requested. As industry owned associations, they have access through working groups to a wide breadth and depth of industry knowledge to support emergency protocol development and implementation. As continuing organisations, they would not require set up time, expensive and unnecessary ongoing organisations dedicated to emergency management, or new communications protocols.

Through GMC and REMCo staff and the staff of their service provider, there are many years of experience in the gas sector and working with Governments and Regulators.

GMC and REMCo have successfully given effect to Government policy with Government participation while being accountable to industry.

- Responsibility for process development and review

The Committee would lead process development and review, supported by the Co-ordinator (GMC/REMCo).

- Emergency planning and Protocol Testing

Emergency planning and testing would be approved by the Committee, and carried out by the Co-ordinator (GMC/REMCo). Planning would involve

selection of a range of possible gas supply incidents and desk-top determination of the optimum responses to each incident under the gas sharing arrangements, while testing would simulate the responses to one such incident.

- Emergency management procedures within jurisdictions

Where emergency management is limited to a single jurisdiction, the services of the Co-ordinator (GMC/REMCo) could be available to assist that jurisdiction at its option.

- How does industry commit to the Protocol?

Industry representatives would take part in the Committee, and requirements for industry participants to provide information and respond to Committee directives through the Co-ordinator (GMC/REMCo) could be included in the Protocol.

- Management of emergencies in jurisdictions whose gas network(s) are isolated from those in other jurisdictions.

Emergencies in these jurisdictions do not trigger the MOU and would be managed entirely within the jurisdiction under existing procedures. At the option of the particular jurisdiction, the Committee could be convened to provide advice, and/or the services of the Co-ordinator (GMC/REMCo) could be available to assist that jurisdiction.

- Funding of the Co-ordinator

The additional costs of GMC/REMCo in providing the services of the Co-ordinator where they related to jurisdictions other than NSW, ACT, WA and SA would need to be allocated to those jurisdictions. An equitable cost recovery mechanism would need to be agreed between market participants and jurisdictions. REMCo already has relevant experience in cost allocation across jurisdictions which provides a sound basis for this.

- Cost, benefit, risks.

This option would provide a permanent organisational structure to manage significant gas incidents, with the decision making process shared between Governments and the gas industry through the Committee, and the information gathering and analysis, operational issues and decision implementation carried out through industry owned entities.

The use of existing industry structures in GMC and REMCo minimises the set up and ongoing costs of the Co-ordinator. The combination of the Committee and the Co-ordinator (REMCo/GMC) would provide a highly informed decision making option, based on the expertise of industry through the Co-ordinator in providing support and advice to the Committee, and the combined expertise in the Committee.

The timeframe for establishment of the Committee is relatively short, and there is no lead time for establishment of the Co-ordinator (GMC/REMCo).

3.9 GENERAL ISSUES

- Communications between the Co-ordinator (GMC/REMCo) and the electricity market

The Co-ordinator (GMC/REMCo) can establish any necessary communications with the electricity market, depending upon the outcomes of further consultation.