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**TXU Comments on MCE GEPWG Consultation:
National Gas Emergency Response Protocol – Options Paper**

Thank you for providing us with the opportunity to comment on the Options Paper. We trust that our response will assist the working group in formulating its national gas emergency protocol.

TXU endorses the submission from industry associations ERAA and esaa. TXU has been highly active in the debate that identified the need for more robust gas emergency management protocols and gas market arrangements across the inter-connected south-east Australian gas system. As such, TXU is making this submission in addition to the industry organisations to maintain continuity and because this is such a pivotal issue for TXU, for our customers as well as for the wider community.

TXU has consistently identified 3 key issues in the management of supply disruptions that must be addressed for the emergency protocol to be effective:

- Current emergency allocation procedures are complex, lack transparency and are not able to be predicted
- There are no commercial incentives to voluntarily ration gas
- Governments provide limited recognition of commercial arrangements at times of system constraint and intervention.

Our response to the Options Paper is assessed against these issues, as follows:

1. Current emergency allocation procedures are complex, lack transparency and are not able to be predicted

TXU supports Option 2 from the Options Paper, although refinements are likely to be necessary. We believe this option provides the best basis to define an emergency protocol that addresses the issues of complexity, transparency and predictability. The Permanent Committee provides the following substantive advantages:

- *Improved consistency and predictability.* The Permanent Committee will act in a consistent manner for each incident that arises, regardless of the jurisdiction in which the incident arises. Clearly the actions taken by the Committee will depend upon the precise circumstances of the incident, but the principles can be consistently applied to the circumstances, which will lead to more predictable outcomes. This will be quite difficult to achieve under the Lead Agency model, as it is quite likely that each incident will have a different set of personnel involved in applying the agreed principles to the situation.
- *Less complexity and improved transparency.* The Permanent Committee option will involve participants more directly in the process. This will lead to more practical processes, with a greater understanding of these processes by gas market participants. This will clearly result in improved transparency, and should result in processes with the minimum complexity required for emergency management.
- *Shared accountability.* The Permanent Committee option will share the accountability between jurisdictions and participants. Each of these parties will need to be involved in successfully resolving incidents if and when they do arise. We believe the shared accountability will improve the buy-in of the wider group of gas market participants to the details and implementation of the protocol.

The Permanent Committee approach does have a potentially significant weakness, in that the Committee is not empowered to take decisions. This could mean that a jurisdiction chooses to exercise its powers in a way not recommended by the Committee. If this were to occur, the benefits of predictability, consistency and transparency are diminished substantially. The Central Agency approach proposed deals better with this issue as the Agency manages the exercise of the jurisdiction powers. However, the Central Agency approach has a number of disadvantages as identified by the options paper that mean it is not TXU's preferred option. We urge the working group to consider ways of mitigating issues relating to the lack of empowerment of the Permanent Committee.

2. There are no commercial incentives to voluntarily ration gas

We note the GEPWG's view that mechanisms to improve the voluntary management of incidents by participants is outside the scope of the emergency protocols paper. The GEPWG suggests this should be dealt with by the Gas Market Development Initiative. TXU's strong preference is that the emergency protocol does address this question of incentives, as we believe it is pivotal to the successful management of emergency situations.

However, if the GEPWG does choose to exclude this issue from the development of the emergency protocols, then it is vital that it is adequately addressed in the Gas Market Development process. The draft report prepared by Allen Consulting on "Options for the development of the Australian wholesale gas market" has recently been released. Having scanned the draft report briefly, it appears the issue of emergency management is not canvassed. If this is the case, then TXU is concerned that the issue of commercial incentives for the voluntary rationing of gas has been overlooked.

3. Governments provide limited recognition of commercial arrangements at times of system constraint and intervention

The Issues Paper canvassed the issue of "better recognition of participant's commercial rights" (item 3.6). We note however that this issue has not been addressed by the Options Paper. In our view, this is a very significant oversight.

One possible explanation for this oversight is that the GEPWG believes the issue falls within the scope of the Gas Market Development process. While it is true that if more robust gas market arrangements were in place this issue would be managed (which is the case under the Victorian gas market arrangements), this does not mean the issue can be deferred to be dealt with under the Gas Market Development process. The emergency management protocol must stand-alone and must work effectively under the current market arrangements.

The current arrangements for acknowledging participants' commercial rights is entirely unsatisfactory. At present in the event of intervention, Governments can and do re-allocate gas from a participant who has a clear contractual right to that gas to another participant who has no commercial rights to that gas. This re-allocation can cause significant costs for those participants whose gas is assisting to resolve the incident, without recompense.

We recognise that this issue does not have a straightforward solution in the absence of more robust market arrangements. However, this is no reason to overlook the issue. It is vital the emergency protocol established considers emergency management from end-to-end.

We strongly urge the GEPWG to reinstate the issue of participants' commercial rights in the event of Government intervention back on to the agenda for the emergency protocol. We recommend the GEPWG adopt a principle that gas market participants should remain whole in the event of intervention, and seek to establish processes through the Permanent Committee that support this principle.

TXU is simply advocating that the commercial costs caused by intervention under and emergency situation are more fairly allocated, and that it is reasonable to expect this is within the scope of the emergency protocol.

For further discussion on these matters, please contact me on (03) 8628 1244.

Yours Sincerely

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