12 August 2022

Submission: AEMO's Gas Transparency Measures Draft Impact & Implementation Report consultation

The Australian Pipelines and Gas Association (APGA) represents the owners, operators, designers, constructors, and service providers of Australia's pipeline infrastructure, connecting natural and renewable gas production to demand centres in cities and other locations across Australia. Offering a wide range of services to gas users, retailers and producers, APGA members ensure the safe and reliable delivery of 28 per cent of the end-use energy consumed in Australia and are at the forefront of Australia's renewable gas industry, helping achieve net-zero as quickly and affordably as possible.

APGA welcomes the opportunity to contribute to the Australian Energy Market Operator (**AEMO**) consultation on Gas Transparency Measures Draft Impact & Implementation Report (the **Consultation**). The purpose of the Gas Bulletin Board (GBB) as stated under Section 145 of the National Gas Rules (NGR) is to allow GBB users to facilitate "informed and efficient decisions in relation to the provision and use of natural gas and natural gas services". APGA is concerned that the proposed BB Procedures include measures which risk mislead market participants, acting in opposition to this purpose.

With the exception of the VTS which is operated by AEMO, gas transmission pipeline infrastructure does not operate under the Market Carriage form of market structure. Rather, gas transmission pipeline infrastructure operates under the Contract Carriage form of market structure. This leads to three overarching features which are different to how the AEMO operated VTS functions:

- Operators of contract carriage infrastructure simply do what their customers want when they want it. This makes commercial operation simple while making it impossible to accurately forecast future demand beyond customer nominations.
- In response to the diverse needs of contract carriage infrastructure customers, a highly diverse range of commercial gas contracts govern access to and utilisation of capacity and linepack. All but the simplest definitions of linepack and capacity risk confusing and misleading market participants.
- New investments occur on commercial grounds hence new investment certainty is only achieved once Final Investment Decision (FID) has been confirmed by investors.

Based on these differences, APGA is concerned with three proposed changes to the Bulletin Board Procedures within the Consultation which are inconsistent with gas infrastructure operating under the Contract Carriage form of market structure:

- Forecasting requirements under procedures to implement Rule 183 (BB Procedures 6.4.2)
- Changes to Linepack / Capacity Adequacy (LCA) Flags (BB Procedures 6.3.2)
- Changes to criteria for Classification (BB Procedures 3.7.1)

APGA recommends that AEMO avoids the risk of misleading market participants by implementing the alternatives proposed in this submission.

Forecasting requirements under procedures to implement Rule 183

(BB Procedures 6.4.2)

It is inconsistent with the commercial operation of contract carriage gas pipeline infrastructure to forecast firm or non-firm capacity beyond the provision of advance nominations by customers.

APGA recommends that proposed BB Procedures Clause 6.4.2 (d) be abandoned prior to implementation of the draft procedures.

Firm Haulage Forecasting

Operators of contract carriage infrastructure simply do what their customers want when they want it. The commercial gas contracts which provide customers access to capacity on this infrastructure provide customers the right to change their nominations within days (in some cases, within hours) of the gas day in question. This is different from how market carriage infrastructure operates.

This approach implemented by contract carriage infrastructure is coupled with contractually secured Firm Haulage rights which guarantee access to a certain level of capacity. This combination delivers an extremely simple yet effective method for ensuring customers have the capacity they need when they need it. Rather than implementing complicated and costly forecasting on behalf of customers, contract carriage infrastructure leaves forecasting to their customers and instead ensures that capacity is available when their customers need it.

As a result of this approach to ensuring customer access to capacity, it is impossible to accurately forecast capacity even for firm haulage on contract carriage gas pipelines. Each customer undertakes their own internal forecasting which they are under no obligation to provide to service providers. Further, service providers do not have access to the necessary customer information upon which they would forecast, meaning that they could not accurately forecast even if they were to spend the time, money and effort to undertake this ultimately unnecessary task.

Rather than implement intrusive information disclosure requirements and costly in-house modelling, contract carriage gas pipeline service providers instead implement a simple yet effective approach to understanding the forward capacity expectations of their customers – they ask them. Alongside rights and assurances detailed above, customers have an obligation to provide advance notice of future nominations. Due to the diverse range of commercial arrangements between service providers and customers, there is no one set of rules for this process, however most contracts include obligations to provide advance nominations on a year, month or week ahead basis.

To require contract carriage gas pipeline service providers to provide forecasts of capacity beyond the advance nominations of their customers is to simply ask service providers to guess. This does not align with the obligations of the Gas Bulletin Board information standard as per clause 145 of the Rules to facilitate “informed and efficient decisions in relation to the provision and use of natural gas and natural gas services”. This obligation forms an important role of ensuring that market participants are not mislead by inaccurate information provided by other market participants. Service providers would not be able to simultaneously comply with requirements to forecast beyond the advance nominations of their customers and the requirement to provide accurate information to the Gas Bulletin Board.

Furthermore, beyond standard operating conditions, availability of firm haulage capacity is being made even more uncertain through increasingly frequent market interventions. AEMO interventions requiring GPG dispatch in the South Australian NEM in particular have increased considerably since 2016. This adds another layer of uncertainty to the already highly uncertain proposition of firm capacity forecasting for which pipeline service providers have no ability to provide best estimates for.

Beyond Firm Haulage Forecasting

Beyond the scheduling of firm haulage nominations, pipeline service providers are subject to the Day Ahead Auction (DAA) for contracted but unnominated capacity, as well as nominations for non-firm service including As Available services and Interruptible services. Forecasting of capacity utilisation on a pipeline would require forecasting of these non-firm services as well.

DAA capacity is only decided one day ahead of the gas day in question. Further, it is based upon the nomination of firm capacity which can occur in proximity of the gas day. This creates two points of uncertainty which makes it impossible to forecast DAA capacity – both the inability to forecast firm haulage capacity, and the inability to forecast DAA market behaviour which is dependent on the myriad of market factors which influence the DAA market. These two factors combine to make it impractical to expect service providers to forecast capacity at the level of fidelity required under Gas BB accuracy requirements.

If any entity were to be able to forecast the DAA market, it would be the entity that administers it, namely AEMO, however even AEMO would struggle due to the same lack of ability to forecast firm haulage facing service providers of contract carriage infrastructure.

Further, as available and interruptible services are only able to be scheduled once DAA volumes are scheduled. The ability to forecast these services is then dependant on both the ability to forecast firm haulage capacity and DAA capacity, then forecast shipper nominations of these services. Even less accuracy could be expected from forecasting of as available and interruptible services.

This all said, forecasting of these services, even if practical, would not serve a purpose in the context of contract carriage gas pipeline infrastructure. The DAA market has been designed as a market to operate once firm haulage has been scheduled so that the function of the market accounts for any need to forecast. Further, as available and interruptible services are inherently non-firm, with no guarantee of service and only being able to be scheduled once firm and DAA capacity has been scheduled. Forecasting serves no genuine purpose of value in these circumstances as a customer's ability to change its nominations up until the nomination cut off point render any forecast invalid.

Recommendations

Forecasting beyond the provision of advance nominations from firm haulage customers can only serve to mislead the market, falling short of the Gas Bulletin Board's requirement for the provision of accurate information. However, APGA is conscious that AEMO must enact provisions set under the rules and consider the intent communicated through consultation.

APGA recommends that proposed BB Procedures Clause 6.4.2 (d) be modified prior to implementation of the draft procedures to ensure alignment with the rules while avoiding the distribution of misleading information via the Gas Bulletin Board by taking the following steps:

- Replacement of "BB reporting entity's best estimate of expected flows" with "BB reporting entity's reasonable estimate of expected flows"; and
- Removal of Clause 6.4.2(d)(i) through 6.4.2(d)(v)

APGA encourages AEMO to engage with pipeline service providers on the implementation of this recommendation.

Changes to Linepack / Capacity Adequacy (LCA) Flags

(BB Procedures 6.3.2)

The diverse range of customer needs supported by services providers of contract carriage gas infrastructure, and the diverse range of technical parameters of said infrastructure, results in an even more diverse range of ways to describe linepack or capacity adequacy. To avoid misleading market participants, the Gas Bulletin Board needs to either maintain a simple, high-level approach to LCA Flags or include every single permutation and combination of how linepack and capacity is considered across all gas infrastructure.

To reach a middle ground between these two points would be to risk conflating the specifics of individual pipelines while giving the impression to market participants that the information they are receiving is more accurate than it actually is. This in turn risks misapprehension of market conditions and poorer outcomes for energy customers.

APGA recommends that the current approach to LCA Flags most appropriately achieves the high-level approach and should not be changed. APGA flags concerns that the approach proposed within the Consultation risks providing information unrepresentative of actual pipeline conditions with an impression of greater accuracy due to more flag optionality, which would not be in the best interests of customers.

Changes to criteria for Classification

(BB Procedures 3.7.1)

New investment in contract carriage infrastructure occurs on commercial grounds. This is different from the case within Market Carriage gas infrastructure which can only make investments in line with the National Gas Objective. These investments are made through commercial negotiations which are necessarily confidential in nature. A requirement to disclose projects which are currently under 3.7.1 (a) of the Draft BB Procedures risks compromising market function as any such proposed projects would be subject to confidential commercial negotiations.

Further, by disclosure of proposed projects risks governments and market participants expecting proposed projects will be built, introducing the risk that decisions are made on the basis of capacity which is never developed. New investment certainty is only achieved once Final Investment Decision (FID) has been confirmed by investors, hence the information disclosures proposed under 3.7.1 (a) risk decision making on the basis of capacity which is speculative at best. Further, where one or more participant in commercial negotiations for contract carriage infrastructure are ASX participants, the requirements under 3.7.1(a) risk breaching ASX information disclosure requirements for publicly listed companies.

While information like that proposed under 3.7.1(a) is required under the GSOO procedures, the GSOO procedures also ensure the confidentiality of this information. As the intent of the BB Procedures is for public display of information, it is not reasonable to anticipate that the provision of information under 3.7.1(a) is intended to be kept confidential.

Requiring confidential commercial negotiations for contract carriage infrastructure investments be disclosed undermines the gas infrastructure investment market, and decisions made on possible capacity which is speculative at best risks poor customer outcomes.

APGA requests that further engagement with AEMO over the Impact and Implementation Response (IIR) consultation period to agree drafting that is objective, can be practically adhered to by industry, and that meets the Gas Bulletin Board objectives of informed and efficient decisions.

To discuss any of the above feedback further, please contact me on +61 422 057 856 or jmccollum@apga.org.au.

Yours Sincerely,

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