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Gas Market Reform Group
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26 April 2018

By Email: enquiries@gmrg.coagenergycouncil.gov.au

Submission on GMRG Consultation Paper - Capacity Trading Reform Package

Thank you for the opportunity to make a submission on the GMRG's Consultation Paper *Capacity Trading Reform Package: Draft legal and regulatory framework* dated 19 March 2018.

Gas Pipelines Victoria Pty Ltd (GPV) owns and operates the Carisbrook to Horsham gas transmission pipeline in Western Victoria (GPV Pipeline).

As set out in our letter to the GMRG dated 22 February 2018 (attached as Appendix 2 to this submission), GPV had concerns that the proposed new provisions relating to day-ahead auctions and the publication of a standard form operational Gas Transportation Agreement would apply to the GPV Pipeline if single user pipelines were not exempt from the new provisions, in circumstances where subjecting it to the new provisions would be inconsistent with the National Gas Objective and the policy intent of the provisions.

GPV therefore supports GMRG's proposal to replace the proposed single end-user facility criterion for exemptions with a single shipper criterion for the reasons set out in the attached letter, and also supports GMRG's proposal to apply the same exemption criteria to the obligation to publish a standard operational agreement and the auction. However, GPV has concerns that the timeframes proposed in the GMRG's proposed framework will not provide sufficient time if an exemption is revoked to enable a single shipper pipeline operator such as GPV to prepare to give effect to operational transfers of transportation capacity and the capacity auction, given the metering and other infrastructure and systems that would need to be established.

GPV's response to the GMRG's questions relating to exemptions and timings if an exemption ceases to apply is set out in Appendix 1 to this letter, using the Stakeholder feedback template provided by the GMRG. GPV has not commented on other aspects of the proposed framework set out in GMRG's Consultation Paper in this submission, as GPV anticipates that it will qualify for an exemption under the proposed exemption criteria.

Please let me know if you have any questions regarding this submission.

Yours sincerely,



James Arthur
Director, Gas Pipelines Victoria Pty Ltd

Appendix 1 - Response to Consultation Paper questions relating to exemptions

1. Consultation Paper questions

Questions	Feedback
4.1.1 Exemptions	
<p>Having regard to the objectives of the capacity trading reforms and the Energy Council's approval of the GMRG's recommendation on coverage of the auction, do you agree with the proposal to:</p> <ul style="list-style-type: none"> • Apply the same exemption criteria to the obligation to publish a standard operational agreement and the auction? If not, why? • Replace the single end-user facility criterion, with a single shipper criterion? If not, why? 	<p>GPV agrees with the proposal to apply the same exemption criteria to the obligation to publish a standard operational agreement and the auction, and to replace the single end-user facility criterion for exemption with a single shipper criterion for the reasons set out in GPV's letter to GMRG dated 22 February 2018 (attached as Appendix 2 to this submission).</p> <p>As outlined in the attached letter, GPV is a single shipper pipeline with little prospect of further prospective users, and there is therefore little prospect of un-nominated capacity being resold to another shipper or of any secondary capacity trading. Further, the administrative and compliance costs of the GPV Pipeline being subject to the new regime would far outweigh any potential benefit.</p> <p>GPV also recommends that the National Gas Rules (NGR) provide for an exemption to be granted where such an exemption is consistent with the policy intent. In particular, GPV recommends that the AER be provided with some discretion to grant an exemption where the specific exemption criteria do not apply but an exemption is appropriate because the costs of being subject to the regime would outweigh the benefit. For example, as noted in the attached letter, the GPV Pipeline's nameplate capacity is only 0.24TJ over the proposed capacity threshold and the contracted MDQ is less than 10TJ/day, and the GMRG's rationale for exempting pipelines that have a nameplate capacity rating of less than 10TJ/day applies equally to the GPV Pipeline. GPV considers that the AER should have discretion to grant an exemption in such circumstances.</p>
7.	<p>No comment</p> <p>Do you think the following definition of 'Part 24 compression service facility' will achieve the objective of capturing stand-alone compressors, such as the Moomba, Ballera, Wallumbilla and Iona compression facilities, but excluding other compression facilities (e.g. compression facilities that form part of the pipeline that are used to</p>

	Questions	Feedback
	<p>provide an integrated service and upstream compression facilities? If not, please explain what amendments you think need to be made to this definition.</p> <p>Part 24 compression service facility means a compression service facility that is or may be used to transport natural gas between a transmission pipeline operating at lower pressure and a transmission pipeline operating at higher pressure in order to facilitate the flow of natural gas between two or more receipt or delivery points where the receipt or delivery points are located on different transmission pipelines</p>	
8.	<p>Do you agree with the proposal to allow facilities with a nameplate rating less than 10 TJ/day and single shipper facilities, up to 60 business days to develop and offer a standard operational agreement? If not, why?</p>	<p>As set out in the letter attached as Appendix 2 to this submission, GPV anticipates that it will be required to undertake a number of steps and expend a significant amount in order to be in a position to comply with the new provisions if it is not exempt or an exemption ceases to apply.</p> <p>Although GPV considers that 60 business days is likely to be sufficient to develop a standard operational agreement, GPV is concerned that the proposed framework will not provide sufficient time for GPV to undertake the work required to prepare to give effect to operational transfers of transportation capacity (which will commence upon entry into the standard operational agreement). As the GPV Pipeline is a single shipper pipeline, GPV does not currently have the infrastructure and systems required to support multiple pipeline users. In order to prepare to give effect to operational transfers and the capacity auction, GPV would need to establish this infrastructure and these systems, which it anticipates would require at least 12 months and more likely 18 months lead time. The steps that GPV would need to take include:</p> <ul style="list-style-type: none"> • Entering into an agreement with AusNet Services for AusNet Services to provide metering at a Custody Transfer Standard at Avoca, Ararat, Stawell and Horsham and make available the metering data to GPV or other entity that requires such information. • Installing GPV remote terminal units and associated communications at Avoca, Ararat, Stawell and Horsham city gates.

	Questions	Feedback
		<ul style="list-style-type: none"> • Establishing a virtual GPV control room. • Establishing an allocation arrangement for the day to day allocation of gas quantities. • Establishing internal IT systems with associated website interface, including systems to process the more complex billing. <p>During the proposed 60 business day period for the development of a standard operational agreement under proposed rule 611(6), GPV may not know whether the prospective secondary shipper is likely to accept the offer and, accordingly, may not be in a position during that period to commence any such works required to ready itself to comply with its future obligations if the shipper does accept the offer. GPV therefore considers that GMRG's proposed framework will not provide single shipper pipelines with a sufficient opportunity following entry into a standard operational agreement in accordance with their exemption conditions to ready themselves to comply with their obligations to give effect to any operational transfer of transportation capacity under such an agreement (as GPV understands that this obligation commences immediately upon entry into the agreement, which will likely occur under proposed new section 228C(3) of the NGL and rule 638 of the NGR on acceptance of the single shipper pipeline's offer to enter into such an agreement made in accordance with the pipeline's exemption conditions).</p> <p>GPV recommends that either:</p> <ul style="list-style-type: none"> • The proposed framework provides that a service provider's obligation to give effect to any operational transfer of transportation capacity does not apply in respect of any operational transfer under a standard operational agreement entered into as a consequence of an offer made by the service provider to a prospective secondary shipper under its exemption conditions until a specified period after entry into the agreement. GPV considers that at least 12 months and ideally 18 months would be appropriate in order to enable a service provider to undertake the necessary preparations.

	Questions	Feedback
		<ul style="list-style-type: none"> The draft NGL provisions providing for the time at which a standard operational agreement takes effect be removed and replaced with provisions in the NGR that provide that, where an offer to enter into a standard operational agreement is made by a service provider in accordance with the conditions on its single shipper pipeline exemption, a standard operational agreement comes into effect no earlier than a specified period after acceptance by the prospective secondary shipper of that offer. As noted above, GPV considers that at least 12 months and ideally 18 months would be appropriate in order to enable a service provider to undertake the necessary preparations.
9.	Do you agree with the proposal to allow a single shipper exemption to be revoked if another shipper enters into an operational TSA with the service provider? If not, please explain why.	GPV does not object to the proposal to allow a single shipper exemption to be revoked if another shipper enters into an operational TSA with the service provider. However, as outlined in response to question 8 above, GPV considers that the proposed framework should provide sufficient time following revocation of a single shipper exemption for the service provider to undertake works required to ready itself to comply with its new obligations.

9.1 Key timings	
39.	<p>Do you have any concerns with the timings outlined Chapter 9? If so, what are they and how do you suggest the timings are adjusted?</p> <p>GPV's concerns regarding the proposed timings relating to the commencement of a service provider's obligations to give effect to any operational transfer of transportation capacity after entry into a standard operational agreement (following an offer made by the service provider to a prospective secondary shipper under its exemption conditions) are set out in response to question 8 above.</p> <p>For the reasons set out in question 8, GPV also has concerns about the proposal that a pipeline would become subject to the capacity auction 80 business days after a single shipper exemption ceases to apply. As outlined above, as the GPV Pipeline is a single shipper pipeline, GPV does not currently have the infrastructure and systems required to support multiple users. GPV anticipates that it would require at least 12 months and more likely 18 months to prepare to give effect to the capacity auction, due to metering requirements and other systems that would need to be developed. Accordingly, GPV recommends that a period of at least 12 months and ideally 18 months is provided for in the framework for relevant systems to be developed and metering to be arranged before the capacity auction provisions apply to a pipeline that has its single shipper exemption revoked.</p>

3. National Gas Rules

Part 24 Facilitating capacity trades and the capacity auction

Draft Rules	Issue	Feedback
Division 3	Exemptions and registration	
611	Exemptions granted by the AER	GPV's comments on the exemption criteria are set out in response to questions 6 and 8 above.
613	Revocation	GPV's comments on the proposed revocation provisions are set out in response to question 9 above.
Division 6	Other service provider obligations	
638	Giving effect to operational transfers	GPV's comments relating to timing to give effect to operational transfers after entry into a standard operational agreement (following an offer made by the service provider to a prospective secondary shipper under its exemption conditions) are set out in response to question 8 above.

Part 25 Capacity Auction

Draft Rules	Issue	Feedback
Division 2	Capacity auction	
654	Application and information	GPV's comments relating to timing for an auction facility to become subject to the capacity auction are set out in response to questions 8 and 39 above.

Appendix 2 - Letter to GMRG from GPV dated 22 February 2018

Gas Pipelines Victoria Pty Ltd

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Dr Michael Vertigan AC
Independent Chair
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22nd February 2018

By Email:

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Dear Dr Vertigan

Capacity trading reform package - Application of proposed capacity trading reforms to Gas Pipelines Victoria

I refer to the proposed capacity trading reforms set out in the recommendation papers released by the Gas Market Reform Group (**GMRG**) in November and December 2017.

I am a director of Gas Pipelines Victoria Pty Ltd (**GPV**), which owns and operates the Carisbrook to Horsham gas transmission pipeline in Western Victoria (**GPV Pipeline**).

GPV is concerned that the proposed new provisions relating to day-ahead auctions and the publication of a standard form operational Gas Transportation Agreement (**GTA**) will apply to the GPV Pipeline, in circumstances where subjecting it to the new provisions would be inconsistent with the National Gas Objective (**NGO**) and the policy intent of the provisions.

GPV was not directly consulted on the proposed changes and the GPV Pipeline's circumstances do not appear to have been taken into account in the proposed exemption criteria recommended by GMRG. For the reasons set out in this letter, GPV respectfully requests that GMRG consider refining the proposed exemption criteria in the course of preparing the exposure draft of the changes to the National Gas Law (**NGL**) and National Gas Rules (**NGR**) so as to take into account the GPV Pipeline's circumstances.

The GPV Pipeline

The GPV Pipeline is located in Central Western Victoria and is a gas transmission pipeline between Carisbrook and Horsham along a route roughly defined by the towns of Talbot, Amphitheatre, Elmhurst, Stawell and Horsham. The main pipeline is approximately 167.4 kilometres in length and traverses a route which is predominantly rural farming land. A map of the GPV Pipeline is available at http://gpvic.com.au/pipeline_map.html.

The GPV Pipeline provides high pressure natural gas to the retail customers of EnergyAustralia Pty Ltd (**EnergyAustralia**) in Ararat, Stawell, Horsham and, more recently, Avoca (via AusNet's gas distribution network). GPV is a non-scheme pipeline and single user pipeline as all pipeline services on the pipeline are provided to a single user (EnergyAustralia), which uses those services to comply with its obligation to supply gas retail services in the relevant geographic area. It is highly unlikely that another party will seek access to the GPV Pipeline in the foreseeable future.

The nameplate capacity of the GPV pipeline is 10.24TJ/day. As no compressors are installed on the GPV Pipeline, however, the actual capacity of the Pipeline is dependent on the prevailing pressure from the APA GasNet owned and AEMO operated Victorian Transmission System. As a result, the GPV Pipeline's actual capacity is variable. The GPV's contracted maximum daily quantity (**MDQ**) is less than 10TJ/day.

GPV recently obtained a Category 2 exemption for the GPV Pipeline from the Australian Energy Regulator (**AER**) under Part 23 of the NGR for 5 years. This exempts GPV from the information disclosure provisions in Division 2 of Part 23 of the NGR, and was granted on the basis that the GPV Pipeline is a single user pipeline and having regard to the matters described above.

Application of capacity trading reforms to GPV

GPV was alerted to the GMRG's capacity trading reform recommendations by email from a GMRG Senior Technical Advisor on 19 January 2018, after the GMRG's recommendations had been provided to and endorsed by the COAG Energy Council.

GPV understands that the objectives of:

- The proposed new day-ahead auctions are to:¹
 - improve the efficiency with which short-term transportation capacity is allocated and used, by making contracted but un-nominated capacity available on a daily basis to shippers that value it most; and
 - overcome the coordination failures that can otherwise be associated with trading short-term capacity (by simultaneously allocating products across the system taking complementarities into account).
- The requirement to publish a standard form operational GTA (and establishment of the capacity trading platform and reporting framework for secondary trades) is to facilitate greater trade in secondary capacity.²

The GMRG has recommended that:

- The proposed new day-ahead auction provisions apply to all transmission pipelines in the east coast with a nameplate capacity rating of 10TJ/day or more, subject to exemptions granted by the AER for pipelines that are not providing third party access or pipelines servicing a single facility (that can be revoked if the exemption criteria are no longer satisfied). Consistent with the objective of the new day-ahead auction provisions, the GMRG's rationale for:³
 - the exemption of pipelines servicing a single facility is that 'there would be little value in subjecting these assets to the auction because there is little prospect of the un-nominated capacity being resold to another shipper'; and
 - the coverage threshold of a nameplate capacity rating of 10TJ/day or more is that 'the administrative cost of conducting an auction on pipelines below this capacity could

¹ GMRG, *Design of the Day-Ahead Auction of Contracted but Un-Nominated Capacity Final Recommendations*, December 2017, pages 2, 99, 113.

² GMRG, *Capacity Trading Reform Package (Standardisation, capacity trading platform and reporting framework for secondary trades) Final Recommendations*, November 2017, page 6.

³ GMRG, *Design of the Day-Ahead Auction of Contracted but Un-Nominated Capacity Final Recommendations*, December 2017, page 114.

outweigh any potential efficiency benefits arising from inclusion' and that '[t]he NGO is therefore likely to be promoted by excluding those smaller pipelines'.

- Exemptions from the requirement to publish a standard form operational GTA will be available for pipelines that do not provide third party access or pipelines that service a single facility. Consistent with the objective of this requirement, the GMRG's rationale for these proposed exemptions is that 'it is unlikely that any secondary capacity trading will occur on transportation assets that are servicing a single facility or are not providing third party access'.⁴

The precise drafting of the categories of exemption are not yet known to GPV, as the exposure draft of the changes to the NGL and NGR to give effect to the GMRG's recommendations are currently being prepared and are yet to be released for public consultation. However, on a strict reading of the exemption criteria proposed by GMRG in its recommendation papers and depending on how the single facility exemption is drafted, it appears that GPV would not be exempt from the new auction provisions or the requirement to publish a standard form operational GTA.

GPV considers that the application of these new provisions to the GPV Pipeline is inconsistent with the objectives of the new provisions and the GMRG's rationale for its proposed exemptions from those provisions, and would detract from the achievement of the NGO, given that:

- GPV is a single shipper pipeline with little prospect of further prospective users. There is therefore little prospect of un-nominated capacity being resold to another shipper or of any secondary capacity trading. If the GPV Pipeline was given an exemption and this position changed in the future, a prospective user could apply to have the exemption revoked.
- The GPV Pipeline's nameplate capacity is only 0.24TJ over the proposed capacity threshold and the contracted MDQ is less than 10TJ/day.
- The administrative and compliance costs of the GPV Pipeline being subject to the new regime would far outweigh any potential benefit. For example, in order to comply with the proposed capacity trading reforms, GPV anticipates that it will be required to expend a significant amount relative to its size and current revenues in relation to matters such as:
 - Developing a more sophisticated website and internal IT systems with associated website interface, including systems to process more complex billing.
 - Purchasing a service to handle nominations.
 - Arranging metering at Avoca (which currently does not have any metering).
 - Arranging access to metering data at Avoca City Gate, Ararat City Gate, Stawell City Gate and Horsham City Gate, including implementing data sharing arrangements between GPV and the distributor.
 - Setting up a virtual control room to enable system monitoring and appointing an allocation agency.
 - Other potential changes that may be required, such as the installation of Remote Terminal Units at each city gate to feed energy and pressure data to GPV.

GPV anticipates that the capital expenditure required will exceed \$1 million (excluding legal costs associated drafting the required contracts and providing ongoing advice) and estimates an ongoing

⁴ GMRG, *Capacity Trading Reform Package (Standardisation, capacity trading platform and reporting framework for secondary trades) Final Recommendations*, November 2017, page 46.

operating expenditure increase of around \$350,000 per annum to cover the cost of procuring a service to handle nominations and additional internal staffing to manage the capacity trading, more complex billing and regulatory compliance requirements. Such expenditure is material for a company such as GPV, with the anticipated capital expenditure being in the order of half of GPV's annual revenue and increased operating expenditure exceeding GPV's annual profit.

- The GMRG's rationale for the coverage threshold of a nameplate capacity rating of 10TJ/day or more therefore applies equally to the GPV Pipeline. Although GPV understands that the GMRG has recommended that service providers be able to recover costs associated with the capacity trading reforms, it would be inconsistent with the NGO and detrimental to the long term interests of consumers of natural gas to require GPV to incur unnecessary costs in circumstances where there is no efficiency benefit.

I have raised GPV's concerns about the application of the proposed new provisions with GMRG personnel and was advised that, in view of the GMRG's recommendations concerning the exemption criteria, I should write to you directly to outline GPV's situation and ask whether it could be reconsidered.

Given GPV's situation as outlined above, GPV urges GMRG to reconsider the proposed exemption criteria to take into account the GPV Pipeline's circumstances. GPV anticipates that this may be able to be done in a number of different ways, such as through incorporating single user pipelines (where there is little prospect of further prospective users) in the single facility exemption, or providing some further discretion for an exemption to be granted where such an exemption is consistent with the policy intent.

GPV also proposes to raise its concerns about the exemption criteria in the consultation process on the proposed changes to the NGL and NGR.

Please let me know if you would like to discuss or require any further information.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'J Arthur', with a stylized flourish at the end.

James Arthur
Director, Gas Pipelines Victoria Pty