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Commission
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23 July 2009
Matter 81535325

Dear Mr Channing

Retail Energy Market Company Applications for Authorisation A91136 - A91138: submission in response to Draft Determination

Thank you for your letter dated 15 July 2009, providing us with the opportunity to comment on the Draft Determination regarding the above applications for authorisation submitted by the Retail Energy Market Company Ltd (REMCo).

REMCo wishes to make a brief submission to clarify certain factual issues set out in the "Summary" and "Background to the application" sections of the Draft Determination.

1 Summary, paragraph 2

Chapter 5 of the RMR provides for the allocation of gas injections and withdrawals to participants, as well as dealing with imbalances.

We suggest that paragraph 2 of the Summary be amended to read:

REMCo has applied for authorisation of two chapters of the RMR – Chapter 5 (~~which sets out dealing with allocation, reconciliation and swing service~~) and Chapter 6 (which sets out procedures for ensuring compliance with the RMR).

2 Background to the application, paragraph 2.9

Paragraph 2.9 states that "when too much gas is injected... there will be excessive gas within the sub-network and... when too little gas is injected into the sub-network there will be insufficient gas to supply to consumers."

For reasons of public safety, it is not possible to allow too much or too little gas to be injected into the sub-network. Instead, when there are two pipelines that inject gas into a sub-network, one will operate as a "flow control" pipeline (i.e. it will inject the amount nominated by shippers on behalf of retailers), and the other will operate as a "pressure control" pipeline (i.e. it will inject however much gas is necessary to ensure that the right amount of gas is in the sub-network to maintain its pressure).

We therefore suggest that paragraph 2.9 of the Determination be replaced with the following:

~~Chapter 5 of the RMR will give effect to the swing service provisions that are conducted by REMCo. The swing service provisions provide compensation where retailers' injections of gas into South Australian and Western Australian gas sub-networks are unbalanced. When too much gas is injected by a wholesaler, at the request of a retailer, there will be excessive gas within the sub-network and this may cause problems with the integrity of the network. When too little gas is injected into the sub-network, there will be insufficient gas~~

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to supply to consumers. Chapter 5 provides procedures for REMCo to allocate retailers a 'swing service' for any day on which pipeline injections differ from the retailers' deemed withdrawals from a particular pipeline, and mechanisms to determine fair market value for the provision of that swing service. Chapter 5 of the RMR relates to allocation, reconciliation and swing service. The operation of the swing service provisions in Chapter 5 may be explained as follows.

Shippers nominate how much gas is to be injected into a sub-network on behalf of retailers, and retailers nominate how much gas should be injected into a sub-network to meet their expectations of how much gas their customers will use. However, as retailers will inevitably be wrong in their predictions of how much gas their customers will use, the wrong amount of gas would be injected into the sub-network if gas was simply injected according to nominations, which could lead to the sub-network being over- or under-pressurised.

Pressure must be maintained on a sub-network to maintain system integrity and public security. Therefore, to maintain pressure on a sub-network when there are two pipelines connected to the sub-network, one will operate as a "flow control" pipeline (i.e. it will inject the amount nominated by shippers), and the other will operate as a "pressure control" pipeline (i.e. it will inject as much gas as necessary to maintain sub-network pressure). This means that a retailer's nomination errors will be balanced on the pipeline opposite to the pipeline on which it ships it gas.

Swing service is a means for a swing service provider (the shipper or pipeline operator) to be paid for providing this balancing service. Chapter 5 of the RMR gives effect to the allocation, reconciliation and swing service provisions that are conducted by REMCo. In particular, Chapter 5 of the RMR provides procedures for REMCo to allocate retailers a swing service amount for any day on which pipeline injections differ from the retailers' deemed withdrawals from a particular pipeline, and mechanisms to determine fair market value for the provision of that swing service.

3 Background to the application, paragraph 2.12

Part 5.12 of the RMR provides for the operation of the bid stack by REMCo. The SSPUD is the contractual means of providing the swing service.

We therefore suggest that paragraph 2.12 be amended to read:

REMCo operates the bid stack process, which is provided for under part 5.12 of the RMR. the Swing Service Provider Umbrella Deed (SSPUD) contained within appendix 7 of the RMR. The process involves SSPs submitting bids to REMCo setting out the price and volume of the swing service they are prepared to offer. REMCo uses these bids to calculate the marginal clearing price for the swing service. Once the bids are cleared, the swing service is provided in accordance with the terms of the SSPUD.

4 Background to the application, paragraph 2.13

The RMR require the SSPOLR to provide swing service if insufficient swing service is provided off-market and through the bid stack. The SSPOLRUD is the contract under which this swing service of last resort is provided.

We therefore suggest that paragraph 2.13 be amended to read:

In the event that all swing service volumes in the bid stack are purchased and a retailer still requires additional swing service, this is supplied by the Swing Service Provider of Last Resort (SSPOLR) as permitted required by the RMR, in accordance with the terms of the Swing Service Provider of Last Resort Deed (SSPOLRUD) contained within appendix 8 of the RMR. The SSPOLR is selected by REMCo via competitive tender.

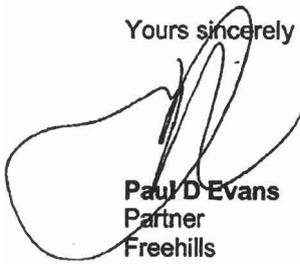
5 Background to the application, paragraph 5.5

For the reasons outlined in relation to paragraph 2 of the summary, above, we suggest that this paragraph should be amended to read:

In particular, REMCo seeks authorisation for Chapter 5 and 6 of the RMR. Chapter 5 outlines the operation of the *allocation, reconciliation and swing service* provisions of the RMR which are designed to correct imbalances in the Western Australian and South Australian gas sub-networks. Chapter 6 provides for the RMR compliance procedures which will establish cost effective dispute resolution procedures and a means of enforcing the RMR.

Please feel free to contact us if you would like to discuss any aspect of this submission.

Yours sincerely



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