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Michael Styles
Economic Regulation Authority
Level 6, 127 St Georges Terrace
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Dear Michael

RE: REMCO Response to ERA Draft Report – Review of REMCo Gas Retail Market Scheme

Thank you for the opportunity to provide comment on the Draft Report – Review of REMCo Gas Retail Market Scheme.

Please find attached REMCo's response to this Report which provides a number of suggested editorial changes to the report which we would like to see incorporated and some responses on a number of items in the report.

Please feel free to call me if you have any questions.

Yours sincerely

STEPHEN THOMSON
Chief Executive Officer

Attachment:

1. REMCo Response to ERA DRAFT Report – Review of REMCo Gas Retail Market Scheme.

REMCo Response to ERA Draft Report – Review of the REMCo Gas Retail Market Scheme.

Please find below editorial comments on the text of the Draft Report – Review of the REMCo Gas Retail Market Scheme (**Report**) which REMCo suggests be made prior to finalization of the report and some REMCo Responses to the content of the Report.

ALINTA, SYNERGY, APA

Training on the Swing Service Rules

Issue: Alinta, Synergy and APA have suggested that REMCo should provide training to ensure a better understanding among market participants of the complex swing service rules.

Response: REMCo has advised that it had deliberately not provided training in this area after market start because of the level of costs involved and the potential legal risks associated with such training. REMCo advised that one of the companies that had supplied services to REMCo, M-Co, had provided this type of training as a commercial service on its part to market participants; however, M-Co had since closed its operations in Australia and its role in providing such training had not been filled by other commercial training service providers.

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While noting REMCo's advice on this matter, a clear need has been expressed by three market participants for training on the operation of the swing service rules. In these circumstances, it would be expected that REMCo would use its best endeavours to provide such training. If such training is outsourced to a suitable training provider and charged to market participants utilising such training on a commercial basis then REMCo's concerns of legal liability and cost would be addressed.

REMCo Comment: REMCo does not agree with the statement that 'If such training is outsourced to a suitable training provider and charged to market participants utilising such training on a commercial basis then REMCo's concerns of legal liability and cost would be addressed'. The legal risks of providing training arise due to potential liability arising from parties who rely on information represented by REMCo through training and then experiencing 'loss' when using this information in their activities. Outsourcing of the training by REMCo does not remove the risk as REMCo would still be party to the provision of the training service. Hence REMCo's previous approach to allow a commercial (profit oriented party) to provide training services.

REMCo has suggested to potential service providers that there is an opportunity for provision of this service, but there has not been any interest to date.

REMCo is considering preparing some information for market participants and parties considering entry to the market which would be made available with appropriate caveats to avoid liability.

DBP

Provision of Daily Gas Allocation Information to a Pipeline Operator

Issue: The Retail Market Rules require REMCo to provide daily allocations of actual deliveries of gas to each shipper at a distribution gate point to the pipeline operator by 1230 hours on the following Gas Day. The Pipeline operator is then required to allocate

transportation capacity on the pipeline for the relevant Gas Day in accordance with the allocations received from REMCo. However, this obligation is inconsistent with DBP's obligations to shippers to provide allocations and Accumulated Imbalance Notices before 1100 hours. This inconsistency has featured in litigation between DBP and a shipper in regard to the levying of Imbalance Charges. DBP suggests that the Retail Market Rules should be amended to recognise the prior contractual obligations of the parties and that REMCo's systems be modified to permit parties to meet their contractual obligations.

Response: REMCo has advised that this matter was discussed at the time of the development of the Retail Market Rules and it was agreed to use the REMCo allocations in relation to the pipeline contracts to ensure consistency both across delivery points and with respect to the shipper contracts.

DBP has a legislative requirement (section 11ZOD(1)(a) of the Act), once the Retail Market Rules commenced, to comply with these rules. Accordingly, in the absence of any particular provisions in the rules to the contrary, DBP would have been expected to amend shipper contracts, where necessary, to conform with the Retail Market Rules. In any case, DBP has always had the opportunity to take this matter up under the REMCo rule change process through the Balancing Load Allocation Settlement Team (BLAST) of which DBP is a member. REMCo has advised that DBP has not sought changes to the Rules in this area since the establishment of the Retail Market Rules.

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Reconciliation of Errors in Gas Allocations

Issue: When an error in a daily allocation provided by REMCo is identified, that error is corrected over the next 28 days. This leads to inconsistencies between actual daily gas deliveries to shippers and the allocations to those shippers. The result is a difference between the physical imbalances in the pipeline and the contractual imbalances based on allocated gas quantities. This potentially puts both shippers (who have a contractual reasonable endeavours obligation to maintain an accumulated imbalance of zero) and the pipeline operator (who has a reasonable endeavours obligation to maintain a physical pipeline imbalance of zero) at risk of breaching their contractual obligations for the 28 day period during which the corrections are being made. DBP suggests that the Retail Market Rules should be amended to recognise the prior contractual obligations of the parties and that REMCo's systems be modified to permit parties to meet their contractual obligations.

Response: REMCo has advised that the decision to use either a forward reconciliation process or a backward reconciliation process was considered thoroughly when developing the Retail Market Rules and the decision to use a forward reconciliation process was agreed by the two governments (Western Australia and South Australia) primarily because a backward reconciliation process was considered too costly to implement. Similar to the issue above, DBP has a legislative requirement to comply with the Retail Market Rules and, in the absence of any particular provisions in the rules to the contrary, would have been expected to amend shipper contracts, where necessary, to conform with these rules. As with the previous issue, REMCo has advised that DBP has not sought changes to the Rules in this area.

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Decisions currently being considered in relation to the introduction of a STTM mean that South Australia is likely to accept whatever reconciliation process is recommended for the STTM. However, in the case of Western Australia, there is uncertainty as to whether the State would participate in the STTM and therefore there is no expectation that the reconciliation process would change within this State at this stage.

REMCo Response: REMCo also suggests that given the complexities involved in reconciliation and the fact that this process has been operating since mid 2005, it could be argued that both parties to the pipeline contracts have been exercising 'reasonable endeavors' in this area by relying on the information provided by REMCo for settlement purposes.

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Provision of Hourly Gas Flow Data

Issue: DBP has obligations to manage peaking behaviour of shippers to ensure that one shipper's behaviour does not impact on the rights of another shipper. While DBP polls its SCADA system at least each six minutes and can therefore monitor the flow at each outlet point, it is not able to determine which shipper or shippers are flowing gas at a particular time through a multi-shipper outlet point. The Retail Market Rules and agreements between DBP and shippers requires DBP to allocate capacity at outlet points in accordance with the allocation advice received from REMCo. This advice is not received until 1230 hours on the day following the Gas Day while the management of peaks requires real time monitoring of actual flows for each shipper. DBP suggests that REMCo should be required to provide hourly shipper allocations immediately following the relevant hour in a form which can be accessed by pipeline operators.

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Response: REMCo has advised that currently the inputs to calculating the gas day results, including shipper allocations, are received up to 3.5 hours after the end of the gas day and it takes a number of hours to produce the shipper allocations which is then provided by 1230 hours the next day. For hourly gas flow data to be supplied by REMCo, as suggested by DBP, all providers of data would need to produce hourly numerical data and REMCo would then have to do all of its calculations hourly. This would entail significant additional costs as a result of the need for REMCo to undertake a substantial upgrading of its information technology systems and to employ additional staff to process the necessary data on an hourly basis. It is unlikely that the REMCo members would support such a change in light of the significant costs involved. REMCo has advised that DBP has not raised this matter previously.

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Introduce Daylight Saving in Western Australia

Issue: DBP has suggested that the Retail Market Rules should be amended to include provision for daylight saving in Western Australia.

Response: REMCo has advised that it has recently considered this matter and is of the view that there is no need at present for the Retail Market Rules to provide for daylight saving in Western Australia as it is not aware of gas contracts in place in that State which contain times denoted in terms of daylight saving time. Gas contracts in South Australia make use of daylight saving times as daylight saving has been in place in that State for many years and the rules in South Australia allow for this. This matter is being monitored by REMCo and is likely to be revisited when the outcome of the referendum on daylight saving in Western Australia to be held at the completion of the current daylight saving trial period is known.

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