

GAS SUPPLY AMENDMENT BILL 2008

Bill introduced, and read a first time and ordered to be printed on motion by the Hon. Ian Macdonald.

Second Reading

The Hon. IAN MACDONALD (Minister for Primary Industries, Minister for Energy, Minister for Mineral Resources, and Minister for State Development) [4.15 p.m.]: I move:

That this bill be now read a second time.

I am pleased to introduce the Gas Supply Amendment Bill 2008, and to confirm the New South Wales Government's commitment to delivering a consistent and secure supply of energy to New South Wales consumers. In August 2005 the Government established mandatory reliability licence conditions for electricity distributors. We did not stop there. In December 2007 these licence conditions were revised and reissued to ensure supplies to New South Wales electricity customers meet a reliability standard of 99.98 per cent by 2016. Now we can turn our focus to improving the reliability of natural gas supplies.

Last November the New South Wales Government announced that new gas laws were to be introduced prior to the 2008 winter period that were designed to ensure a more reliable gas supply to both residential and business customers. I am now pleased to say that the Gas Supply Amendment Bill 2008 fulfils that commitment, and provides the necessary legislative base for the establishment of the New South Wales Gas Supply Continuity Scheme. Honourable members will be pleased to note that the amendments in this bill have been developed in close consultation with the gas industry and major gas users. Further, the bill adds an objective to the Gas Supply Act 1996 of facilitating the continuity of supply of natural gas to consumers.

To achieve this objective, the bill will enable the Minister for Energy to approve market operations rules covering the establishment and operation of a wholesale natural gas market scheme. This will ensure the continuity of supply of natural gas to consumers. Gas industry stakeholders and major gas users are currently being consulted on the details of the market operations rules that will govern the operation of the scheme. The market operations rules will apply to the owners and operators of natural gas transmission pipelines and shippers of natural gas on those pipelines, as well as natural gas distributors and retailers. The bill also adds definitions for "natural gas transmission pipeline" and "shipper of natural gas" to the Act, extending the Act for the first time to the wholesale gas market in New South Wales.

The bill will also allow for the appointment of a scheme regulator and provide that regulator with compliance powers to make orders against scheme participants as well as the power to impose civil penalties of up to \$50,000 on scheme participants. In addition, the bill provides for an appropriate limitation on the civil liability of a scheme operator or an officer or employee of the scheme operator for an act or omission while exercising functions under the rules unless the act or omission is done or made in bad faith or through negligence. The regulations may prescribe a maximum amount of civil liability for negligent acts or omissions. The scheme operator can enter into an agreement with a person varying or excluding the operation of the provisions that limit or exclude liability. The bill does not exclude or limit liability for death or bodily injury.

So, to put it simply, the bill provides mechanisms for imposing sanctions for non-compliance but at the same time encourages participation, in good faith, in the operation of the scheme. The scheme enabled by this bill will contain a competitive tender mechanism for responding to shortages of gas that threaten the ongoing operation of the State's gas transmission pipeline system. Currently the New South Wales wholesale gas market is based on complex bilateral contracts and there are no regulatory provisions requiring sufficient supplies of natural gas to be purchased to meet consumers' demands. The scheme will not interfere in these contracts or mandate that gas is purchased to meet demand. Rather, the scheme operator, by introducing significant incentives that strongly encourage shippers of natural gas in New South Wales, will keep transmission pipeline imbalances within acceptable operating limits.

Imbalances between supply and demand occur as a normal part of the market because retailers and shippers estimate what gas demand is expected to be and then pre-order gas to meet that estimate. The actual demand will, of course, vary from the estimate, creating imbalances between the actual demand and the quantity of gas purchased. While small imbalances do not threaten the operation of the transmission pipeline system, they can, if they are allowed to accumulate to critical levels. The scheme tender process will also allow producers and shippers of natural gas with spare production capacity to be paid for the delivery of that gas into the pipeline to offset a critical imbalance. I am very pleased to announce that, for the first time in Australia, users of natural gas will be able to be paid to reduce their demand, allowing the critical imbalances to be rectified through a demand side management mechanism.

To provide the appropriate incentives to shippers of natural gas to keep pipeline imbalances in the operational

range, the costs of rectifying any critical imbalances through the tender process will be back charged to the shippers by the scheme operator on a pro rata basis. Accordingly, shippers who create imbalances through their gas purchase decisions will have a strong financial incentive to maintain their supply demand imbalance at acceptable levels. Currently, insufficient incentives exist in the bi-lateral contracts to ensure this occurs, so when a critical imbalance occurs, a broad range of consumers can have their gas supplies curtailed.

Curtailment of gas supplies arising from critical imbalances is what the inquiry into the June 2007 supply disruption identified as the cause of that event. The bill and the rules, therefore, directly address the cause of that disruption. The rules for the scheme will contain provisions for curtailment of customers whose shippers' imbalances have caused the supply problem. This provides further incentives for the market to keep demand supply imbalances within acceptable levels. The rules will require transmission pipeline operators to clearly define those acceptable levels for their pipelines and keep the market informed of the pipeline status utilising a traffic light notification system.

The changes proposed in the bill and the rules will improve market knowledge. Improving market knowledge, along with the incentives to market participants, allows the scheme participants to respond to changes thus reducing the likelihood of a problem arising. It is an exciting time for the gas industry. While these provisions will only apply in New South Wales, the Government continues to work with other jurisdictions on national reforms to the gas market. To this extent, the Gas Supply Continuity Scheme is an appropriate interim measure to address a critical reliability issue. When national reforms come into effect and satisfactorily deal with this issue, it is proposed that the scheme will be terminated and the national arrangements taken up by the Government. I commend this important bill to the House.