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Dear Dr Vertigan

Day-ahead auction of contracted but un-nominated capacity and reporting framework

AEMO welcomes the opportunity to comment on the Gas Market Reform Group's (GMRG) Day Ahead Auction and Reporting Framework Consultation Paper.

AEMO considers that the day ahead capacity auction is critical to the development of a liquid secondary capacity market that is required to support the efficient trading and flow of gas across the east coast. As such, we support the GMRG recommendation that the auction be broadly applied to pipelines across the east coast with few exceptions in order to maximise the benefits of the reform.

We consider that for the reforms to be successful in achieving their objectives, the auction product will need to be sufficiently firm in order to minimise the risk of interruption for auction purchasers. A firmer auction product should create the appropriate incentives for contract sellers to sell capacity in the secondary market while giving auction purchasers sufficient confidence to use the auction in the event that capacity has not been made available in the secondary market.

The "secondary firm" model proposed by GMRG allows firm shippers to interrupt the auction through their renominations – in effect contract holders retain all their existing capacity. Under the proposed model, the risk of interruption increases as more of the contracted but un-nominated quantity is allocated by the auction i.e. where a pipeline is more in demand, as a renomination up from a firm shipper will be accommodated via pro-rating all auction purchases down. This is the case even if there is spare uncontracted capacity available on the pipeline. As a consequence, the proposed product will not be particularly firm on a contractually congested pipeline where there is significant demand for that capacity.

If the auction product carries too much risk for auction purchasers then they will not use the auction. This in turn will reduce the incentive for contract holders to sell capacity into the secondary market. As such, we remain concerned that if the product is not sufficiently firm, then the objectives of the reform are unlikely to be achieved.

AEMO looks forward to continuing to work with the GMRG as we move into the implementation of these important reforms. If you would like to discuss the contents of this submission further, please do not hesitate to contact Violette Mouchaileh on 03 9609 8551.

Yours sincerely,



Peter Geers

Executive General Manager, Markets

Attachments: AEMO submission on day-ahead auction of contracted but un-nominated capacity and reporting framework