



Our Ref: GMRG – Day Ahead Auction of Contracted but
Un-nominated Capacity & Reporting Framework
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Gas Market Reform Group
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Submitted via email: enquiries@gmrg.coagenergycouncil.gov.au

Submission: Day Ahead Auction of Contracted but Un-nominated Capacity & Reporting Framework

Epic Energy South Australia Pty Ltd ('EESA') welcomes the opportunity to comment on the '*Day Ahead Auction of Contracted but Un-nominated Capacity & Reporting Framework*' Consultation Paper, October 2017.

EESA owns and operates more than 1,200 km of gas transmission pipelines in South Australia, including the Moomba to Adelaide Pipeline System (MAPS) and the South East Pipeline System (SEPS), which are uncovered (non-scheme) pipelines¹.

Auction design

Gas has become South Australia's critical 'backstop' fuel owing to the high proportion of renewables, the closure of Northern Power Station and in certain weather conditions, the restriction of the interconnector with Victoria.

EESA supports an auction process, however considers that any proposed changes that impact South Australia's gas market, or the MAPS, must be seriously scrutinised to ensure energy security.

Priority of the auction product: Option 3 is preferred

The consultation paper argues that the auction design be based on Option 1, which prioritises the auction product ahead of all other non-firm services including authorised overrun services. Authorised overrun, which on the MAPS is equivalent to as-available ranking immediately below firm services is a

¹ Coverage of the SEPS was revoked by the National Competition Council on 20 April 2000 and coverage of the MAPS was revoked on 30 September 2007.

critical component of primary shipper contracts and is particularly important for gas fired generation in South Australia.

The key component of authorised overrun includes:

1. Once scheduled it cannot be interrupted meaning gas fired generators can confirm their availability to the NEM for the following day;
2. It is linked with maximum hourly quantities meaning it provides increased flexibility for peaking power stations; and
3. It is often linked to a minimum bill and obligation to schedule a minimum amount in a year which provides increased security for generators.

The auction product does not provide any of the above mentioned benefits and is therefore a risk to the South Australian system security as it is unlikely capacity will remain for the authorised overrun service post the auction given the reserve price will be set at \$0.00.

Instead, EESA considers that pipeline services offered under existing primary GTA's should take preference over the auction product, and as such, prefers Option 3. EESA acknowledges however, that Option 3 may not encourage utilisation of the auction product and provide incentive for primary shippers to offer capacity on the Exchange Platform, and would therefore consider a compromise position of Option 2 as a reasonable middle ground for all market participants noting authorised overrun would rank ahead of the auction product.

Implementing Option 2 will ensure a critical component of the South Australian energy market remains while also ensuring the key elements of the AEMC recommendations are implemented.

Contract path specification: unintended consequences for gas fired power generators in South Australia

EESA is concerned that there will be some unintended consequences from the proposed contract path specification for gas fired power generators in South Australia which are typically single user points.

A key assumption within the point to point or zonal based methodologies is demand for multi user delivery points where delivery point capacity is aggregated and becomes available for the purpose of the auction. Where single user points exist or an aggregation of single user points within a pipeline zone which is common with gas fired generators in South Australia it is unlikely capacity will become available through the auction process. Auction capacity will instead be aggregated at large multi user points such as the STTM.

The consequence of this design is single user delivery points are unlikely to gain access to non-firm services. Given the auction will clear at \$0.00 where insufficient demand for the delivery point exists it is unlikely that capacity will exist post the auction to allocate to single user points.

To a certain extent this issue is unavoidable when developing the auction process as the alternate of allocating capacity at a pipeline level is equally un-workable given the auction outcome will need to be modelled to ensure overall capacity is maintained on the pipeline system.

EESA considers that the zonal system will likely be the most appropriate methodology however this does not remove the issue in its entirety as some zones have an aggregation of single user delivery points which will limit access to auction capacity for these users.

It is recommended that the priority of the auction product is reduced in accordance with our comments above on this matter. In this case where shippers have access to a single user delivery point authorised overrun will be available to them which will be scheduled prior to the auction being completed.

Calculation of auction quantity

It is important that MHQ be considered when determining available capacity to be included in the auction. In some cases, especially in a market such as South Australia, electricity generators have access to a fixed MHQ allowance based upon their MDQ, as opposed to the more common standard of an MHQ based upon the gas actually scheduled on a day.

Under the proposed method of determining auction quantity available capacity may be overstated as a result of shippers with a fixed MHQ allowance. If this capacity is sold via the auction then the pipeline will be unable to meet unforeseen increases in demand, through for example, significant changes in weather, or sudden restrictions of the VIC/SA interconnect which may lead to a loss of system security.

Some discretion will be required to enable pipeline operators to determine available capacity on a day to ensure the market can respond to meet the state's energy requirements.

Other considerations

The South Australian Government recently enacted the *Emergency Management (Electricity Supply Emergencies) Act 2017 (SA)*, as a consequence of two recent 'blackout' events in South Australia², to ensure gas is supplied to generators during high demand periods. In addition, the Federal Government has commissioned AEMO to administer the Peak Gas Supply Guarantee which seeks a commitment from pipeline operators and producers to make gas available to meet peak demand periods in the NEM. These, and other similar state-based legislation, should be taken into consideration in the design of the auction product.

Final comments

EESA confirms that this submission can be made publicly available.

Should you require further information regarding any of the comments made in this submission, please do not hesitate to contact Jeff Olling, Manager, Government, Regulatory and Stakeholder Relations on (08) 8343 8154 or by email: jeff.olling@epic.com.au

Yours sincerely



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² 28 September 2016 and 8 February 2017