

# Minutes

## Day Ahead Auction Project Team Meeting No. 10

**Date/Time:** Wednesday, 09 August 2017, 2.00pm to 7.00pm

**Location:** AEMO Office, Level 10, 10 Eagle Street, Brisbane

**Attendees:** *Project team*  
John Jamieson, APA  
Deidre McEntee, APLNG  
Leon Devaney, Central Petroleum  
Jeff Cooke, SEAGas  
Erin Bledsoe, Shell  
Kevin Ly, Snowy Hydro  
Matt Sherwell, Santos  
Andrew O'Farrell, Origin  
Nicholas Pope, specialist technical advisor

*GMRG*  
Daniela Moraes, analyst  
Katherine Lowe, senior technical advisor  
Sandra Gamble, facilitator

*NERA*  
Hans Ihle, NERA  
George Anstey, NERA  
Annalena Hagenauer, NERA

**Apologies:** Tom Walker, specialist technical advisor

**Purpose:** Auction product design.

**Reference:** DAA.10.20170809

	Agenda Item	Discussion	Actions	Decision/views
1	<b>Recap on previous meeting</b>	<ul style="list-style-type: none"> <li>• Approved minutes from meeting #9 and the amended minutes of meeting #8.</li> <li>• The GMRG Advisory Panel met on the 21 July. Topics discussed in that meeting included:               <ul style="list-style-type: none"> <li>- Information disclosure and commercial arbitration rules that commenced on 1 August 2017 (instead of 1 September);</li> <li>- The nature of the day-ahead auction product (firm, interruptible, as available);</li> <li>- Update on the progress of the CTP and DAA work streams: suggested looking into how CTPs operate in other countries.</li> </ul> </li> <li>• The Advisory Panel will meet again on 1<sup>st</sup> September.</li> <li>• Update on Capacity Trading Platform (CTP) group:               <ul style="list-style-type: none"> <li>- AEMO developed a straw man of the capacity trading platform.</li> <li>- Next step involves writing the consultation paper, which will include some design options.</li> <li>- Issues being debated include compressor services (should it be sold separately or as a bundle) and what happens if a primary shipper defaults.</li> </ul> </li> <li>• Update on Standardisation group:               <ul style="list-style-type: none"> <li>- JWS have drafted the operation transfer agreement, which will include standard terms and conditions. It was noted that some T&amp;Cs will need to be specific to certain pipelines (more likely to be guidelines than actual T&amp;Cs). Currently incorporating feedback into the draft.</li> <li>- Current issues being discussed by the group</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Circulate draft of Operational GTA when available.</li> <li>• JWS will prepare an alternative draft of the Operational GTA, which will be circulated when ready.</li> </ul>	

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		<p>include how to treat indemnity and liability.</p> <ul style="list-style-type: none"> <li>- Still discussing governance arrangements for the standard agreement.</li> <li>- Next step involves writing the consultation paper.</li> </ul>		
2	<b>Zones to be used in day-ahead auction</b>	<ul style="list-style-type: none"> <li>• The group discussed the grouping of receipt and delivery points into capacity trading zones.</li> <li>• Grouping points into zones has the aim of trying to increase liquidity of trades.</li> <li>• It was noted that one of the risks of merging RPs and DPs into zones is that in times of constraint, capacity won't be firm at a particular point.</li> <li>• However, if a particular point starts to become a problem (always constrained) it is probable that such point would be isolated and traded separately.</li> <li>• On the other hand, the group considered that it is not practical to list each point as a product in the CTP and DAA; otherwise there would be an enormous number of products available.</li> <li>• Governance arrangements will be required on how to amend zones.</li> <li>• The group noted that even though trading can occur by zones; the shipper will still need to select a specific point at the time of nomination.</li> <li>• The group went through the Roma to Brisbane pipeline example. SEAGas informed that it is likely that only one zone will be required for their pipeline.</li> <li>• This topic has also been recently discussed by the CTP and standardisation groups.</li> </ul>	<ul style="list-style-type: none"> <li>• Members to provide feedback on the suggested capacity trading zones for each pipeline.</li> </ul>	
3	<b>Other elements of the auction product</b>	<ul style="list-style-type: none"> <li>• The group discussed how maximum hourly quantity (MHQ) and imbalances would</li> </ul>		

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		<p>be defined for the auction product.</p> <ul style="list-style-type: none"> <li>The group agreed the MHQ factor will be specific to each pipeline. The auction product will have the same MHQ factor as the products traded through the CTP.</li> <li>The group expressed differing views about whether the auction product would have an imbalance allowance, or if that allowance would remain with the primary shipper. It was noted though that the primary shipper would have their imbalance allowance reduced when they trade in the secondary market.</li> </ul>		
4	Break	N/A	N/A	N/A
5	European experience with the firm day-ahead use-it-or-lose-it mechanism	<ul style="list-style-type: none"> <li>NERA consulting, has been engaged by the GMRG to provide expert advice on auction design options.</li> <li>NERA participated via teleconference to convey 2 deliverables: 1) an overview of the European experience with the firm day ahead use it or lose it mechanism and auctions and 2) auction format options for the DAA.</li> <li>George Anstey and Annalena Hagenauer (NERA) presented on how firm day-ahead use-it-or-lose-it (FDA UIOLI) mechanisms are used in Europe.</li> <li>Key topics covered during the presentation included: <ul style="list-style-type: none"> <li>Brief history of congestion management in Europe</li> <li>Types of congestion management procedures (CMP) for interconnection points (oversubscription and buy back; FDA UIOLI; mechanism to surrender and reallocate capacity; long-term UIOLI)</li> <li>Overview of the basic rules of FDA UIOLI mechanism.</li> </ul> </li> <li>Key messages from the presentation include:</li> </ul>	<ul style="list-style-type: none"> <li>GMRG to add to the parking lot: <ul style="list-style-type: none"> <li>How did TSOs deal with the issue of renomination rights for existing shippers with long-term contracts?</li> </ul> </li> </ul>	

	Agenda Item	Discussion	Actions	Decision/views
		<ul style="list-style-type: none"> <li>- The current FDA UIOLI rules may be open to gaming by market participants (NERA believes excess capacity may have prevented gaming behaviour in practice).</li> <li>- FDA UIOLI is the least adopted of the four congestion management procedures and exists only in four countries (Germany, Austria, Czech Republic and Italy).</li> <li>- FDA UIOLI has made more capacity available than any other CMP mechanism and accounts for approximately 85% of the total capacity made available. However, take up by shippers is less than 0.4%.</li> <li>- The impact of FDA UIOLI on the wholesale gas market is unclear, because many other reforms were introduced simultaneously and there is currently excess capacity.</li> <li>- FDA UIOLI capacity cannot displace the sales of firm primary capacity at the day-ahead stage. One purpose of the FDA UIOLI mechanism is to make more efficient use of existing pipelines, rather than building new ones to ensure shippers can access gas.</li> <li>- The TSOs keep the revenues from the FDA UIOLI auctions, so shippers have an incentive to trade capacity in the secondary market.</li> </ul>		
6	<b>Auction format options for DAA</b>	<ul style="list-style-type: none"> <li>• Hans Ihle (NERA) presented on auction format options for the day-ahead auction.</li> <li>• He covered the two types of combinatorial auction, explaining the pros and cons of each one (please refer to attachment A). The options discussed are listed below:</li> </ul>		

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		<ul style="list-style-type: none"> <li>- Partial combinatorial auction format: same price and quantity for each segment.</li> <li>- AEMO SRA format: also a form of partial combinatorial format, but with the difference being that it allows bidders to specify separate quantities for each segment.</li> <li>- Fully combinatorial formats: bidders can submit multiple mutually exclusive bids. Pricing rule can be either pay as bid, second price or pseud clock.</li> <li>• Each option was accompanied by an illustrative example.</li> <li>• Hans also covered the following topics: <ul style="list-style-type: none"> <li>- Complexity of bidding language</li> <li>- Pay-as-bid versus second price</li> <li>- Second price rule with core pricing</li> <li>- The relationship between revenues and efficient allocation</li> <li>- Pseudo clock pricing</li> <li>- Allocation of auction residue in first or second price auction</li> </ul> </li> </ul>		
7	Close	N/A	N/A	N/A
8	<b>Next Meeting</b>  <b>Thu, 07 Sep 2017 – Day-ahead auction Project Team meeting</b>	<ul style="list-style-type: none"> <li>• Meeting will take place in <u>Brisbane</u> on the 07<sup>th</sup> September.</li> </ul>		

## Appendix A – Summary of auction format options

<b>Summary of format options</b>					
	<b>Partial CA</b>	<b>First price CA</b>	<b>Second price CA</b>	<b>Pseudo clock CA</b>	
<b>Aggregation risks</b>	Exposes bidders to some aggregation risks – acceptable? 	Eliminates aggregation risks 	Eliminates aggregation risks 	Eliminates aggregation risks 	
<b>Complexity for bidders</b>	Fairly simple, except for management of budget 	Mechanics simple, but bid strategy complex 	Mechanics complex, but bid strategy simple 	Mechanics simple and bid strategy fairly straightforward 	
<b>Implementation complexity</b>	Simple 	Slightly complex 	Complex 	Complex 	
<b>Transparency of outcome</b>	Fairly transparent - results of shadow price determination may require explanation 	Without knowledge of other bids, fairly opaque 	Without knowledge of other bids, fairly opaque 	Fairly transparent 	
<b>Gaming opportunities</b>	Bidders may shade bids they that they expect to be marginal 	Bid shading required by format and includes expectation of bidding behaviour of other bidders 	Minimises incentives for gaming 	Bidders may have incentive to bid less aggressively for large packages (that they are unlikely to win) 	
<b>Chance of unsold capacity</b>	Minimised if partial assignment allowed 	Minimised due to optimisation and nonlinear pricing, but critically depends on bidders submitting rich set of bids 	Minimised due to optimisation and nonlinear pricing 	May be higher than in combinatorial formats due to pricing rule 	
<b>Allocation of auction residue</b>	Simple, as it determines uniform prices 	Complex 	Complex 	Simple, as it determines uniform prices 	