Minutes

Day Ahead Auction Project Team Meeting No. 11

Date/Time: Wednesday, 20 September 2017, 12pm to 6pm

Location: NERA, One International Towers Sydney, 100 Barangaroo Avenue, Sydney

Attendees:

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

Purpose: Auction product design

Reference: DAA.11.20170920

	Agenda Item	Discussion	Actions	Decision/views
1	**Recap on previous meeting**	• Approved the minutes from meeting #10. • Consultation paper on Standardisation and Capacity Trading Platform was published on the 7th September: - Public forum took place on the 14th September in Sydney. - Submissions are due by 4th October. - Recommendations to be presented to COAG EC by 23-24th November.		
2	**Auction design straw person**	• Straw person prepared by NERA is a combination of project team input, NERA advice, AEMC, AEMO and GMRG. • Hans Ihle from NERA presented via videoconference an overview of the key elements of the proposed straw person auction design and design	• If auction always clears at zero, who will pay for the AEMO costs? It could be similar to the GSH fee or pipeline owners will have to pay for it. This issue will be included in the consultation paper.	

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		choices.		
		The presentation included various topics which are covered below:		
		• The partial combinatorial auction (PCA):		
		- A bidder can submit more than one bid and may win more than one of them. This allows bidders to bid for incremental units at lower bid amounts, effectively mapping out a full demand curve		
		• Optional features for the PCA:		
		(1) Minimum requirements: in Europe, DA auctions allow bidders to specify "minimum requirement" to avoid potential exposure of bidders winning unusably low quantities.		
		- Most team members don't think this feature is necessary, but a couple of members noted it would be beneficial.		
		- AEMO noted that setting up a minimum requirement would increase complexity in the auction solver.		
		(2) XOR sets (bidders can submit mutually exclusive bids):		
		- XOR sets allow bidders to specify different bid amounts for substitutable pipeline routes.		
		- XOR sets can also be used with a hybrid product design (with a firm and interruptible product).		
		- Most members noted that there are no perfect substitutes as they would mostly require using the DWGM, which is not part of the DAA.		
		(3) Inclusion of static backhaul in the auction (capacity to be determined based on contracted firm forward haul)		
		- Members noted that this product would be equivalent to a swap and that any efficiency gains would be dependent on the price of the product.		

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		- One pipeline mentioned that there is no such a thing as contracted firm backhaul and there is no MDQ associated to backhaul. Backhaul is treated as an option.		
		- One member argued that the purpose of this work stream is to increase secondary trading and not increase the use of the pipelines.		
		• NERA discussed two options for pricing rules: first-price and pay-as-cleared		
		- Pay-as-clearing uses the lowest accepted bid to set the price. If some of the product is unsold, the price is zero.		
		- Pay-as-clearing rule provides for strategic simplicity (all shippers pay the same price), fairness and is efficient even if demand changes unexpectedly.		
		- Even though first price may promote competition from new entrants, the effect is likely to be short-lived as incumbent shippers would factor in new competition in their bids.		
		• The group discussed how to proceed in case of tie-breaking of equally priced bids:		
		- Members noted it is unlikely to happen and proposed to break ties randomly.		
		- Nick Pope (AEMO) mentioned that SRAs auction uses 4 digits and that a tie never occurs, and that the SRA solver is already programed to be random in case it happens.		
		• NERA suggested that limited information should be provided to bidders post auction, with only the clearing price per product to be published:		
		- The reason behind such recommendation is		

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		because of the possibility for market participants to coordinate their bids (tacit collusion). It also suggested that once liquidity develops, more information could be made available. - Members noted that the bid stacks for STTMs are published; however the STTMs are mandatory markets, whereas the day-ahead auction would be a voluntary market. • Allocation of auction residue to be based on the clearing price per segment and will go to the pipeline owner.		
3	**Break**	N/A	N/A	N/A
4	**Treatment of curtailment on the gas day**	• George Anstey and Annalena Hagenauer from NERA presented via videoconference on the options for curtailment order and the treatment of stranded capacity in case of renominations (compensation of winning bids during the gas day). • It was noted that there are no close substitutes for most routes, so it is not easy/possible to find alternative routes. • Given the combinatorial format of the auction, curtailment rules need to address what happens to the remaining, un-curtailed products on a bidder's route. There are three options: 1) Shipper gets curtailed only at segment where capacity is insufficient; 2) Shipper gets curtailed by the same amount at all products included in his winning bid; or 3) Shipper gets the option to choose between (1) and (2) • NERA suggested that shippers would likely value choice (option 3) to the extent that they can use storage and overrun, and subject to compensation rules.		• The project team was of the view that the pro-rata curtailment with compensation (money back) was the best choice, as it is simple and easy to implement, and that it is also the mechanism currently used by many pipelines.

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		• Members noted that if physical capacity is available in the pipeline, the shipper should have the option to buy "as available" capacity in the case it gets curtailed because of renomination.
		
		• NERA explained the following options for curtailment order:
		
		  - Basic pro-rating
		
		  - Pipeline wide revenue based
		
		  - Pipeline wide valuation based
		
		  - System wide valuation based
		
		• One member questioned if a single bid would be curtailed before a combinatorial bid.
		
		• Most members favoured the basic pro-rating method. Tom Walker (AEMC) noted the risk of disorderly bidding, as is the case in the NEM when there is a constraint and many generators bid at -$1,000 so it gets pro-rated.
		
		• NERA also covered the options for compensation due to curtailment:
		
		  - No compensation
		
		  - Rule of thumb
		     o multiple of clearing price
		     o multiple of reference price
		     o fixed number
		
		  - Restitution
		     o ex-ante, bid price
		     o ex-post, bid price + other losses
		
		• After discussing the pros and cons of each option, the project team was of the view that the pro-rata curtailment with compensation (money back) was the best choice, as it is simple and easy to implement, and that it is also the mechanism currently used by many pipelines.		

5	Next steps	• Advisory Panel will meet again on the 1st November. • Consultation paper on day-		

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		ahead auction and reporting framework likely to be published on the 9th October: - Consultation period to close on the 6th November. - Public forum on DAA to occur during last week of October / first week of November in Melbourne. Likely to be on the 31st October. - An additional paper will be produced, tying the 3 work streams together. - Recommendations to COAG EC by mid-December (out of session).		
6	**Close**	N/A	N/A	N/A