



10 November 2017

Dr Michael Vertigan AC
Gas Market Reform Group
c/o Australian Energy Market Commission
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Sydney South NSW 1235

Submitted by email: enquiries@gmrg.coagenergycouncil.gov.au

Dear Dr Vertigan

Day-Ahead Auction of Contracted but Un-Nominated Capacity & Reporting Framework – Consultation Paper

Origin Energy Limited (Origin) welcomes the opportunity to provide comments on the Gas Market Reform Group's (GMRG) Day-Ahead Auction of Contracted but Un-Nominated Capacity & Reporting Framework Consultation Paper.

Origin agrees flexible access to pipeline capacity is important and efforts aimed at enhancing the availability and utilisation of capacity should as a general principle, be encouraged. But it is important to ensure reforms of this nature preserve incentives to underwrite investment in primary capacity and do not undermine the ability of existing rights holders to manage the risks associated with operating across both electricity and gas markets. Appropriately defining the priority of the auction product and coverage of the day-ahead auction are therefore highly critical, as discussed below.

Auction product priority – secondary rights relative to firm capacity

Origin is supportive of Option 1 as proposed in the Consultation Paper, which would create a 'second priority' firm auction product that ranks below firm transportation rights from a scheduling, curtailment and renominations rights perspective, including best endeavours renominations. This approach is consistent with the AEMC's initial recommendations and will ensure shippers retain the ability to re-nominate and react dynamically to changes in the market, which is crucial not only for portfolio management but also for maintaining reliability in the gas and electricity markets.

Gas shippers (including retailers) that have contracted for firm gas transportation generally seek to procure sufficient capacity to meet potential maximum demand. While there is likely to be some spare capacity at 'non-peak' periods, not all of this can be considered excess capacity given that some reserve is needed to manage the dynamic nature of both gas and electricity markets. Relevant factors in this regard include:

- the operation of peaking gas-fired power generation (GPG), which is used to respond to sudden and unexpected changes in the electricity demand and is critical to maintaining reliability in the National Electricity Market (NEM);
- fluctuations in underlying customer demand for gas – shippers must procure sufficient gas and pipeline capacity to meet customer MDQ;
- the provision of market operator services (MOS) in the short-term trading market, which may be called upon to balance the market;

- the provision of contingency gas services; and
- overall portfolio balancing and optimisation.

To manage the contingencies identified above, shippers rely on the ability to renominate pipeline capacity (a snapshot of Origin's renomination activity across is outlined in Attachment 2, which has been provided confidentially as a separate document). To this end, it should be noted that most renomination rights currently relied upon are technically regarded as best endeavours rights, as the pipeline operator cannot guarantee all physical possibilities after the firm nomination cut-off time. Accommodating best endeavours renomination rights of firm shippers under the day-ahead auction framework is therefore consistent with current practise, and is essential in ensuring that the renomination rights of firm shippers are not degraded due to the auction.

Auction coverage – limited to contractually congested pipelines

Origin is not supportive of the GMRG's preliminary view that the day-ahead auction should apply to all transmission pipelines linking major demand centres and supply sources. This approach is inconsistent with the AEMC's overarching rationale for the day-ahead auction, which is to address contractual congestion and counter the market power held by service providers on those pipelines. It is also seemingly predicated on an expected allocative efficiency benefit that has not been robustly demonstrated.

According to the analysis undertaken by NERA, not offering an auction on all pipelines may undermine the realisation of potential efficiency gains where a shipper is seeking to bid for capacity on an entire route rather than on individual segments. But this loss in efficiency is based on the assumption that a shipper will not be able to acquire capacity on the excluded segment, which would seem unreasonable given the excluded segment is a contractually uncongested pipeline and service providers would be heavily incentivised to sell that excess capacity. The recently introduced arbitration framework and financial reporting requirements should also provide prospective shippers with a greater ability to negotiate access to pipeline capacity at a reasonable price than has historically been the case.

The extent to which the purported allocative efficiency benefits would actually be realised in practice is therefore unclear. Origin also does not believe it is prudent to suggest those benefits will overcome the potential negative impact of de-contracting on individual assets. As noted by NERA, de-contracting could occur on those pipelines with no contractual congestion if they are subjected to the auction, which has the potential to stymie pipeline development.

Given the above, Origin believes the day-ahead auction should be limited to contractually congested pipelines only. To the extent there are concerns about monitoring contracting levels and accommodating fluctuations in those contracting levels, Origin does not believe this issue is insurmountable. Undertaking a periodic assessment of contractual congestion and setting the threshold at a reasonable level (e.g. 90 per cent) would ensure minor deviations in contracting levels between assessment periods do not materially impede access to pipeline capacity.

Origin has provided a response to some of the detailed design questions raised by the GMRG in Attachment 1. If you wish to discuss any aspect of this submission further, please contact Shaun Cole at shaun.cole@originenergy.com.au or on 03 8665 7366.

Yours Sincerely,

A handwritten signature in blue ink, consisting of a series of connected loops and a vertical line at the end, representing the name Steve Reid.

Steve Reid
Group Manager, Regulatory Policy

Part A – Day-Ahead Auction of Contracted but Un-Nominated Capacity

	Questions	Feedback
3.1	Transportation products auctioned	
1.	<p>Do you agree with the proposal to include the following products in the auction:</p> <ul style="list-style-type: none"> ○ forward haul transportation services (with separate products offered in both directions on bi-directional pipelines)? If not, please explain why. ○ compression services? If not, please explain why. 	Origin is broadly supportive of including forward haul transportation services and compression services in the proposed suite of products to be auctioned.
2.	Do you agree with the proposal to include an interruptible backhaul service in the auction for single direction pipelines? If not, please explain why.	Origin agrees there is value in including an interruptible backhaul service in the auction for single direction pipelines, given it could provide shippers with additional flexibility to procure and deliver gas.
3.2	Priority of the auction product	
3.	<p>Do you agree with the proposal to adopt a second priority firm auction product? If not:</p> <ul style="list-style-type: none"> ○ please explain why you think this option should not be selected; and ○ please set out the option you think should be adopted and why you think it is more consistent with the AEMC's recommendations and the assessment framework set out in section 2.3 than the second priority firm auction product. 	As discussed above, Origin is supportive of Option 1 as proposed in the Consultation Paper, which would create a 'second priority' firm auction product that ranks below firm transportation rights from a scheduling, curtailment and renominations rights perspective, including best endeavours renominations currently available to firm shippers. This approach is consistent with the AEMC's initial recommendations and will ensure firm shippers retain the flexibility to efficiently manage their gas and electricity portfolios.
3.3	Other elements of the auction product	
5.	<p>Do you think the auction product should have:</p> <ul style="list-style-type: none"> ○ the same MHQ factor as that specified in the service provider's operational GTA? If not, please explain why. ○ a 'reasonable endeavours' renomination right? If not, please explain why. 	The proposed features are appropriate. But consistent with the secondary priority of the auction product, the reasonable endeavours renomination right of the auction product should also be secondary to the rights of firm capacity holders.

	Questions	Feedback
6.	<p>Do you think the auction product should have an imbalance allowance equivalent to that specified in the service provider's operational GTA?</p> <ul style="list-style-type: none"> ○ What, if any, effect do you think this would have on a MOS provider's ability to provide balancing services in the STTM? If you think it will be problematic, are there any measures that you think could be employed to address this issue, while also providing auction winners with some level of an imbalance allowance? ○ Are there any other issues that the GMRG should be aware of in relation to this proposal? 	<p>Origin is not supportive of including an imbalance allowance in the auction product specification. The auction product represents a throughput service provided over one day and is not intended to be used for storage purposes. Firm capacity holders also rely on access to pipeline storage for a number of purposes (including the provision of MOS) and these rights should not be undermined.</p>
3.4	Contract path specification	
7.	<p>Do you think a zonal or point-to-point contract path approach should be employed in the auction?</p>	<p>Origin is broadly supportive of the point-to-point contract path approach. Though additional measures will need to be considered to ensure confidential information relating to GPG nominations are not revealed (either directly or indirectly) through the publication of contracted but un-nominated capacity at each receipt/delivery point prior to the auctions.</p>
4.1	Calculation of auction quantity	
10.	<p>Given your view on product design, do you think as available or interruptible nominations received prior to nomination cut-off should be included in the calculation of contracted but un-nominated capacity?</p>	<p>As noted in the Consultation Paper, under Option 1 the secondary priority firm product would be scheduled ahead of as available and interruptible services when allocating the contracted but un-nominated capacity. Excluding as available and interruptible nominations from the calculation of contracted but un-nominated capacity is consistent with this prioritisation.</p>
4.2	Auction format	
16.	<p>Do you agree with the proposal to utilise a partial combinatorial auction? If not, please explain why?</p>	<p>Origin is supportive of the partial combinatorial auction format. This auction format will adequately protect bidders from aggregation risk and avoid the significant additional complexity associated with the fully combinatorial option.</p>

	Questions	Feedback
17.	<p>Do you think there is value in including the minimum requirement optional feature from market start, or do you think this could be added over time if required?</p> <ul style="list-style-type: none"> ○ If you think it should be included from market start, please outline the benefits you think bidders will derive from its inclusion and if you think these benefits will outweigh the costs and complexities of including this in the auction solver? ○ If a minimum requirement is adopted (either from market start or later), which combination of minimum requirement (global or bid-specific) and allocation mechanism (option 1 or 2) do you prefer and why? The GMRG is particularly interested in stakeholders' views on the impact on bidders and efficiency as well as potential gaming opportunities with any of these combinations 	<p>As noted in the Consultation Paper, adding a minimum requirement feature to the auction format would increase the complexity of the auction solver. It would also increase implementation costs, given the SRA solver that AEMO is proposing to leverage does not currently have this feature. Origin is therefore not supportive of implementing the minimum requirement feature from market start.</p>
18.	<p>Do you think there is sufficient demand for substitutable routes to warrant the inclusion of the XOR set optional feature? If so, please explain why.</p>	<p>Similar to the minimum requirement discussed above, the XOR set optional feature would introduce further complexity to the auction design and increase implementation costs for AEMO. Given there is currently limited demand for substitutable routes, the benefits of the XOR set optional feature are unlikely to outweigh the associated costs. To the extent substitutable routes become more important, this design feature could be considered at a later date.</p>
4.3	Reserve price	
20.	<p>If compressor fuel is provided by a service provider, do you think the reserve price should be adjusted to reflect these costs, or do you think the costs should be recovered through the operational GTA?</p>	<p>Allowing the service provider to recover compressor fuel costs through the operational GTA that the auction winner will have in place with the service provider would be the least complex option to implement.</p>
4.4	Pricing rule	
21.	<p>Do you agree with the proposal to adopt a pay-as cleared pricing rule? If not, please explain why.</p>	<p>Origin is broadly supportive of adopting a pay-as cleared pricing rule, given it would likely be strategically simpler from a bidding perspective and deliver a more efficient allocation of capacity in situations where demand changes unexpectedly.</p>

	Questions	Feedback
23.	<p>Do you agree with the proposal to set the price at the lowest accepted bid if the lowest accepted bid is fully cleared? If not, please explain why.</p> <ul style="list-style-type: none"> ○ If you propose an alternative pricing rule, please provide details on how this rule could be implemented and whether or not the inclusion of minimum requirements and/or XOR sets would be problematic under this alternative rule. 	Origin supports this proposal.
24.	<p>Do you agree with the proposal to use a random tie-break mechanism in those cases where there are more than one set of prices that satisfy the pricing constraints imposed by the lowest accepted bids? If not, please explain why.</p>	Origin supports this proposal.
4.6	Curtailement on the gas day	
27.	<p>Do you agree that auction winners should be able to try and procure primary capacity from the service provider if the curtailment arises as a result of a renomination and there is spare primary capacity available? If not, please explain why.</p>	Where auction capacity is curtailed as a result of a renomination but there is spare primary capacity available, auction winners should be able to try and avoid curtailment by procuring the primary capacity from the service provider.
28.	<p>Do you think that auction winners should be able to choose whether they are only curtailed on the product for which there is insufficient capacity or across all products? If not, please explain why.</p>	<p>If curtailment cannot be avoided and the auction winner has purchased multiple products, auction winners would likely value being able to choose between being curtailed:</p> <ul style="list-style-type: none"> ▪ on the product that has insufficient capacity; or ▪ by the same amount across all products in its winning bid.
29.	<p>Do you think that the pro-rating with compensation curtailment option should be employed as the project team has suggested, or do you think the pipeline wide valuation with or without compensation option should be</p>	Origin agrees the curtailment rules should be pragmatic and relatively simple in the initial stages of the auction's operation given there is some uncertainty surrounding the frequency with which curtailment will actually occur and the costs and complexities associated with some of the options being considered. The pro-

	Questions	Feedback
	employed? In addressing this question, please outline how significant you think the risks of curtailment are.	rating with compensation option is, which the GMRG notes is typically applied to as available and interruptible products currently, is therefore appropriate.
4.7	Allocation of the auction residue	
30.	Do you agree with the proposal to allocate the auction residue to service providers based on the revenue achieved by individual products? If not, please explain why and set out what alternative approach you think should be employed.	This approach is consistent with incentivising the release of spare capacity on a firm basis prior to the auction.
4.8	Information to be provided to auction participants	
31.	Do you agree with the proposal to: <ul style="list-style-type: none"> ○ provide auction participants with information on the products to be auctioned and the auction quantities prior to the auction? ○ provide auction winners with information on their own winning bids and the clearing price for all the products sold through the auction? ○ publish information on auction quantities and the clearing prices on the BB website? 	Origin is supportive of the proposed information disclosure requirements.
32.	Do you agree with the proposal not to publish the bid-stack in the initial stages of the auction's operation? If not, please explain why you think the gaming issues identified by NERA are unlikely to affect the robustness of the auction.	Origin believes there is merit in publishing the auction bid-stack to inform future capacity trades conducted through the secondary trading platform or bilaterally. We also do not agree that the gaming issues identified by NERA are likely to arise based on the level of expected participation in the auction.
4.9	Auction timing	
33.	Do you agree with the proposed timing offsets for the auction related D-1 activities? If not, how long do you think should be allowed for each activity?	<p>The indicative timings for the day-ahead auction specified in Table 4.5 of the Consultation Paper, which are based on current gas day and nomination cut-off times, are appropriate.</p> <p>As previously discussed with the GMRG, Origin also believes the 1 April 2021 timeframe for harmonising gas-day start times is still appropriate. While it is recognised this start-date was originally intended to align with the implementation</p>

	Questions	Feedback
		of the market reforms currently being considered by the GMRG, Origin does not believe current arrangements will impede trading of pipeline capacity.
5.2	Coverage of the auction	
35.	Do you agree with the proposal to apply the auction to all the transmission pipelines (excluding the Declared Transmission System) linking major demand centres and supply sources in the east coast and contractually congested pipelines in regional areas? If not, please explain why.	<p>As discussed above, Origin is not supportive of the GMRG's preliminary view that the day-ahead auction should apply to all transmission pipelines linking major demand centres and supply sources. This approach is inconsistent with the AEMC's overarching rationale for the day-ahead auction, which is to address contractual congestion and counter the market power held by service providers on those pipelines. It is also seemingly predicated on an expected allocative efficiency benefit, which in Origin's view is unlikely to be material and potentially offset by the negative impact of de-contracting on individual pipelines, which NERA acknowledged as a potential risk.</p> <p>Given the above, Origin believes the day-ahead auction should be limited to contractually congested pipelines only. To the extent there are concerns about monitoring contracting levels and accommodating fluctuations in those contracting levels, Origin does not believe this issue is insurmountable. Undertaking a periodic assessment of contractual congestion and setting the threshold at a reasonable level (e.g. 90 per cent) would ensure minor deviations in contracting levels between assessment periods do not materially impede access to pipeline capacity.</p>
37.	Do you think that the efficiencies associated with a broader application of the auction will outweigh some of the dynamic efficiency losses that could occur on individual pipelines? If not, are there any other measures that you think could be employed to ameliorate the effect of any such losses?	See response to Question 35 above.
38.	Do you agree that exemptions should be available to: <ul style="list-style-type: none"> o transportation assets that are not providing third party access? If not, please explain why. o transportation assets that service a single facility? If not, please explain why? 	Origin is supportive of the proposed exemption criteria.

	Questions	Feedback
39.	Do you think an exemption should be available to pipelines that fall below a minimum size threshold if they are not contractually congested? Please explain your response.	Origin agrees there may be value in providing exemptions to pipelines below a minimum size threshold, given the benefits associated with applying the auction to those pipelines may not outweigh the overall costs.
6.1	Auction platform and systems	
41.	Do you agree with AEMO's proposal to use existing systems and a modified version of the SRA algorithm? If not, please explain why.	Origin is supportive of AEMO's proposed approach, given the utilisation of existing systems will assist with minimising the cost and time associated with implementing the day-ahead auction.
6.2.2	Settlement arrangements	
43.	Do you agree with AEMO's proposal to combine the settlement amounts for the GSH and day-ahead auctions? If not, please explain why.	Origin agrees that a single settlement and credit support process across both markets should assist with reducing costs for shippers participating in those markets. But the extent to which this can be achieved while retaining the current credit risk management arrangements in the GSH requires further consideration.
6.2.3	Credit risk management	
44.	Do you agree with AEMO's proposal to combine the credit risk management arrangements for the GSH and auction products? If not, please explain why.	See response to Question 43 above.
6.2.4	Cost recovery	
45.	Do you agree with the proposal to recover AEMO's costs of implementing and conducting the day-ahead auction from auction and GSH participants? If not, please explain why.	Origin believes the costs associated with implementing and conducting the day-ahead auction should ultimately be recovered from auction participants, consistent with a user pays approach. Where this is not achievable due to the risks identified by the GMRG (e.g. insufficient auction revenue to cover AEMO's costs), the recovery of costs from both auction and GSH participants will assist with ensuring shipper's decisions to use either the auction or capacity trading platform are not distorted.
46.	Do you agree with the proposal to allow AEMO to determine, in consultation with auction and GSH participants, the fee structure that would apply to the	Origin is supportive of allowing AEMO to determine the fee structure in consultation with auction and GSH participants, consistent with current practice.

	Questions	Feedback
	day-ahead auction and secondary capacity trades? If not, please explain why.	

Part B - Reporting Framework for Secondary Trades

	Questions	Feedback
8.1	Types of trades to be reported	
50.	<p>Do you agree with the proposal to specify that the reporting framework will apply to the following types of secondary trades:</p> <ul style="list-style-type: none"> ○ all exchange traded products listed on the capacity trading platform; and ○ bilateral trades involving forward haul, backhaul, park, park and loan, and/or compression services that are given effect through either a bare transfer or an operational transfer? <p>Or do you think that there are other types of secondary capacity trades that should be reported?</p>	<p>Origin is broadly supportive of enhancing market transparency. But transparency is not an end to itself and does not automatically equate to greater market efficiency. We would also caution against any requirements that would reveal commercially sensitive information that could undermine a shipper's position in a related market such as electricity. Consistent with this, Origin remains concerned with the proposal to publish trades conducted on a bilateral basis and believes additional measures may need to be put in place to ensure commercial-in-confidence information is protected.</p>
8.2	Information to be reported	
51.	<p>Do you agree that the information set out in Table 8.1 should be reported for exchange based capacity trades and bilateral capacity trades? Or do you think that:</p> <ul style="list-style-type: none"> ○ additional information should be reported? If so, please set out what additional information you think should be reported and why. ○ less information should be reported? If so, please set out what information you don't think should be reported and why. 	<p>Consistent with the response to Question 50 above, for a given trade, Origin is not supportive of reporting information relating to:</p> <ul style="list-style-type: none"> ▪ any additional flexibility provided to the shipper, or restrictions it is subject to; or ▪ variations from standardised operational, prudential and other terms that affect price. <p>This information would be difficult to report on a consistent and meaningful basis and the overall value of its disclosure is unclear.</p>
52.	<p>Do you think any additional measures are required to protect the anonymity of counterparties? If so, please explain what</p>	<p>See response to Question 50 above.</p>

	Questions	Feedback
	they are and how this would be consistent with the overarching objectives of the reporting requirements.	