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Dr Michael Vertigan
Independent Chair
Gas Market Reform Group
COAG Energy Council Secretariat
GPO Box 787
Canberra ACT 2601

Dear Dr Vertigan

Day-Ahead Auction Of Contracted But Un-Nominated Capacity & Reporting Framework – Consultation Paper

Santos welcomes the opportunity to provide comments on the Gas Market Reform Group's (GMRG) consultation paper on the day ahead auction of contracted but un-nominated capacity and reporting framework.

Santos is broadly supportive of the GMRG's proposal to develop an auction mechanism to utilise existing pipeline capacity more efficiently.

As requested, Santos has provided a response to some of the detailed design questions raised by the GMRG in the formatted table. A summary of the key points that Santos believe should be considered for this consultation is provided below.

Existing re-nomination rights

Santos strongly agree with the AEMC and the recommendations of the GMRG that existing re-nomination rights - including both firm and reasonable endeavours - should be honoured. As stated and recommended by the AEMC as a required outcome, nominations or renominations by incumbent shippers that occur after the auction is conducted should be accommodated and that the auction product be curtailed prior to firm capacity.

The AEMC also expressly mentioned that whilst some renomination rights are reasonable endeavours there is significant value attached to this right due to the actual gas transportation requirements vary compared to their forecast requirements made at the nomination cut-off time. Santos and its downstream customers frequently utilise and value these rights to optimise the efficient use of its capacity and other infrastructure.

It should also be noted that in many instances the difference between the contractual term of "firm" and "reasonable endeavours" is to cover for any operational issues that may occur on the pipeline, this does not mean that it is a lower contractual priority.

Therefore consistent with the AEMC's recommendation, it holds that "reasonable endeavours" should be translated into "firm" for intraday renominations.

Coverage

For this reform to enable more gas to flow to where it is needed, Santos agrees that coverage should be applied to all relevant transmission pipelines. Applying this reform to only contractually congested pipelines will restrict its effectiveness, will not put downward pressure on the price of all pipeline services and will be administratively burdensome with pipelines moving in and out of the auction.

Priority

Santos also acknowledges that to gain greater efficiency and drive down the price of some services, the auction product does need to be of a reasonable quality to make it an attractive alternative to other non-firm products. However this must not be at the expense of the current contractual rights of firm shippers, specifically the ability for intraday renominations (as mentioned above).

Therefore the secondary priority with all renomination rights held is a fair balance between protecting the value of firm capacity and driving change in the non-firm capacity market.

Should you have any questions in relation to this letter, please contact me at matt.sherwell@santos.com or on (08) 8116 5824.

Yours sincerely

Matt Sherwell

**Manager Policy & Regulatory Affairs
Santos Ltd**

	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. 	<p>Yes, Santos agree that these transportation and compression services should be included in the auction.</p>
2.	<p>Do you agree with the proposal to include an interruptible backhaul service in the auction for single direction pipelines? If not, please explain why.</p>	<p>Yes, to efficiently move gas throughout the network, backhaul should be included. One of the stated goals of the day ahead auction is to put downward pressure on the price of as available and interruptible capacity services. Without the inclusion of backhaul services in the auction, there GRMG are making a statement that there should not a similar directive to focus on the pricing of backhaul, which Santos believe would be a missed opportunity.</p>
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. 	<p>Santos believe that firm capacity should always rank higher than all other capacity products. The purchase of firm capacity effectively underwrites the construction of the pipeline, therefore firm capacity and all of its terms and conditions - including all forms of renomination rights both firm and reasonable endeavours - should be honoured.</p> <p>Santos also acknowledge that to gain greater efficiency and drive down prices of some services, the auction product does need to be of a reasonable quality to make it an attractive alternative to other non-firm products.</p>

	Questions	Feedback
		Therefore Santos agree that if all intraday renomination rights - firm and reasonable endeavours - are allowed then the secondary priority is a fair balance between protecting the value of firm capacity and driving change in the non-firm capacity market. If these intraday renomination rights are not allowed then Santos suggests a lower priority auction product is more applicable.
4.	Are there any other tools that you think should be available to auction participants to manage curtailment risk?	
3.3 Other elements of the auction product		
5.	Do you think the auction product should have: <ul style="list-style-type: none"> o the same MHQ factor as that specified in the service provider's operational GTA? If not, please explain why. o a 'reasonable endeavours' renomination right? If not, please explain why. 	The auction product should have the rights as outlined in the service providers operational GTA
6.	Do you think the auction product should have an imbalance allowance equivalent to that specified in the service provider's operational GTA? <ul style="list-style-type: none"> o 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? o Are there any other issues that the GMRG should be aware of in relation to this proposal? 	Yes
3.4 Contract path specification		

	Questions	Feedback
7.	Do you think a zonal or point-to-point contract path approach should be employed in the auction?	For day ahead, point to point seems to be an appropriate contract path to be employed in the auction.
8.	<p>If you think a point-to-point approach should be employed, do you have any concerns with:</p> <ul style="list-style-type: none"> ○ the proposal to use different approaches for the trading platform and auction? If so, please explain why. ○ the potential for the publication of information on contracted but un-nominated capacity at delivery points servicing market generating units to adversely affect competition in the NEM? If so, please explain why and how you think this could be addressed. 	There is concern with the level of commercial in confidence information that could be released if this specific point to point information was released. On some delivery points there are only very few users, therefore by publishing this information customers and contracting parties can be identified. Aggregating information at a minimum into appropriate zones should occur to ensure confidentiality is maintained.
9.	Are there any other complexities associated with the point-to-point approach or technical requirements the GMRG should factor into its consideration of this issue?	
4.1	Calculation of auction quantity	
10.	Do you agree that the calculation of the contracted but un-nominated capacity will simply involve deducting the actual nominations from the reserved capacity for each product (e.g. at receipt points, delivery points, pipeline segments and compression), or are there other complexities that service providers will need to deal with that have not yet been identified?	
11.	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?	Yes

	Questions	Feedback
12.	If the auction product is defined as a second priority as available or interruptible product, do you think service providers should be required to employ a top down approach to scheduling these services, or are there technical reasons why this approach can't be employed?	The top down approach appears to be the most appropriate method and enables the greatest amount of capacity to be made available to the auction.
13.	Are there any other factors that service providers would need to take into account when calculating the auction quantity for each product?	
14.	Are there any specific calculation issues that the GMRG would need to consider if the point-to-point approach is used?	
15.	Do you think the method service providers are to use when calculating the auction quantity should be specified in the NGR, or do you think service providers should be able to develop their own method and have it approved by the AER?	Where possible a consistent methodology to determine the auction quantity should be used unless there are some operational constraints specific to individual pipelines. Embedding into the NGR would ensure that consistency was maintained and tracked.
4.2 Auction format		
16.	Do you agree with the proposal to utilise a partial combinatorial auction? If not, please explain why?	Yes
17.	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? <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 	Minimum requirement is not a feature that is required initially and could be added overtime if it is found to support the development of the day ahead capacity auction market.

	Questions	Feedback
	<p>benefits will outweigh the costs and complexities of including this in the auction solver?</p> <ul style="list-style-type: none"> ○ 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 	
18.	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.	
19.	Do you agree with the proposal to include the static backhaul optional feature? If not, please explain why.	Santos support the inclusion of static backhaul
4.3	Reserve price	
20.	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?	
4.4	Pricing rule	
21.	Do you agree with the proposal to adopt a pay-as cleared pricing rule? If not, please explain why.	Yes, pay as cleared is the standard in other energy auctions in Australia including AEMOs SRAs and should be maintained for the day ahead capacity auction.
22.	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	

	Questions	Feedback
	requirements and/or XOR sets would be problematic under this alternative rule.	
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. 	Yes
24.	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.	Yes
4.5	Method for determining winning bidders	
25.	Do you agree with the proposal to determine winning bidders through the use of a profit maximising algorithm, which in this case reduces to a revenue maximising algorithm? If not, please explain why.	
26.	Do you agree with the proposal to use a random tie-break rule to determine winning bidders? If not, please explain why.	Yes
4.6	Curtailement on the gas day	

	Questions	Feedback
27.	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.	Yes, there is currently no impediment for a potential shipper to purchasing firm capacity directly from the service provider. This example should be not be any different.
28.	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.	Curtailment should be specific to a product. If an auction winner is using associated products (for example auction capacity on an adjoining pipeline) then they do so at their own risk. A curtailment of an auction product on one pipeline should not excuse them from any commitment they have for an auction product on another facility.
29.	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 employed? In addressing this question, please outline how significant you think the risks of curtailment are.	Santos support pro-rating with compensation which is the requirement not to pay the auction price for the amount of capacity that the auction winner is curtailed for.
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.	
4.8 Information to be provided to auction participants		
31.	Do you agree with the proposal to:	<input type="radio"/> Yes <input type="radio"/> Yes <input type="radio"/> Yes

	Questions	Feedback
	<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? 	
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.	Yes
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?	
34.	What do you think should occur if: <ul style="list-style-type: none"> ○ a service provider is unable to provide AEMO with the auction quantity within the required timeframe? ○ AEMO experiences a system failure and is unable to conduct the auction within the required timeframe? 	
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	Yes, Santos support this reform being applied to all transmission pipelines. Applying this reform to only contractually congested pipelines will restrict the effectiveness of the reform, will not put downward pressure on the price of all

	Questions	Feedback
	congested pipelines in regional areas? If not, please explain why.	pipeline and will be administratively burdensome with pipelines moving in and out of the auction.
36.	Are there any other pipelines or compressors that you think should be added to the list of pipelines and compressors that could be subject to the auction in Table 5.2?	
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?	
38.	Do you agree that exemptions should be available to: <ul style="list-style-type: none"> ○ transportation assets that are not providing third party access? If not, please explain why. ○ transportation assets that service a single facility? If not, please explain why? 	Yes Santos agrees with the GMRG recommendations that transportation assets that are not providing third party access or service a single facility be exempt from a day ahead auction.
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.	
40.	Are there any other exemptions that you think should be provided for? If so, please explain what they are and why they are required.	Pipelines with a no-coverage determination under the NGL should also be exempt.
6.1	Auction platform and systems	

	Questions	Feedback
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.	Yes
42.	Will service providers need to put any new systems in to calculate auction quantities or to deal with information transfers between itself and AEMO? If so, how long do service providers think this is likely to take?	
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.	Yes
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.	Yes
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.	
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 day-ahead auction and secondary capacity trades? If not, please explain why.	Yes, with the proviso that it is acknowledged that this is a long term investment and repayment should be over a number of years

	Questions	Feedback
47.	Do you think the cost recovery provisions should be specified in the NGR?	
6.25	Other contractual arrangements required by auction winners	
48.	What changes do you think will need to be made to the Operational Code that was released for public comment in the <i>Standardisation Related Reforms and the Capacity Trading Platform Consultation Paper</i> to accommodate the auction product?	
7.2	Legal and governance framework for the day-ahead auction	
49.	Are there any other changes that you think will be required to the legal and governance framework to give effect to the day-ahead auction that have not been identified in	