

Our Ref: GMRG – Consultation Paper Response
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8 June 2017

Gas Market Reform Group
c/o Australian Energy Market Commission
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Submitted via email: enquiries@gmrg.coagenergycouncil.gov.au

Submission to the Gas Market Reform Group's "Operation and Administration of the Capacity Trading Platform(s) and Day-Ahead Auction" Consultation Paper

Epic Energy South Australia Pty Ltd (EESA) welcomes the opportunity to highlight some concerns with respect to the Gas Market Reform Group's (GMRG) "Operation and Administration of the Capacity Trading Platform(s) and Day-Ahead Auction" (consultation paper), dated May 2017.

The implementation of the Capacity Trading Platform and Day-Ahead Auction reforms (Reform Package) were recommended by the Australian Energy Market Commission (AEMC) as part of its *Eastern Australian Wholesale Gas Market and Pipelines Framework Review* and (AEMC East Coast Gas Review) and were endorsed by the COAG Energy Council at its August 2016 meeting. The objectives of this reform were described by the AEMC as being to "address contractual congestion and to undermine the market power held by pipeline operators in the market for day-ahead capacity"¹.

EESA is supportive of the introduction of a Reform Package process as recommended by the AMEC and endorsed by the COAG Energy Council.

EESA is also concerned that the GMRG appears to be expanding on the recommendations of the AEMC East Coast Gas Review based upon feedback from GMRG consultation group participants. As an example, the scope of this inquiry is now considering the expansion of the auction into all services: park, primary bi-direction and backhaul services, rather than simply confining the inquiry to specifically contracted but un-nominated services to resolve contractual congestion. EESA submits that

¹ Gas Market Reform Group: *Operation and Administration of the Capacity Trading Platform(s) and Day-Ahead Auction* Consultation Paper, May 2017

contractual congestion is a significant issue which requires this inquiry's specific attention as identified by the AEMC.

It seems clear that significant uncertainty around the design of the Day-Ahead Auction and Capacity Trading Platform remains, some specific questions include:

1. What role will the proposed standardized Gas Transportation Agreements (GTA) currently being considered by the GMRG play in the Day-Ahead Auction and Capacity Trading Platform?
2. How will existing GTA's which hold customer specific flexibility be traded via the proposed standardised GTA via the Capacity Trading Platform and Day-Ahead Auction?
3. What specific products will be included within the Reform Package for auction?
4. What level of service will be provided for within the Reform Package (Firm versus Interruptible) and how will risk be allocated?

The above questions which is only an example of the consideration required by the GMRG will have a significant impact on the implementation of the Reform Package including the cost of implementation and the most appropriate party to administer the system.

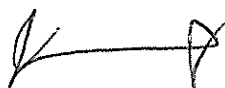
EESA is primarily concerned with the sequencing of decision-making. EESA submits that it is very difficult to provide a detailed critique into the operation and administration of the day-ahead auction process in the absence of a detailed design as highlighted above. EESA's concern is that the GMRG's consultation paper is seeking to implement significant change without fully scoping the change. The result is that any outcomes/decisions made will be based on inaccurate information without fully taking into account the risk of these outcomes/decisions. EESA therefore seeks that the GMRG delay its decision on the operation and administration of these reforms until a full scope of the design has been undertaken.

EESA further submits that in undertaking this inquiry, the GMRG should be mindful of the possibility of increased complexity, additional costs and blown-out timeframes which could potentially change the decision-making process down the track.

The schedule attached to this letter provides EESA's responses to the specific questions raised in the consultation paper.

Should you require further information regarding any of the comments made in this submission, please contact myself on (08) 8343 8154 or jeff.olling@epic.com.au.

Yours sincerely



Jeff Olling
Manager, Government, Regulatory and Stakeholder Relations

Schedule A

EESA's responses to the questions from the consultation paper

Capacity Trading Platforms

1. Do you think: a. a single capacity trading platform should be developed? or
b. each pipeline operator should develop its own capacity trading platform?

EESA: Single trading platform would be most appropriate.

2. If you think a single capacity trading platform should be developed, do you think it should be: a. operated by AEMO as part of the Gas Supply Hub? or
b. operated on a stand-alone basis by a joint venture of pipeline operators, or another party with relevant experience?

EESA: AEMO would be the preferred operator to undertake a single capacity trading platform. However, as discussed in our submission, EESA is concerned that we are yet to understand how trades will occur to ensure proposed costs are accurate and if AEMO has the ability to administer the platform where specific asset knowledge is required.

3. If the capacity trading platform is to be operated as part of the Gas Supply Hub, do you think that once the trade has been executed: a. the anonymity of trading parties should be maintained by AEMO informing the pipeline operator of the trade (i.e. the fully anonymous option)? or
b. the identity of the trading parties can be revealed and the communication of the trade to the pipeline operator left to the trading parties (i.e. the partially anonymous option)?

EESA: No comment at this stage as EESA is unlikely to be impacted by the outcome.

4. Are there any other elements of AEMO's proposal that you would like to comment on?

EESA: No other comments at this stage

Day-Ahead Auctions

1. Do you think: a. a single auction platform should be developed? or
b. each pipeline operator that is to be subject to the auction should develop its own auction platform?

EESA: As stated in our submission, the GMRG is seeking to implement significant change without fully scoping the change. The result is that decisions with respect to auctions will be based on inaccurate information without fully taking into account the risk of these decisions. If the product as proposed by the AEMC is implemented, EESA may support AEMO administering the auction platform. However the key risk we see is that as the product is developed (that is, after this consultation process), it may result in an outcome that AEMO may not be able to administer and would be more suited to a pipeline operator developing its own auction platform.

2. If you think a single auction platform should be developed, do you think it should be: a. operated by AEMO? or
b. operated on a stand-alone basis by a joint venture of pipeline operators, or another party with relevant experience?

EESA: as above (Q1)

3. Are there any other elements of: a. AEMO's proposal that you would like to comment on?

EESA: We are concerned with cost estimates which are based on a very simple auction process and this occurs without developing the product to be auctioned. Further, the three hour time delay after the initial schedule will result in changes to System Use Gas which will result in shippers having to amend their positions through an upstream supplier and accept any variance that is caused as a consequence.

- b. APGA's proposal that you would like to comment on?

EESA: No comment at this stage