



1 June 2015

John Pierce
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Submitted online: www.aemc.gov.au

Dear Mr Pierce

EAST COAST WHOLESALE GAS MARKET AND PIPELINE FRAMEWORKS REVIEW – STAGE 1 DRAFT REPORT

Origin Energy Limited (Origin) welcomes the opportunity to comment on the Australian Energy Market Commission's (AEMC's) stage 1 draft report in relation to its east coast wholesale gas market and pipeline frameworks review.

Origin congratulates the AEMC on producing a thorough and well researched draft report in a very short period of time. Through developing a factbase of current market arrangements and operations, the draft report provides a balanced view of the current issues in the facilitated gas markets and gas transmission pipeline capacity arrangements and draws out the pertinent matters for reform.

Origin broadly supports the issues identified by the AEMC as stage 1 "no regrets" measures. We generally consider these could be pursued immediately to boost the efficient and effective operation of the gas market. The only exception, however, is the measure to harmonise gas days which we consider requires a longer term approach. We support this measure in principle but suggest there are a number of practical complexities that need to be worked through first.

Origin also broadly supports the issues identified as areas of focus for the stage 2 process of the review. These issues are the ones most often raised by industry with varying views on the extent of reform required. With each area of focus, the existing challenges and market failures should be identified and any market change or regulatory intervention should address those challenges and market failures in a proportionate way. Cost-benefit analyses are a necessary component of this process. We would also expect the AEMC to consider the extent to which any measures undertaken as part of stage 1 (or through some other process) may preclude or diminish the need for some stage 2 activities. For example, we note that the AEMC will commence its consultation process on the COAG Energy Council rule change aimed at enhancing transparency in pipeline trading shortly.

The remainder of this submission outlines Origin's position on each of the stage 1 measures and stage 2 areas of focus, including some preliminary issues we have identified for consideration under each matter.

Should you have any questions or wish to discuss this information further, please contact Lillian Patterson on lillian.patterson@originenergy.com.au or (02) 9503 5375.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "Steve Reid".

Steve Reid
Manager, Wholesale Regulatory Policy

1 Stage 1 “no regrets” measures

Origin broadly supports the “no regrets” issues identified by the AEMC that can be progressed in the shorter term. We generally agree these can be implemented without undermining the stage 2 process of this review but note that one measure, namely harmonising the gas days, requires resolution of practical complexities before it can be definitely progressed.

1.1 Improve price transparency through either a survey-based gas price index and/or aggregating existing publicly available information

In our view, there is merit to both proposed options—a survey-based gas price index and aggregating existing publicly available information—being progressed to increase transparency. Below are some considerations for each option:

- Survey-based gas price index – There is a degree of detail that needs to be worked through around approach, methodology, participation and form of publication. A key issue that will influence the value of the index is ensuring a sufficient number of participants to allow for adequate price spread and anonymity. To ensure buy-in from key stakeholders it is important that industry is involved in the development of the index from the onset.
- Aggregating existing publicly available information – This could form a part of the Australian Energy Regulator’s (AER’s) Weekly Gas Market Report as this already gives an overview of average daily prices in the Victorian Declared Wholesale Gas Market (DWGM) and three Short Term Trading Market (STTM) hubs, as well as volume weighted prices for the Wallumbilla gas supply hub.

The draft report explains that the AEMC is not proposing to mandate the disclosure of confidential information. Origin supports this approach and agrees that it is unclear as to how much value the market would derive from such information given the prices payable under confidential contracts are reflective of the terms and conditions of supply and not simply the value of gas.

1.2 Establish the Bulletin Board as a “one-stop shop” for all gas market data, including enhancing compliance

Information about the east coast gas market is fragmented across a number of sources. Origin supports improving the Bulletin Board to make it a comprehensive “one-stop shop” source of information. We also support the following suggested improvements to increase the scope of the Bulletin Board and improve its useability and functionality:

- price information from the facilitated markets on a new facilitated markets pricing page;
- planning and longer term forecasts information on a new long term forecast and planning page; and
- expanding the scope of capacity listing to include a voluntary listing service for gas, transportation and storage capacity and combining the APA Group and Jemena capacity trading sites into a single site.

The draft report suggests a potential improvement could be to reconsider whether participants should be required to list available gas or spare capacity through the Bulletin Board. Work in this area to date highlights that there are differing views about the appropriateness of a mandated requirement to list available gas or spare capacity, particularly on a per participant basis. These differing views demonstrate that this is not a no regrets measure and should instead be considered as part of the stage 2 process.

The AEMC also suggests further improvements could be made to the Bulletin Board’s layout and functionality. At the request of the then Standing Council on Energy and Resources, the Australian Energy Market Operator (AEMO) undertook such a process in 2014 that vastly improved the presentation, functionality and useability of the Bulletin Board both in terms of discoverability of data

and the ability to submit data. We do not consider another similar process necessary at this stage and would caution that the cost of such a process may not deliver a commensurate level of benefit.

Origin shares the general market concern that current information on the Bulletin Board is not always complete, timely or accurate. We agree with the AEMC's conclusion that if the Bulletin Board is to become a one-stop shop, participants will also need to have greater confidence in the information provided by Bulletin Board facilities. As a result, we support the suggestion that a greater focus be given to Bulletin Board compliance and enforcement processes undertaken by the AER and AEMO.

1.3 Assess the degree to which additional informational gaps falls within the scope of the Gas transmission Pipeline Capacity Trading: Enhanced Information rule change and could be addressed under that process

Origin supports enhanced gas market information where it is accurate and useful for participants and does not reveal commercially sensitive information about participants' portfolios. It is appropriate that the AEMC review information gaps that fall within the scope of this rule change as part of its rule change assessment process to ascertain whether there is additional information that delivers the intended purpose of the rule change and contributes to the National Gas Objective.

1.4 Establish a technical working group to begin analysis on the potential simplification of the STTM design with the goal of transitioning these markets to a more focused balancing market design

Origin's previous submission to this review strongly advocated for a need to simplify the unnecessarily complex elements of the STTM. This in turn would reduce the cost of operating in this market. Accordingly, we strongly support the establishment of a technical working group tasked with scoping how to transition the STTM from its current design to one focused more specifically on balancing. We look forward to working with the AEMC, AEMO and other participants on this working group.

1.5 Harmonise the start time of the "gas day"

The principle of harmonised gas days has merit but its implementation has some practical complexities. These include the need for system and, operational changes as well as contractual review and potential amendment as often contracts refer to a set time (e.g. 6am) rather a set period before or after the gas day (e.g. 2 hours after the start of the gas day). This issue was identified in the process to implement the Brisbane hub given a different gas day start time in Queensland compared with in NSW and South Australia. The Brisbane hub process concluded that harmonising the gas days was too difficult just for the commencement of the hub. The result was that the differing gas days were maintained and instead the National Gas Rules uses the latter approach of stating a period before or after the gas day in the section covering the STTM (Part 20).

While Origin supports exploring harmonisation of gas day start times, including whether the electricity day should also be harmonised, we note there is a significant body of work required around this. As such, the no regrets measure should outline a process to initiate this work, which should include canvassing the range of system and contractual changes required and their associated costs, rather than a definitive recommendation to move to a particular start time for the gas day.

1.6 Remove the limitation in the National Gas Law on who can submit DWGM rule changes

Origin supports removing the restriction that allows only AEMO or the Victorian Minister to submit rule changes in relation to the operations of the DWGM. By permitting anyone to submit a rule change as long as it meets certain criteria such as an explanation of how the proposed rule contributes to the achievement of the National Gas Objective, this would bring the rules for the DWGM into line with the other facilitated markets and other matters covered in the National Gas Rules.

2 Directions for stage 2

Origin supports the areas of focus that the AEMC has identified as medium to long term issues for stage 2 of its review.

2.1 Redesign the STTM

As detailed in our earlier submission and articulated in the draft report, there are issues in the STTM with respect to its complexity, the value of the ex ante price signal, the inability to manage risk and transaction costs. As a result, Origin agrees with the AEMC that there is merit in considering whether:

- the originally stated STTM objectives—mandatory price based balancing mechanism, facilitate daily gas trading, and provide pricing signals and facilitate secondary trading—remain relevant in the contemporary east coast market and whether the current market design is achieving those objectives efficiently; and
- if not, whether the objectives and design of the STTM need to be refocused, taking into account developments in the broader east coast market and the STTM's role alongside other facilitated markets.

The AEMC suggests this process is likely to lead to a simplified STTM design based around a balancing market. This seems a reasonable conclusion given the difficulties of developing any significant volume of commodity trading at points so remote from production. The AEMC also suggests there may be merit in trialling a simplified market design at Brisbane. In our earlier submission to this review, Origin suggested that the Brisbane hub could be ceased and balancing could instead be done at Wallumbilla. We would like to see this option considered as part of the STTM redesign process. This also links into another stage 2 issue regarding developing a long term strategy for the location of facilitated markets.

2.2 Reconsider the design of the DWGM

Similar to the STTM, Origin agrees with the AEMC that there is merit in considering whether the originally stated DWGM objectives—support full retail competition and encourage diversity of supply and upstream competition—remain relevant and whether the current market design is achieving those objectives efficiently, and if not, whether the objectives and design of the DWGM need to be refocused. The AEMC suggests this process would establish whether energy prices can be separated from balancing and uplift charges by effectively harmonising the balancing element of the market with the design of the STTM and the commodity element with the gas supply hub. Origin supports exploring this arrangement as it could drive more efficient outcomes in the DWGM by deepening liquidity, improving price discovery and reducing cost in commodity gas trading while improving efficiency and competitiveness in the balancing service. Such a process would need to consider the effect on Authorised Maximum Daily Quantity (AMDQ) and AMDQ Credit Certificates (AMDQCC), which is discussed in the following section.

2.3 Introduce capacity rights to the DWGM

The draft report notes that the nature of the market carriage arrangements in Victoria are such that shippers cannot obtain firm access rights for gas transportation. As a result, it suggests an examination of the potential to introduce capacity rights to the DWGM with the objective of better facilitating market-led investment in network expansion. Given shippers can acquire AMDQ and AMDQCC, which provide certain financial and market benefits and some limited physical benefits in tiebreaking situations, Origin suggests a key consideration for this process will be if and how a capacity rights arrangement could replace or operate alongside the existing AMDQ and AMDQCC arrangements. Given AMDQCC is obtained from shippers through an auction process, it is important that shippers are still able to access the rights associated with the AMDQCC holdings that they have already paid for.

2.4 Develop a long term strategy for the location of facilitated markets

There are currently three facilitated market models—DWGM, STTM and gas supply hub—and five facilitated market locations—Victoria, Sydney, Adelaide, Brisbane and Wallumbilla—with a sixth at Moomba being developed. As a result and particularly given the pace of facilitated market establishments in recent years, it would be opportune to develop a long term strategy that holistically considers the optimal number and location of facilitated markets. An efficient and integrated east coast gas market requires that the location of each market and the model at that location is appropriate and fit for purpose, and that the markets individually and collectively deliver value to market participants.

2.5 Further develop the Wallumbilla gas supply hub

AEMO is progressing a workstream looking at developing a single hub model at Wallumbilla. This includes investigating the potential for the provision of hub services. The AEMC suggests in its stage 2 process there is likely to be merit in complementing AEMO's technical work by investigating the effects on the competitive landscape for the provision of hub services, including the possible need for economic regulation. It is unclear what this would actually entail but Origin notes there are a number of participants at Wallumbilla that already have access to services at the hub, such as compression. A workable single hub model should preserve these existing rights and facilitate the competitive provision of services on a voluntary basis by allow existing right holders to use and trade their own services. Origin continues to support a voluntary, low cost gas supply hub model. We caution against any single hub model that moves away from this in that it would apply to all flows through Wallumbilla or involves a compulsory centralised hub service concept.

2.6 Consider potential measures to better facilitate pipeline capacity trading

Origin supports capacity trading. The first step in considering potential measures to better facilitate capacity trading is to articulate and, where possible, quantify the materiality of the challenges experienced in finding and executing capacity trades. The draft report suggests examining the current barriers to secondary capacity trading, such as the way in which point to point rights are specified. We suggest other issues to consider include but are not limited to the volumes, durations and times of the day and year that participants are seeking capacity for, the search process and the negotiation process, including transaction costs and prices. Only when the scope of current challenges is well understood can industry looked to identify targeted capacity trading options that respond in a proportionate and efficient way.

The draft report also notes the AEMC intends to examine and potentially draw on approaches to capacity trading used in international markets in Europe and North America. Origin appreciates the AEMC has recognised the need to be mindful of the significant differences between the European, North American and Australian markets and as such, it may not be appropriate or possible to strictly apply any international capacity trading regimes to the Australian context. In our previous submission to this review, we detailed some aspects of the more interventionist capacity regimes in overseas markets that should be considered in any assessment of these models given they could have negative implications in the Australian context. We would like to see these form a part of the AEMC's investigation.

Origin also suggests it is important that this work recognise that capacity trading regimes in international markets were developed and implemented through a staged approach over a number of years. It would be erroneous to jump straight to a certain mechanism observed in international markets without first exploring an incremental change process where changes are given time to be implemented.

2.7 Consider the strategic direction for information provision, including the Bulletin Board

Origin supports the AEMC considering the strategic direction for information provision, including the Bulletin Board. As noted above, we have some concerns about the completeness, timeliness and accuracy of current information and so welcome an assessment of whether information can be improved. In terms of current scope of information, there have been some observations that suggest the market currently may not have the information required to enable efficient decision making and risk management and ultimately efficient gas allocation. We suggest careful consideration must be given to the level of information required by the market. A “more information is always better” view is not appropriate. Regulatory intervention to require greater transparency should only occur if it can be demonstrated that there is a clear market failure that the particular additional information can address. Origin also cautions that increased information provision should not compromise the commercial positions of market participants and that it should only be pursued where its benefit outweighs the costs associated with its provision, collection, organisation and dissemination.