



9 May 2012

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

Dear Mr Pierce

GRC0014: SHORT TERM TRADING MARKET (STTM) DEVIATIONS AND THE SETTLEMENT SURPLUS AND SHORTFALL - DRAFT DETERMINATION

Origin Energy Limited (Origin) welcomes the opportunity to comment on the Australian Energy Market Commission's (AEMC's) Draft Determination in relation to changes to STTM deviations and the settlement surplus and shortfall.

In our earlier submission to the Consultation Paper, Origin supported the principle of the Rule change to strengthen cost to cause in the STTM. This submission noted that the proposed market design change goes a significant way to reduce deviation pricing uncertainty in the STTM. However, it also detailed two issues that required further consideration and resolution: Market Operator Service (MOS) pricing; and deviations arising due to non-market factors. Given these issues are not discussed in the Draft Determination, Origin wishes to reiterate them again here.

MOS pricing

In our earlier submission, Origin suggested changes to MOS pricing that could further improve cost to cause by providing stronger pricing signals and incentives. Namely, we suggested the MOS service payment should be valued at the marginal clearing price (rather than the pay-as-bid price) and the MOS commodity payment or charge should be set at the ex post imbalance price on the day (rather than the D+2 ex ante market price). This would mean that a deviating participant would pay the full economic value of the balancing service.

While we consider the Draft Determination is a step towards improved market operations, these additional changes may provide a longer term solution that could enhance participants' ability to manage risk by making a gas day self-contained. We consider this to be a positive market development.

When making these suggestions, we noted they offered a more extensive market change, which would require further development work and analysis. The option, however, offered a solution to address the same underlying problem as the original Australian Energy Market Operator (AEMO) proposal. As such, while Origin's proposal is at an earlier stage of development, it is within scope from the perspective of addressing the same problem identified by AEMO. Even though it cannot be implemented as quickly as AEMO's option, it is beneficial for the AEMC's analysis to recognise there are other alternatives available, which could provide further enhancements at a future date.

Considering such options- even at a high level - provides stakeholders with the opportunity to consider and comment on future market developments. It could also inform how the AEMC may choose to implement a short-to-medium term solution in light of a possible longer term developments. Taking approach with any Rule change process

can promote more efficient market outcomes and help provide an indication of future developments.

The AEMC has recently proposed a new “gas strategic priority” to promote the development of efficient gas markets. In line with this priority, we consider the AEMC’s assessment of the Rule change should also discuss options like the one put forward by Origin, in the context of its gas market development role.

Deviations as a result of non-market factors

Introducing the average cost of MOS into the deviation pricing structure is intended to assign the cost of MOS to those participants who caused it on a gas day. In our earlier submission, we identified the possibility of a market event that could give rise to large deviations for a non-market reason, e.g. a pipeline capacity data error. Under those conditions, we described how this proposal heightens the consequences of significant financial impact to participants should there be large deviations or scheduled MOS that are beyond their control. Our submission explained there is a need to consider further market design changes to enable participants to manage these situations effectively. Specifically, we recommended a change to allow for the reopening of a gas day to review and resettle price outcomes.¹

From our review of the Draft Determination, there does not appear to be any discussion on this consequence. While we note that the likelihood of large deviations or scheduled MOS due to non-market factors may be relatively small, Origin considers it is a relevant consideration for the AEMC’s net benefit assessment of the Rule change proposal as a whole. While the probability may be low, the potential costs associated with such an event need to be considered.

We recommend the AEMC discuss this issue in its Final Determination. It is important for participants to be aware of the potential increased costs to them associated with the Rule change. Such a discussion is also appropriate from a broader market development perspective similar to that explained above in relation to MOS pricing.

Further information

Should you have any questions or would like to discuss this submission further, please contact Hannah Heath (Manager, Wholesale Regulatory Policy) on (02) 9503 5500 or hannah.heath@originenergy.com.au.

Yours sincerely,



Phil Moody
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¹ Note: In the National Electricity Market, AEMO has the ability to review prices for selected trading intervals where “manifestly incorrect inputs” were used in dispatch.