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

The Australian Energy Council (the “**Energy Council**”) welcomes the opportunity to make a submission in response to the Gas Market Reform Group’s (“**GMRG’s**”) *Day-Ahead Auction of Contracted but Un-Nominated Capacity & Reporting Framework Consultation Paper*.

The Energy Council is the industry body representing 21 electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. These businesses collectively generate the overwhelming majority of electricity in Australia and sell gas and electricity to over ten million homes and businesses.

Introduction

The Energy Council supports increased liquidity in the capacity trading markets, particularly since there is a growing linkage between the gas and electricity markets, as more variable renewable energy penetration requires increased gas-fired generation to complement it. Consequentially, the very short-term nature of the electricity market with its demand fluctuating significantly from hour to hour means that, despite the physical characteristics of gas such as linepack allowing minor variations, gas supply also needs to be responsive on a short-term basis. The Energy Council therefore has concerns that the proposed Day-Ahead Auction Framework could have a detrimental impact on both gas and electricity markets if poorly designed.

Discussion

The corollary to the need to handle short-term variations in gas requirements is the need for the Day-Ahead Auction Framework to handle different priority services. The recommended auction product option, Option 1 “Second Priority Firm Auction Product”, allocates priority to auction products ahead of as-available, authorised overruns, and interruptible products, but below the rights of firm shippers. As noted above, the ability to renominate gas flows intra-day (e.g. in response to an unforeseen increased gas generation requirement) is crucial in meeting customer demand and managing the portfolios of participants operating across both gas and electricity markets. Ensuring the day-ahead auction framework accommodates all forms of renomination rights available to firm shippers, as appears to be the case under Option 1, is therefore essential.

Regarding the priority level of the auction product relative to non-firm services, it is acknowledged that the Australian Energy Market Commission recommended that as-available and interruptible products be phased out to avoid them competing with rights allocated in the auction, but the Energy Council believes these flexible services remain an important feature of the market. As noted in the Consultation Paper, if contracted but un-nominated capacity is curtailed as a result of renomination rights, and there is still spare physical capacity on a pipeline, auction winners should have the option to access the primary capacity through an as-available or interruptible service. The auction framework should therefore ensure that the ability to access these services is retained.

The auction process also has the potential to discourage pipeline investment. Increases in pipeline capacity are necessarily very discrete in nature which means that it is likely that when a pipeline is built or expanded, there will be unused capacity which will be subject to participation in the auction process. With a floor price of zero, if there is insufficient competition for the unused capacity, a competitor may avail itself of the unused capacity available, to the detriment of the shipper which has underwritten the pipeline investment by entering into a long-term haulage agreement. Ensuring the auction framework prioritises the rights of firm capacity holders is therefore essential.

The efficient treatment of capacity is the justification for the proposed auction process and the Gas Market Reform Group has considered a wide-ranging series of reforms to give voice to the AEMC's *Eastern Australian Wholesale Gas Market and Pipelines Framework Review*. One of the services included, the interruptible backhaul service, can be characterised as a swap rather than a capacity service and therefore the Energy Council finds that its inclusion in the auction process is not appropriate. This is reinforced by the interruptible nature of the service. Ranking lower in priority than firm and auctioned capacity, there is little value to be had for a shipper to participate in the auction process and purchase interruptible backhaul service. Accordingly the Energy Council believes that this service should be removed from the auction.

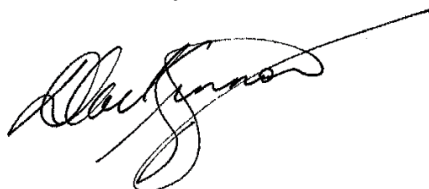
The increased availability of market data may also reveal confidential, market-sensitive information, thereby compromising parties' confidential positions both in the gas market and the National Electricity Market, particularly those which have gas-fired generation. On this basis the Energy Council does not support a point-to-point contract approach, and stresses that the framework introduced be such that trading anonymity is preserved, for example by delaying the reporting of trading information.

Conclusion

In conclusion, the Energy Council supports the concepts proposed for day-ahead auctions, in particular, the proposal to prioritise the rights of firm capacity holders and accommodate all forms of renomination rights available to firm capacity holders, but further consideration must be given to revealing the potential unintended consequences of the proposals made in the Consultation Paper. To this end the Energy Council looks forward to participating in further consultation to optimise the proposed day-ahead auction and reporting framework design.

Any questions about this submission should be addressed to the writer, by e-mail to Duncan.MacKinnon@energycouncil.com.au or by telephone on (03) 9205 3103.

Yours sincerely,



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