



24 October 2019

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

Submitted online: www.aemc.gov.au

Dear Mr Pierce

Declared Wholesale Gas Market Reforms – Draft Determinations

Origin Energy Limited (Origin) welcomes the opportunity to provide comments on the Australian Energy Market Commission's (AEMC) Declared Wholesale Gas Market (DWGM) Simpler Wholesale Price and Improvement to Authorised Maximum Daily Quantity (AMDQ) Regime Draft Determinations. Given interlinkages between the AEMC's proposed preferred rules, we have provided a consolidated response to these Draft Determinations.

Origin is supportive of pursuing incremental reforms that seek to preserve the benefits of the existing DWGM framework while overcoming perceived shortcomings related to market complexity and risk management. The AEMC has recommended several changes that are broadly consistent with this approach, including the proposal to internalise transmission constraints impacting withdrawals in the pricing schedule. However, we have significant concerns around the fundamental changes proposed to the congestion uplift and AMDQ frameworks. Specific comments on core elements of the AEMC's Draft Determinations are provided below and further details can be found in Attachment 1.

Entry/exit capacity certificate framework

- Uncontrollable exit capacity certificates: There is merit in creating entry/exit tie-breaking rights, but the treatment of uncontrollable withdrawals requires further consideration. Market participants would face significant uncertainty around the level of uncontrollable exit capacity certificates they ultimately require to manage withdrawals for Tariff V customers (residential and small-to-medium commercial and industrial), the impact of which may be particularly acute for smaller participants.
- Access to entry/exit capacity certificates: Access to entry/exit capacity certificates at points of interconnection should be contingent on holding firm contracted capacity on the facility. This requirement would ensure alignment of shippers' rights between the declared transmission system (DTS) and connecting pipelines and improve signals for investment in firm capacity.
- Entry/exit zones: Further information relating to the design/application of entry/exit zones is required. It is difficult to fully evaluate the merits of the proposal (including any financial implications) in isolation of more detailed information on the design of the zones and any resultant changes to the application of constraints in the market.
- Capacity certificate tenures: Origin is supportive of ensuring participants can access long term tenure products (of at least three years in length) through the capacity certificate auction.

Simpler wholesale price

- Application of withdrawal constraints in the pricing schedule: Origin is comfortable with the proposed change, which would simplify the framework by creating greater alignment between the pricing and operating schedules under certain circumstances.
- Congestion uplift framework: Origin is not supportive of allocating congestion uplift solely on the basis of daily withdrawals. Under the proposed framework, gas power generation (GPG) could create significant intra-day congestion but avoid any congestion uplift costs due to total daily withdrawals being within allocated capacity limits. This would likely result in those market participants with large uncontrollable load customer bases bearing a disproportionate share of congestion uplift costs. Injectors would also face no congestion uplift costs, which may weaken incentives for market participants to diversify supply and/or address locational supply constraints.

Given the concerns identified above, Origin considers further consultation should be undertaken with market participants ahead of making a Final Determination, particularly if some of the more fundamental design changes are to be progressed. This should ideally occur through the formation of a technical working group, which is an approach that has been effectively adopted across a number of other AEMC workstreams. This additional consultation will be essential to allow for a more thorough assessment of the impact of the proposed design changes on the broader DWGM framework, noting the inherent linkage between all aspects of the market.

If you wish to discuss any aspect of this submission further, please contact Shaun Cole at shaun.cole@originenergy.com.au or on 03 8665 7366.

Yours Sincerely,



Steve Reid
Group Manager, Regulatory Policy

1. Entry and exit capacity

The draft proposal to introduce a new framework of entry/exit capacity certificates that provide distinct injection/withdrawal tie-breaking rights would likely assist with simplifying the existing framework, while also ensuring market participants can continue to effectively manage scheduling risk and exposure to the wholesale market price. Coupled with the auctioning of capacity certificates across different tenure ranges, it may also improve the ability for participants to access tie-breaking rights at their preferred locations. However, there are specific elements of the draft proposal that require further consideration, as discussed below.

1.1 Uncontrollable exit capacity certificates

Origin recognises the allocation of AMDQ to end-use customers represents a potential inefficiency in the market, particularly where those rights are tied to a market customer indefinitely and unable to be traded. The creation of uncontrollable exit certificates may assist with addressing this issue, since it would release capacity rights currently held by Tariff D customers and dynamically allocated to Tariff V customers for acquisition by market participants. However, such a change would likely create significant challenges for market participants from a risk management perspective.

Given the high level of churn associated with Tariff V customers, market participants would face significant uncertainty around the level of uncontrollable exit capacity certificates required to manage supply to their customer base. The impact of this uncertainty could be particularly problematic for smaller market participants, given they may be unable to absorb changes in their underlying customer base as effectively as larger participants with more diverse portfolios. Compared to the existing framework where the rights associated with Tariff V customers are dynamically allocated to retailers upon acquisition, the proposed change will also introduce new capacity certificate acquisition costs that would need to be managed by market participants.

Given the above concerns, the merits/appropriateness of establishing uncontrollable exit capacity certificates requires further consideration. To the extent there are concerns around the utilisation of AMDQ held by end-use customers (particularly Tariff D customers), the AEMC should consider whether that issue could be more easily addressed by improving the tradability of those rights.

1.2 Allocation of entry/exit capacity certificates at points of interconnection

Under the current framework, AEMO is required to confirm that a market participant holds firm contract capacity on an interconnected facility before processing the transfer of AMDQ or nomination of AMDQcc to a system withdrawal point. This validation requirement was introduced in 2014 to ensure that in the event of a constraint, gas dispatch is backed up by firm transportation rights in the DWGM and on the other side of the interconnect. Such a requirement was also considered necessary to improve the ability for market participants to flow gas from Victoria into New South Wales through Culcairn, given prevailing market dynamics at the time.

Should the proposed framework be adopted, Origin considers an equivalent validation requirement should be applied to entry/exit capacity certificates at points of interconnection and specified in the National Gas Rules (NGR). Consistent with the rationale for existing validation requirements discussed above, this would ensure alignment of shippers' rights between the DTS and connecting pipelines and improve signals for investment in firm capacity.

1.3 Application of zones

The ability for participants to manage scheduling risk under the proposed framework will be heavily contingent on the definition/application of zones that will govern the grouping of entry/exit certificates respectively. Given these zones are yet to be determined, it is difficult to fully evaluate the impact of the

proposal. We therefore recommend the AEMC engage further with market participants and AEMO to better define how the zones would likely be applied and ensure the principles governing their design is set out in any resultant changes to the NGR.

1.4 Capacity certificate tenures

As noted in Origin's earlier response to the Consultation Paper, it is essential market participants are able to align the acquisition of tie-breaking rights within the DTS with transportation/supply contracts outside the DTS. We are therefore strongly supportive of ensuring participants can continue to access long term tenure products (of at least three years in length) through the capacity certificate auction as proposed.

2. Simpler wholesale price

2.1 Application of withdrawal constraints in the pricing schedule

Origin is comfortable with the draft proposal to reflect transmission constraints affecting withdrawals in the pricing schedule. While we consider risks can be managed under the existing framework, the proposed change would simplify the framework by creating greater alignment between the pricing and operating schedules under certain circumstances.

2.2 Congestion uplift framework

Origin is supportive of applying a 'causer pays' approach to the allocation of congestion uplift that provides meaningful signals to market participants and allows for effective risk management. It is recognised the AEMC has sought to maintain consistency with this overarching principle by dismissing the case for socialising congestion uplift and proposing an alternate framework that would link congestion uplift exposure and withdrawal capacity rights. However, we have identified a number of significant concerns with the proposal, as noted below.

Allocation of congestion uplift based on total daily withdrawals

Origin remains of the view that GPG has the potential to create significant congestion in the DTS, particularly during winter periods and intraday when GPG demand has not been forecast. The impact of GPG on congestion levels is likely to be relatively acute (i.e. a generator could significantly increase its output to meet an extreme demand peak in the electricity market for a short period, creating significant congestion, but have reduced load for the remainder of the day). Allocating congestion uplift on the basis of daily withdrawals may therefore not expose GPG to any risk/costs – since daily withdrawal capacity limits may not have been exceeded – despite GPG creating significant congestion over a shorter time period. To address this issue and ensure all large controllable loads face their proportionate share of any congestion costs, congestion impacts would need to be assessed over a more granular time interval than daily (e.g. across a scheduling interval, as per current arrangements) under any new congestion framework.

Removal of the injection dependency

Market participants currently hedge their exposure to congestion uplift by matching physical injections with the location of their AMDQ. While this may limit risk management options for participants seeking to be spot market buyers only, a key advantage of the framework is that it encourages market participants to support their underlying customer demand with a corresponding source of supply. This has historically been important for maintaining security of supply across the DTS, given the limited ability of the network to rely on system linepack to manage imbalances. It also ensures both injectors and withdrawers face locational congestion risks, which incentivises market participants to diversify supply across different injection points and/or address locational supply constraints.

The removal of the injection test therefore represents a fundamental change to the existing framework that may have broader implications for security of supply and risk management. In Origin's view, such a change is unlikely to deliver material benefits relative to the existing framework.