



7 April 2016

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

Submitted online: [www.aemc.gov.au](http://www.aemc.gov.au)

Dear Mr Pierce

## **PIPELINE ACCESS DISCUSSION PAPER**

Origin Energy Limited (Origin) welcomes the opportunity to provide comments on the Australian Energy Market Commission's (AEMC) Pipeline Access Discussion Paper. It has been well documented that the east coast gas market is undergoing a transformative period and Origin endorses the COAG Energy Council's vision aimed at ensuring market resilience over time. While we have a varying degree of support for the suggested measures relating to pipeline capacity trading, generally the AEMC's proposed package of reforms provides a useful starting point in helping to realise the Energy Council's vision.

### **Implementing the initiatives and next steps**

The next stage of the reform process should now focus on the refining, testing, and ultimately finalising of the policy package accompanied by a corresponding implementation timetable. This could most effectively be achieved through the establishment of a broad industry working group(s) with an appropriate level of regulatory oversight. Industry participants by virtue of operating in the gas market on a daily basis are best suited to this task.

In contemplating what form 'regulatory oversight' could take, it is our anticipation that the AEMC would be represented on each working group, and could be responsible for setting timelines and providing secretariat duties. Additionally, as part of its Final Report, the AEMC could look to develop principles to guide work in each area. For example, with regard to secondary capacity trading, the overarching objective could be the lowering of transaction costs to facilitate greater levels of trading while ensuring that the property rights of primary capacity holders are preserved. The Final report could also consider what regulatory instruments (if any) are needed to implement changes to the existing framework, once they are finalised by the working group(s). For example, rule changes may not be necessary in all cases.

Generally, Origin considers that by taking carriage of this review process and by setting out the proposed areas for reform, the AEMC has already provided a great deal of regulatory oversight.

Origin's views on the remaining topics covered in the Discussion Paper are detailed below.

### **Standardisation of capacity products and contract terms**

Origin supports measures aimed at facilitating pipeline capacity trading such as the introduction of standardised capacity products that have the potential to lower transaction costs. The AEMC notes in the Discussion Paper that contracts underpinning primary and secondary capacity trades tend to be

bespoke in nature, with terms and conditions customised to meet the requirements of contracting parties. There is good reason for this, and so while the introduction of greater levels of standardisation is welcomed, it is crucial that market participants continue to have the option of negotiating the specific terms and conditions of capacity contracts to allow for the meeting of their individual needs. The development of standardised products and contract terms would therefore be used to expedite capacity transactions where they meet the requirements of the contracting parties. For example in the electricity market while there are standard futures products, participants also enter into bespoke over the counter arrangements.

As stated in the Discussion Paper, ensuring that market participants are involved in determining the appropriate level of standardisation will be critical. Therefore, we consider it appropriate that the aforementioned industry working group be given responsibility in developing this initiative. Such a group would be well placed to ascertain what terms and conditions are best suited for standardisation.

Below we respond to some of the more specific issues raised in the Discussion Paper pertaining to standardisation.

*Whether standardisation of primary capacity is required (and to what extent) to facilitate increased liquidity in the secondary capacity market*

Origin is not convinced that the standardisation of primary capacity is required to facilitate secondary trades. We expect, however, that the industry working group in contemplating standard products generally will also consider their suitability to primary trades and the feasibility of developing standard primary capacity products.

*Whether the standardised conditions can be adopted in GTAs that are on foot, noting there may be legal issues arising with forcing changes to existing contracts*

Origin does not support any attempts to introduce standardised conditions into current capacity contracts. As highlighted in the Discussion Paper, this would present a number of legal issues, given that it would infringe on the property rights of capacity holders. There is no discernible benefit of such an initiative.

*Whether shippers and pipelines should be able to negotiate around any of these provisions and the circumstances in which this may be relevant*

As we have stated previously in this submission, contracting parties must be given autonomy to negotiate around any standard provisions. Standardisation is intended to facilitate trading where possible, not inhibit commercial negotiations. The Discussion Paper notes that in the US, pipelines are not generally allowed to negotiate the non-price terms and conditions of access. It is our understanding, however, that pipelines in the US are regulated therefore making such a stipulation more appropriate. In contrast, under the east coast gas market's contract carriage regime, expansion in pipeline infrastructure is driven by shippers underwriting capacity investment based on the specific needs of their individual portfolios.

*Receipt and delivery point flexibility*

Flexibility in the ability to alter receipt and delivery points could support secondary capacity trading, and as such Origin favours the exploration of measures aimed at enhancing the ability of market participants to change these parameters.

*Bare transfers vs. Operational transfers*

Origin shares the AEMC's view that the effectiveness of a capacity trading platform may be enhanced where executed trades are given effect through operational transfers. Generally, operational transfers could be more beneficial to both the seller (primary capacity holder) and the buyer. For the seller

operational transfers are likely to be less burdensome given they would not be required to nominate on the buyers behalf. In the case of the buyer, the ability to nominate directly to the pipeline owner (and thus not be compelled to reveal potentially commercially sensitive information to the seller) is advantageous.

### **Capacity trading platform (s) and secondary trade information provision requirements**

The establishment of a capacity trading platform should make it easier for market participants to trade secondary pipeline capacity, and Origin continues to support this proposal. The Discussion Paper outlines a number of design features that will need to be determined.

#### *Method to execute trades*

The AEMC's preference is that trades executed through the capacity trading platform are done via an electronic exchange and that this could be beneficial particularly where standard products are traded. Origin agrees that there is logic in this thinking, but considers it prudent that some key issues are resolved before a decision to establish an exchange can be made. These include the extent to which:

- There will be sufficient demand for secondary capacity to warrant the establishment of an exchange. The starting premise for this work is that there is an insufficient level of capacity trading in the market. It is not clear, however, what the ideal level of trading should be, or the magnitude of any unmet demand for capacity;
- Capacity products can be standardised. The establishment of an exchange would be more appropriate where there is both sufficient demand for secondary capacity and a reasonable pool of standard products to sell. Where the majority of trades are likely to be bespoke a listing service which facilitates bilateral negotiations may be more fitting. Again we expect the output from the industry working group to shed light on this issue.

If following the above analysis, a decision to adopt an exchange is deemed appropriate, it is our view that participation in the exchange should be voluntary (similar to Wallumbilla), and that market participants should have scope to enter into bilateral arrangements outside of the exchange.

#### *Number of platforms*

A single capacity trading platform covering the contract carriage pipelines would allow for a centralised system of trading and lower transactional costs. Barring any practical constraints, Origin supports the contemplation of this option. If a decision is made to have a single trading platform it would seem more logical for AEMO to be appointed as operator as opposed to the various pipeline entities having joint control.

#### *Secondary trade information reporting requirements*

As we have stated in previous submissions, only information that has some demonstrated net benefit to the market should be published. Additionally, information that has the potential to undermine the commercial position of market participants should not be made publicly available. This can be achieved through the publication of information in an aggregated form as opposed to on an individual basis. Origin therefore does not support any reporting obligation being extended to the disclosure of the identities of contracting parties.

### **Auction for contracted but un-nominated capacity**

Origin welcomes the AEMC's acknowledgement of the potential for the proposed auction to restrict the ability of capacity holders to re-nominate capacity. As highlighted in our previous submission the ability to re-nominate is particularly important for gas fired generators who at times are required to react to

sudden and unexpected events in the electricity market. To minimise the risk of incumbent shippers not being able to re-nominate the AEMC suggests in the Discussion Paper that some capacity that might otherwise be made available in the auction could be withheld. Origin's view is that if a decision is made to have an auction for contracted un-nominated capacity this should be for interruptible capacity only. This would preserve existing property rights allowing incumbent shippers to re-nominate if required, whilst making capacity available to the market where such re-nominations do not occur.

Origin has not yet contemplated the details of the auction design given that we consider it important to first finalise what is being auctioned.

If you wish to discuss any aspect of this submission further, please contact me at [steve.reid@originenergy.com.au](mailto:steve.reid@originenergy.com.au) or on 02 9503 5111.

Yours Sincerely,



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