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Department of Industry, Science, Energy and Resources
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Canberra ACT 2601

Submitted online: gas@industry.gov.au

Options to advance the east coast gas market – Consultation Paper

Origin Energy Limited (Origin) welcomes the opportunity to provide comments on the Department of Industry, Science, Energy and Resources' (DISER) Consultation Paper. Origin supports efforts aimed at ensuring the continued evolution of the east coast gas market to enhance efficiency and in response to the changing needs of participants and end users.

The plan to develop a reform roadmap is sensible as it will facilitate the identification and speedy implementation of simpler options and a pathway to consider and investigate more complex proposals.

Consistent with the above, some measures can clearly be progressed immediately such as the streamlining of prudential requirements and anonymised delivery at Wallumbilla. These are no-regrets reforms that should ultimately reduce barriers to entry and support increased liquidity.

The theoretical concept of a virtual hub is relatively easy to comprehend in that the consolidation of trading points could result in the pooling of liquidity. However, the suitability of its practical application is dependent on navigating the complex design choices and associated trade-offs, and the outcomes of several threshold considerations. These include whether a centralised / regulated approach to moving gas across the market, (with socialised cost recovery) is more efficient than a market-driven framework.

Additionally, with participants continuing to preference the flexibility afforded by bilateral contracting, the optimal balance between this and transacting at the hub is unclear and would require a shift if the step change in hub liquidity is to be realised. These and similar issues, should be the focus of the next stage of consultation under the roadmap. Ultimately for an extensive market redesign program of this magnitude to be adopted there would need to be significant demonstrated net benefits.

With respect to pipeline capacity trading arrangements, we agree consideration should be given to increasing the transparency of pipeline operator fees and assessing whether the complexity of the capacity trading platform (CTP) could be reduced to address any barriers to access.

There is no logic or reason, however, for increasing the firmness of the day ahead auction (DAA) product. The DAA is widely regarded as a successful market reform as demonstrated by the high levels of trading. We do not agree with the proposition that more efficient contracting in the future will diminish its effectiveness. A change in firmness priority would also impede renomination rights of primary capacity holders, which could have implications for reliability of supply across gas and electricity markets and undermine investment in new capacity. These were factors that led to the hybrid auction design being dismissed when the DAA was originally developed.

The roadmap should also seek to ensure congruency between reform options. There are some key reforms currently in train with the aim of addressing information asymmetries related to gas and

infrastructure prices. Allowing sufficient time for these measures to take effect will be critical to ensuring any subsequent changes are proportionate and appropriately targeted.

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,

A handwritten signature in blue ink, consisting of a series of connected loops and a vertical line at the end, resembling the name 'Steve Reid'.

Steve Reid
Group Manager, Regulatory Policy

Executive summary

Wallumbilla Gas Supply Hub (GSH)

- **Anonymised delivery:** Origin supports speedy implementation of this option and agrees it will address concerns around the possible revealing of commercially sensitive information under the current framework. This can be done simply, and without the need for a formal balancing regime.
- **Streamlining prudential requirements:** Streamlining prudential requirements across facilitated gas markets will enhance efficiency and reduce barriers to entry. Allowance should also be made for the netting of prudentials across various entities owned and operated by a single participant.
- **Market making:** International experience of market making is mixed, and it is not conclusive that such a scheme will have the desired impact on liquidity. With a need to manage several risks and trade-offs, consideration of a domestic scheme should be voluntary and driven by the private sector, not mandatory and by regulators.
- **Virtual hub:** While the theoretical concept of a virtual hub is relatively simple to understand, there are several threshold considerations that will need to be examined in determining its suitability at Wallumbilla (or beyond). There are also many complex design issues (and associated trade-offs) that would need to be resolved; and there would need to be significant net benefits if a market redesign of this magnitude is to be undertaken.

Pipeline capacity trading frameworks

- **Fee structures and levels:** Pipeline operators should publish both the individual components of, and their approach in, developing fees related to the DAA and CTP. However, it is not necessary or practical to establish a common fee structure/methodology or amount.
- **Bidirectional pipelines:** The rationale for introducing an interruptible backhaul product on bi-directional pipelines or restricting reclassification is unclear. In our view, it is appropriate DAA quantities are limited to the level of contracted but unominated capacity in either direction on bidirectional pipelines. Restricting reclassification could also impede efficient market operation.
- **Auction timing:** There do not appear to be any material benefits to bringing forward the nomination cut-off time. Such a change could also increase shippers' reliance on renominations to manage forecast demand uncertainty. Any automated nominations service established should be optional, with costs recovered from users only.
- **Firmness of auction product:** It is not necessary or appropriate to alter the firmness of the auction product, and restricting renomination rights of primary capacity holders will only serve to discourage investment. The DAA is operating effectively, with high levels of trading observed across multiple pipelines since market commencement. The merits of introducing a firm auction product were also explored and dismissed as part of the Gas Market Reform Group's (GMRG) DAA design process.
- **Usefulness of the Capacity Trading Platform:** The Australian Energy Regulator (AER) recently determined that the absence of trading on the CTP was more reflective of buyer satisfaction with

the DAA to date, rather than any failure of the CTP¹. However, we support consideration of simplifying product offerings and available pipeline routes to enhance trading activity on the CTP.

Other enabling frameworks

- **Third-party access:** Mandating the provision of third-party access to upstream infrastructure is unnecessary given there are strong commercial incentives to offer third party access where there is any underutilised plant capacity.
- **Improving contracting practices:** Origin is unaware of any clauses in gas supply and transport agreements that constrain trading activity at the Wallumbilla GSH.
- **Potential govt support for infrastructure:** Contemplation of government support for hub related infrastructure should be considered under the National Gas Infrastructure Plan (NGIP) and Investment Framework where this a requirement for projects to be private-sector led.
- **Regional pipelines:** The proposed options will need to be discussed in greater detail. While there is merit in a broader review of allocation arrangements, it is not clear there would be benefits in deviating from the current approach for exempting regional pipelines from participating in the DAA.

¹ AER, 'Pipeline Capacity Trading – Two Year Review', March 2021, pg. 27.

1. Wallumbilla GSH

Origin supports the overarching objective of improving liquidity at Wallumbilla. Some of the simpler proposals should be developed and implemented expeditiously.

In looking at the options presented in the Consultation Paper, it will be crucial to clearly weigh up the costs and benefits of each, to ensure that only measures with clear net benefits are adopted, and only at the appropriate time. As an example, while a significant redesign of the market (such as the introduction of a virtual hub or consolidation of trading locations), could deliver an increase in liquidity, this would come at significant cost and lead to market disruption, all of which would first need to be assessed and quantified.

1.1 Anonymised delivery

Work on implementing anonymised delivery should commence immediately as this will help reduce barriers to entry for participants that hold concerns around the revealing of commercially sensitive information by trading at the hub. This can be done simply, at a low cost.

We do not consider there is a need for a formal balancing regime which would create complexity and add to the costs of implementation. In Origin's view, the existing process for correcting any deviations can continue to be used under anonymised delivery, whereby AEMO plays a brokerage role to ensure the settling of imbalances, without the need for a formal mechanism or service. It is our understanding that if there is a mismatch, APA will only schedule the lower of the nominations, self-correcting the deviation from a physical point of view.

Implementation should be as simple as possible

We support implementation via a bilateral agreement between AEMO and the hub operator to jointly manage the delivery model rather than through a rule change process, which is likely to take more time and is unnecessary.

1.2 Streamlining prudential requirements

Origin supports streamlining prudential requirements in the immediate term to reduce collateral requirements and transaction costs across the east coast gas market. This should also be extended to the netting of prudentials across the various entities owned and operated by a single market participant.

Cross-entity netting should be adopted

Under the current framework companies that own and operate multiple entities registered under different market participant IDs need to provide collateral for each entity. As an example, a company may withdraw gas under one participant ID and inject under another. While the net position should result in a reduced exposure overall, under existing prudential requirements, the withdrawing entity would need to cover the entire withdrawal volume, resulting in higher and unnecessary costs.

To address this issue, a business should be able to net its position across multiple entities/participant IDs to allow offsetting of positions, with prudential requirements applying to the net position. This would better reflect the actual exposure of the participant and increase efficiency by lowering transaction costs.

This could be achieved through a cross-entity netting agreement or more formally through a concept like the energy and dollar offset reallocation process available to participants in the National Electricity

Market (NEM).² A reallocation is a rules-supported financial arrangement under which two market participants request AEMO to make matching debits and credits to the position of those participants. This could be extended to gas markets.

Option 3 would likely offer the greatest net benefit

Options 3 and 4 are likely to provide the greatest net benefit given they allow for the offsetting of positions across multiple markets, which will reduce the prudential burden and more effectively reflect actual exposures. However, Option 4 may be more complex to implement if netting captures non-physical markets such as exchange-traded derivatives, given this would also extend to non-physical market participants.

Origin therefore suggests the immediate priority should be to implement Option 3 alongside the netting of prudentials across various entities owned and operated by a single market participant.

1.3 Market making

The Consultation Paper highlights that international experience of market making is mixed, further highlighting the uncertainty around whether the introduction of such a scheme domestically, will result in net benefits.

If market making emerges it should be voluntary – not mandatory

There are several important design features that are likely to have a bearing on both the usefulness of a market making scheme and the risks to market makers. These include product design, the market making window, and bid-offer spreads. Many of these issues are commercial in nature, reinforcing that if market making is to be adopted domestically it should be voluntary and driven by the private sector, not mandatory and by regulators.

The ASX's push to establish market making for its monthly futures product is an example of such a commercial initiative, and there are likely to be learnings as this work progresses.

1.4 Virtual hub design

The Consultation Paper raises the prospect of introducing a virtual hub at Wallumbilla, with the aim of bringing about a step change in liquidity. While the concept of a virtual hub is relatively simple, there are several significant and complex issues that will need to be considered in determining the suitability of its practical application at Wallumbilla (or beyond). This is even before any detailed work on possible design parameters, which is perhaps an equally (if not more) extensive task.

Sensibly, the Consultation Paper notes that implementing a virtual hub would be a substantial undertaking and any expected benefits would need to be traded-off against the significant implementation and ongoing costs. However, while many of the primary design concepts are identified at a high level, there is no discussion on some of the key threshold considerations. We highlight some of these below and recommend that DISER delve into these and other relevant issues in detail as part of its future roadmap. This could involve developing additional papers for public consultation, and through discussions with stakeholders.

² See https://aemo.com.au/-/media/files/electricity/nem/settlements_and_payments/prudentials/2020/reallocation-procedure-energy-and-dollar-offset-reallocations.pdf?la=en

Threshold considerations – virtual hub

Optimal procurement approach for capacity and hub services

It is our understanding that to move gas across the GSH participants can acquire hub services such as compression and redirection in addition to entering contractual arrangements for pipeline capacity. The Consultation Paper states that liquidity and efficiency are likely to be enhanced if under a virtual hub, responsibility for managing these issues are removed from participants and are instead centrally managed.³ This implies that a regulated central procurement approach (with potentially socialised cost recovery) is more efficient than a competitive market driven framework. However, at this point, there is no evidence to substantiate this view, and we note as a general principle, market driven approaches tend to drive more efficient investment signals and cost allocation.

DISER should therefore undertake further work in this area, including analysis of how current access to hub services and transport impact trading liquidity at the hub. This could prove informative and help identify options to enhance the current frameworks if required – that could also be weighed against the move to a virtual hub, which sits at the extreme end of the spectrum of options.

Physical constraints

A virtual hub calls for the consolidation of various trading points within a designated geographical area with the intent of pooling liquidity. Again, while the objective is sound, a complete view of the necessary changes and associated costs is crucial, particularly given limitations to the interconnectivity of the three major pipelines at Wallumbilla. From a physical perspective, in addition to the hub services mentioned earlier, there may be a need for infrastructure upgrades. In 2012, AEMO estimated that investment in capacity to enable gas to flow between the facilities at Wallumbilla for a single trading model to operate successfully was approximately \$118 million.⁴ This analysis should be updated and factored into any cost benefit analysis if the virtual hub proposal progresses to that point.

Bilateral contracting and hub pricing

The primary aim of a virtual hub is to enhance liquidity and increase the volume of transactions at the designated point. However, liquidity at the hub is not an end in itself, nor is it the only relevant consideration given there is significant off-screen trading activity. Participants continue to preference bilateral contracting which also helps to underpin capital intensive and inherently risky activity such as gas exploration and production. Understanding the broader objective is therefore important.

In its 2015 East Coast Gas Review, the Australian Energy Market Commission (AEMC) noted that:

*Gas-on-gas pricing, also known as hub pricing, is the dominant price formation model for bilateral contracts in liquid wholesale gas markets. In this context, a buyer and seller would sign a bilateral contract to provide volume security, but not price security. The contract price would be set with reference to a hub price that both parties agree is a credible, liquid benchmark.*⁵

If the above still holds, it implies a degree of circularity in the intended outcome. That is, to bolster liquidity at the hub and establish a credible reference price (to complement bilateral contracting) there would need to be somewhat of a shift away from bilateral contracting, compared to the status quo. There is a question as to the extent this would need to occur and if participants (including gas users) are

³ DISER, 'Options to advance the east coast gas market – Consultation on the Wallumbilla Gas Supply Hub and pipeline capacity trading framework', November 2021, pg. 35.

⁴ AEMO, 'Gas Supply Hub – Cost and Scoping Report', May 2012, pg. 24.

⁵ AEMC, 'Wholesale Markets Discussion Paper - East Coast Gas Market and Pipeline Frameworks Review', September 2015, pg. 14.

incentivised to do so. A key advantage of bilateral contracts is that they provide users with added flexibility through terms and conditions that make allowances for variations in the delivery of gas volumes over the contracting period.

The AEMC went on to note that the inherent price risk in linking bilateral gas contracts to hub prices can be hedged using financial derivatives like in the NEM. However, this would require a different mindset in the gas market and a change in culture with a more dynamic approach to gas portfolio management.⁶ It is also worth noting that a robust derivatives market has yet to emerge on the east coast.

The above discussion indicates that to maximise the benefits of moving to a virtual hub it will be important to get the right balance between trading on the hub and bilateral contracting. There is also an open question as to whether participants will adapt to this change. DISER should seek to better understand the underlying drivers for off-screen trading activity and whether these are likely to change, including if a virtual hub is established. It will also need to be determined if a viable financial derivatives market is a prerequisite of realising the full benefits of a virtual hub, and the requirements for, and prospects of establishing such arrangements on the east coast.

Impact of impending reforms

Origin notes some key reforms are set to commence over the coming months, including a new regime for gas pipelines. All pipelines will be subject to some form of regulation and required to provide third party access, with individual prices and terms and conditions for services paid by shippers also set to be published.⁷ Additionally, new transparency measures will seek to improve price discovery and address information asymmetries related to gas and infrastructure prices. These include the publication of the prices paid by shippers for storage and compression services;⁸ as well as prices and terms for short term gas supply contracts.⁹

Given the rationale in seeking to establish a virtual hub is to increase liquidity with the aim of establishing a credible reference price, DISER should also consider what impact the above measures will have on transparency and price discovery in the market. Any future reform pathway should allow sufficient time to discern the impact of these impending changes.

East coast market dynamics

In a scenario where the adoption of a virtual hub results in the envisioned step change in liquidity at Wallumbilla, it is important to consider what impact this will have on the market overall. This is in the context of the virtual hub being in the north while much of the concern around future supply challenges is in the south. DISER should examine current and expected future market dynamics which should have some bearing on understanding the potential net benefits of moving to a virtual hub at (or around) Wallumbilla.

Broader design challenges and trade-offs

The Consultation Paper highlights some of the key design elements that would need to be determined if a virtual hub is considered further, though understandably there is little detail at this preliminary stage. Depending on the outcomes of the review into the threshold issues discussed above, if DISER delves

⁶ AEMC, 'Wholesale Markets Discussion Paper - East Coast Gas Market and Pipeline Frameworks Review', September 2015, pg. 15-16.

⁷ DISER, 'Improving gas pipeline regulation – Proposed legal package to give effect to the Decision Regulation Impact Statement (Consultation Paper)', September 2021, pg. 5.

⁸ Ibid, pg. 6.

⁹ COAG Energy Council, 'Measures to improve transparency in the gas market – Regulation Impact Statement for Decision', March 2020, pg. 128.

into some of these design issues in greater depth, we will provide a more comprehensive view at that point. Notwithstanding this, some initial thoughts are set out below.

The discussion on a carriage regime and cost recovery mechanism, highlights some of the crucial trade-offs associated with virtual hubs.

While having one price within the hub could help promote liquidity, this may not be consistent with the physical network, and consequently may not allow for the price signals typically needed to guide efficient investment. It is our understanding that in some virtual hubs, investment decisions are centrally determined by the hub operator which could be viewed as a less efficient approach compared to one that is market driven.

If a move to market carriage was considered this would be accompanied by significant legal and transitional issues in situations where participants hold existing contracts for pipeline capacity and hub services.

A key implication of a virtual hub is that it would result in some level of cost socialisation. This is an important issue given the expected increased role of the hub operator and the additional costs in managing constraints and gas flows over a larger geographical area. A crucial consideration will be whether this allows for equitable cost allocation, incentivises efficient decision making, and results in overall net benefits.

Some of the areas of initial work mentioned earlier in this submission are likely to have some bearing on the potential scope of a virtual hub. These include any physical constraints that would need to be addressed, and at what cost. Additionally, the proposal to incorporate the Brisbane STTM into the hub footprint would need to be looked at further in the context of the GSH being a voluntary supply exchange while the STTMs operate as mandatory balancing markets. Reconciling the objective of both frameworks into a singular design would need to be worked through.

2. Pipeline capacity trading frameworks

Origin supports efforts aimed at ensuring market/regulatory frameworks facilitate efficient access to pipeline capacity. Notwithstanding the inactivity of the CTP, material failings with the current pipeline capacity trading framework have not been identified. The DAA is widely regarded as a successful market reform that has facilitated access to unused short-term capacity at times when it is valued by shippers, including to manage seasonal demand peaks. Energy Ministers also recently endorsed a broader suite of regulatory changes that are intended to lower search and transaction costs and facilitate more competitive access to pipeline transportation capacity. It is within this context that we have provided our view on the materiality of the potential issues and reforms options proposed in the Consultation Paper, below.

2.1 Fee structures and levels

Origin does not consider there is a need to undertake a detailed review of fee structures with a view to potentially establishing a common fee structure/methodology or amount. As noted in the Consultation Paper, the AER recently reviewed facility operator fees associated with the DAA and CTP and found that although charging structures varied, they were unlikely to represent a substantial barrier to secondary capacity trading. The current framework is also designed to allow facility operators to recover the incremental costs of establishing and maintaining the capacity trading arrangements, and there is no evidence facilities have not complied with this and other standardised charging principles set out in the National Gas Rules (NGR). Further, it is not clear how a common fee amount could be applied in practice without leading to under/over-recovery of costs across individual pipelines.

We consider a more appropriate solution to address any concerns around the cost-reflectivity of facility operator fees would be to require operators to publish the method through which fees are calculated and recovered, as well as the individual components that make up those fees. To provide for some level of standardisation and certainty around future fee levels, consideration could also be given to establishing a timeframe for recovering any implementation costs.

2.2 Bidirectional pipeline restrictions

Origin does not support introducing an interruptible backhaul product on bi-directional pipelines. The purpose of including a backhaul product in the DAA on single direction pipelines was largely to provide shippers with additional flexibility to procure and deliver gas on pipelines that only provide firm forward haul services in one direction. Where firm forward haul services are offered in both directions (i.e. on bi-directional pipelines), it is appropriate DAA quantities are limited to the level of contracted but uncommitted capacity in either direction. This will ensure incentives to enter into primary transportation agreements (and by extension support new investment) are not undermined. Further, to the extent there is a material imbalance in contracted flows on a bi-direction pipeline, this demonstrates capacity is available for use on a firm / as available basis as required by prospective shippers.

The rationale for restricting the circumstances under which a pipeline can be classified as bi-directional is also unclear. Under the current framework, pipelines are classified as bi-directional if at any time the direction of the physical flow of gas on the pipeline (or part) is capable of being reversed under normal operating conditions and facility users have transportation capacity for firm forward haul services in both directions. Reclassification and any resultant changes to receipt/delivery points is therefore seemingly driven by changes in underlying market dynamics (e.g. demand for firm services in either direction) and the physical capabilities of the pipeline. Restricting reclassification could therefore impede efficient market operation.

2.3 Auction timing

The current nomination cut-off time is appropriate

Origin does not consider there are any material benefits to bringing forward the nomination cut-off time. The current 3pm timing was adopted on the basis that it provides pipeline operators with sufficient time to carry out scheduling activities, while also ensuring shippers have the flexibility to nominate as late in the day as possible to manage forecast changes in demand, particularly demand for gas-power generation (GPG).¹⁰ Bringing forward the nomination cut-off time would undermine that flexibility and potentially increase shippers' reliance on renominations to manage forecast demand uncertainty.

Crucially, such a change would not address the underlying concern outlined in the Consultation Paper that shippers are unable to factor DAA outcomes into their STTM bids. It is also not clear the identified concern is a material issue in practice, noting most shippers would likely be supporting their STTM bids with firm transportation rights.

Automated nomination of DAA quantities requires further consideration

An optional automated nominations service could potentially assist with addressing any concerns around managing the late cut-off time for nominating DAA auction quantities. Given the Consultation Paper notes that third party providers already offer services to address this issue, consideration should

¹⁰ GMRG, 'Capacity Trading Reform Package (Standardisation, capacity trading platform and reporting framework for secondary trades) – Final Recommendations, November 2017, pg. 73.

be given to whether a centralised service would provide any additional benefits. Further, where such a service is to be introduced, any associated costs should be recovered from users only.

2.4 Firmness of the auction product

Origin does not consider it necessary or appropriate to review the firmness of the auction product. As discussed further below, high levels of trading have been observed on the DAA. The merits of introducing a firm auction product were also thoroughly explored and dismissed as part of the GMRG's DAA design process, and there has been no material change in circumstances that would warrant further examination of that option.

The DAA is operating effectively and the case for change has not been made

The DAA is widely perceived to have been a successful market reform. Recent analysis undertaken by the AER demonstrates the auction has facilitated access to relatively low-cost transportation capacity, with high levels of trading observed across multiple pipelines since the market commenced in Q1 2019.¹¹ This aligns with the findings of the AEMC's earlier 2020 Gas Market Liquidity Review, which concluded that the DAA had contributed to liquidity growth in capacity and wholesale markets.¹²

The Consultation Paper postulates that the success of the DAA could diminish over time if recontracting leads to reduced / more efficient contracting and therefore smaller volumes of capacity being relinquished to the auction. However, in Origin's view, a material reduction in contracted volumes appears unlikely in the short-medium term. A prudent shipper will generally seek to procure sufficient firm capacity to meet potential maximum demand requirements. While the DAA allows capacity requirements to be fine-tuned on a short-term basis, it does not provide a substitute for firm capacity from a longer-term risk management perspective. This is consistent with the GMRG's expectations when recommending the current framework, namely that the DAA would not precipitate a material level of de-contracting given the imperfect substitutability of the product and the inability of shippers to fully de-contract en masse (i.e. because there would then be no contracted capacity to acquire through the auction).¹³

A reduction in the level of DAA capacity available over time would also not be an adequate reason for revising the current design. The purpose of establishing the DAA was to make capacity available on contractually congested pipelines. Any reduction in DAA volumes would therefore increase the capacity available for contracting with service providers.

A hybrid model would impede renomination rights and undermine investment signals

A key reason for adopting the secondary priority firm auction product was to preserve the renomination rights of firm capacity holders, consistent with the AEMC's initial recommendations on the design of the DAA. Renominations are critical to enabling shippers (including retailers) to manage the dynamic nature of both gas and electricity markets. Relevant factors in this respect include:

- the operation of GPG, which is used to respond to sudden and unexpected changes in the electricity demand and is critical to maintaining reliability in the NEM;
- fluctuations in underlying customer demand for gas – shippers must procure sufficient gas and pipeline capacity to the Maximum Daily Quantity (MDQ) of customers;

¹¹ AER, 'Wholesale Markets Quarterly – Q3 2021', November 2021, pg. 45-46.

¹² AEMC, '2020 Gas markets liquidity review – Final Report', 17 July 2020, pg. 3.

¹³ GMRG, 'Design of the Day-Ahead Auction of Contracted but Un-Nominated Capacity', December 2017, pg. 112.

- the provision of market operator services (MOS) in the STTM, which may be called upon to balance the market;
- the provision of contingency gas services; and
- overall portfolio balancing and optimisation.

A hybrid framework would undermine the ability of shippers to efficiently manage the above contingencies, which could have implications for reliability of supply across gas and electricity markets. It would also seemingly reduce incentives for shippers to enter into primary transportation agreements and exacerbate the risk of de-contracting (described above), which could impede investment signals. Related to this, Origin does not agree with the proposition that introducing a firm auction product would increase the level of trading on the CTP. The success of the current DAA framework demonstrates buyers are willing to accept any curtailment risk associated with the second priority firm auction product to access capacity at low cost, noting the majority of capacity is acquired at the auction's reserve price of \$0/GJ.¹⁴

The Consultation Paper notes it may be possible to prevent some of the negative impacts associated with restricting re-nomination rights by limiting the ratio of firm rights offered in the auction (e.g. to ensure parties such as GPG operators are provided with the flexibility to renominate as required). However, as noted by the AEMC when the merit of the hybrid option was originally considered, determining the proportion of capacity to be released on a firm/interruptible basis would be a "*potentially complex and controversial process*".¹⁵ It would essentially require an arbitrary assessment of which rights are appropriate to accommodate and result in some proportion of rights valued by shippers being impeded.

It would also be difficult to administer such a framework given the nature of renominations. Shippers often need to transport gas across multiple pipeline facilities to meet identified supply needs and there can be multiple factors contributing to a renomination at a given point in time. In the context of accommodating renominations for GPG alone, it would be difficult to demonstrate that a particular renomination right is specifically tied to a generation facility and that those rights should therefore be accommodated.

2.5 Improving the usefulness of the CTP

There is merit in considering whether secondary capacity products offered could be simplified

We do not consider there is a need to fundamentally reform the design of the CTP at this stage. In our view, the absence of trading on the platform is not indicative of any underlying market failure. The CTP and DAA, as originally recommended by the AEMC, were designed to work in tandem. It is therefore not unexpected that greater use of the DAA may result in lower utilisation of the CTP (and vice versa), and that the balance of trading between the two markets may shift over time.¹⁶ This aligns with the findings of the AER's recent two-yearly review of the pipeline capacity trading arrangements, which noted that "*low activity on the CTP is more of a reflection of buyer satisfaction with the DAA to date, rather than any particular failure in the CTP.*"¹⁷ Bilateral trading of capacity / locational swaps and enhanced pipeline service offerings (e.g. multi-asset transport services offered by APA)¹⁸ are also likely reducing the demand for capacity on the CTP.

¹⁴ AER, 'Pipeline Capacity Trading – Two Year Review', March 2021, pg. 4.

¹⁵ AEMC, 'Pipeline Access Discussion Paper – East Coast Wholesale Gas Market and Pipelines Framework Review', 3 March 2016, pg. 69.

¹⁶ AEMC, '2020 Gas markets liquidity review – Final Report', 17 July 2020, pg. 42.

¹⁷ AER, 'Pipeline Capacity Trading – Two Year Review', March 2021, pg. 27.

¹⁸ APA, 'Tariffs and terms', website, accessed 16 December 2021.

Notwithstanding the above, Origin agrees consideration should be given to whether the complexity of the CTP is giving rise to any barriers to access and the extent to which simplification of product offerings and available pipeline routes could enhance the level of trading activity.

Opening access to primary capacity products is not required

Energy Minister's recently endorsed a broad range of reforms applicable to gas pipelines that address many of the potential concerns cited in the Consultation Paper in relation to facilitating competitive access to short-term capacity. In particular, the package of reforms is expected to:¹⁹

- mitigate any potential exercise of market power by service providers;
- facilitate improved access to pipelines; and
- better support commercial negotiations between shippers and service providers (i.e. through greater transparency and improvements to the negotiation framework and dispute resolution mechanisms).

It is important these reforms are given sufficient time to take effect before further increasing the scope of pipeline regulation. Any requirement for pipelines operators to auction off short-term capacity would also need to be carefully designed to ensure incentives to enter into foundation contracts and longer terms agreements necessary to support infrastructure investment are not undermined.

3. Other enabling framework reform options

3.1 Third-party access to gas infrastructure

Origin is not supportive of mandating the provision of third-party access to upstream infrastructure given there are strong commercial incentives to offer third party access where there is any underutilised plant capacity. There is evidence of processing facilities providing such access, including the Moomba gas processing facility, which is a key processing hub in the east coast gas market.²⁰

As identified by the Productivity Commission, there are valid commercial reasons as to why third-party access to processing infrastructure may not be available. Outside of circumstances where capacity is being fully utilised for a producer's own use, there are coordination issues and costs from sharing a gas processing facility with other parties.²¹ These can include the need for plant modifications to ensure that the facility is compatible with the particular chemical composition of a third party's gas, and loss of flexibility in the operation of, and investment in, the facility.²²

Even where there is seemingly a low level of utilisation, this is not necessarily a sign of inefficiency or an indication that capacity is available at a particular point in time. This is because contractual arrangements often provide customers with flexibility to change the rate of nominated quantities on a daily or even hourly basis, meaning required/utilised capacity can be significantly higher than average production volumes at a point in time.

¹⁹ DISER, 'Improving gas pipeline regulation – Proposed legal package to give effect to the Decision Regulation Impact Statement (Consultation Paper)', September 2021, pg. 1.

²⁰ ACCC, 'Review of upstream competition and the timeliness of supply – Issues Paper', 15 September 2021, pg. 8.

²¹ Productivity Commission, 'Examining Barriers to More Efficient Gas Markets', March 2015, pg. 132.

²² Ibid.

The Productivity Commission further highlighted that mandating third party access could impose substantial costs on industry by:²³

- reducing incentives for new investment by gas processing facility owners – this can be the result of uncertainty around future access obligations;
- reduced incentives for investment by third parties – while this could potentially assist with avoiding duplication of gas processing facilities, it could also reduce scope for the threat of duplication to improve performance in incumbent facilities;
- introducing regulatory error in the setting of access terms and conditions, and potentially the level of capacity to be made available; and
- introducing additional administrative compliance costs related to managing declaration applications, arbitration proceedings and reviews of regulatory decisions.

3.2 Improving contracting practices to support greater on-screen trading liquidity

As discussed in Section 2, bilateral contracting is an important feature of the market in that it provides users with greater flexibility while also helping to underwrite investment in capital intensive activity such as pipeline augmentation and gas production. Origin is unaware of clauses in supply and transport agreements that constrain trading activity at the Wallumbilla GSH.

3.3 Potential government support for infrastructure

Origin suggests that contemplation of government support for hub related infrastructure should be considered under the National Gas Infrastructure Plan (NGIP) and Investment Framework. This would allow for consistency with the principles for project support set out in the Investment Framework which are summarised below. Eligible projects:²⁴

- must be for mid-stream gas infrastructure capable of providing a gas service to support the supply of gas to domestic consumers on a network;
- should meet a demonstrated need identified in the NGIP, or other specific need or Govt objective;
- should be private-sector led and demonstrate why Commonwealth support is required, with support only provided where there is an identified market failure/barrier or suitable commercial finance is unavailable;
- should have strong technical and commercial viability; and
- should enhance competitive forces in the market

3.1 Access to regional pipelines

Origin notes the concerns raised around the operation of regional pipelines and considers that the options set out in the Consultation Paper would need to be discussed in greater detail before a preferred approach is identified.

At a high level our initial views on the options are:

²³ Ibid, pg. 133.

²⁴ DISER: Future Gas Infrastructure Investment Framework, November 2021, pg. 4

- **Capacity surrender mechanism:** We agree resolving any legal implementation issues will be crucial and a great deal of complexity would need to be worked through in designing the mechanism
- **Allocation arrangements:** We support review of allocation arrangements that would be extended to regional pipelines.
- **Application of the DAA to regional pipelines:** It is not clear that the benefits of applying the DAA to currently exempt regional pipelines would outweigh the costs. Our initial view is that the current exemption framework should be retained.