

# DWGM REVIEW

AEMC Stakeholder Forum, Presentation, 14 November 2016

seed



- Context
- Scope and approach
- Situation analysis – strengths / weaknesses
- Possible pathways (initial views – work in progress)



- Current market functions reasonably well, but is not without its issues.
- General agreement on vision and objectives for market development and support for reform
- Some concerns with specific AEMC recommendations
  - Expected benefits
  - Complexity
  - Time / cost of reform
- Alternative pathways for reform may achieve similar or greater benefits with reduced complexity, time and cost.



- Independent strategic advice prepared on behalf of Victorian gas market participants
  - Qualitatively assess strengths / weaknesses of DWGM
  - Qualitatively assess strengths / weaknesses of AEMC proposal
  - Suggest pathway forward to progress reform
- Stakeholder consultation / involvement
  - Two workshops with participants
  - One on one consultations with participant
  - One on one consultations with other stakeholders
- Prepare brief report for participants to submit
  - Not striving for full consensus from all participants on every aspect of advice
  - Support for general thrust and intent of advice



- Strengths / weaknesses qualitatively identified and assessed
  - major or moderate ranking
  - impacts on participants, consumers briefly described
- Matched against characteristics of well functioning gas market
  - Credible price
  - Timely / efficient investment
  - Availability of information
  - Ability to manage risks
  - Minimise barriers to entry
  - Minimise transaction costs
- Prepare 'heat map' style summary



# DWGM - Major Strengths and Weaknesses

**Strengths**

**Weaknesses**

Market element / feature	Relevant characteristic(s)
<b>Open access</b>	<ul style="list-style-type: none"> <li>• minimise transaction costs</li> <li>• barriers to entry</li> </ul>
<b>Key market design features: Gross pool, Intra-day bidding and pricing, combined balancing, capacity and commodity</b>	<ul style="list-style-type: none"> <li>• credible price</li> <li>• manage risks</li> </ul>
<b>Established market with high transparency of information</b>	<ul style="list-style-type: none"> <li>• information availability</li> <li>• barriers to entry</li> </ul>
<b>Lack of 'clean' spot prices</b>	<ul style="list-style-type: none"> <li>• credible price</li> <li>• manage risks</li> </ul>
<b>Lack of firm entry / exit rights</b>	<ul style="list-style-type: none"> <li>• investment</li> <li>• manage risks</li> </ul>
<b>Lack of forward trading market</b>	<ul style="list-style-type: none"> <li>• manage risks</li> <li>• minimise transaction costs</li> </ul>
<b>Uncertainty during curtailments / constraints</b>	<ul style="list-style-type: none"> <li>• credible price</li> <li>• manage risks</li> </ul>

# DWGM - Strengths and Weaknesses Heat Map

Characteristic	Market Feature (DWGM)														
	A	B	C	D	E	F	G	H	I	J	K	L	M	N	
1. Credible reference price		Major benefit / strength			Moderate strength / benefit	Moderate strength / benefit	Moderate strength / benefit	Strong weakness / major issue				Strong weakness / major issue	Moderate weakness / issue	Moderate weakness / issue	
2. Timely & efficient investment									Strong weakness / major issue						
3. Readily available market information			Major benefit / strength												
4. Ability to manage risk		Major benefit / strength		Moderate strength / benefit		Moderate strength / benefit	Moderate strength / benefit	Strong weakness / major issue	Strong weakness / major issue	Strong weakness / major issue	Strong weakness / major issue	Moderate weakness / issue	Moderate weakness / issue		
5. Minimise barriers to entry	Major benefit / strength		Major benefit / strength												Moderate weakness / issue
6. Minimise transaction costs	Major benefit / strength			Moderate strength / benefit	Moderate strength / benefit						Strong weakness / major issue				

## Legend

	Strong weakness / major issue
	Moderate weakness / issue
	Moderate strength / benefit
	Major benefit / strength

# AEMC Proposal - Major Strengths and Weaknesses

	Market element / feature	Relevant characteristic(s)
Strengths	Platform for forward exchange	<ul style="list-style-type: none"> <li>• manage risks</li> <li>• credible price</li> </ul>
	Firm entry / exit rights	<ul style="list-style-type: none"> <li>• investment</li> <li>• manage risks</li> </ul>
Weaknesses	Voluntary nature of exchange	<ul style="list-style-type: none"> <li>• manage risks</li> <li>• credible price</li> </ul>
	Constraint cost allocation	<ul style="list-style-type: none"> <li>• manage risks</li> <li>• credible price</li> </ul>
	Auction for entry / exit rights	<ul style="list-style-type: none"> <li>• manage risks</li> <li>• minimise transaction costs</li> </ul>
	Separation of commodity / balancing	<ul style="list-style-type: none"> <li>• manage risks</li> <li>• minimise transaction costs</li> </ul>





# AEMC Proposal - Strengths and Weaknesses Heat Map

Characteristic	Market Feature (AEMC Proposal)														
	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O
1. Credible reference price	Major benefit / strength			Moderate strength / benefit	Moderate strength / benefit		Strong weakness / major issue	Strong weakness / major issue			Moderate weakness / issue	Moderate weakness / issue			
2. Timely & efficient investment		Major benefit / strength									Moderate weakness / issue				
3. Readily available market information				Moderate strength / benefit										Moderate weakness / issue	
4. Ability to manage risk	Major benefit / strength	Major benefit / strength			Moderate strength / benefit	Strong weakness / major issue	Strong weakness / major issue	Strong weakness / major issue	Strong weakness / major issue	Strong weakness / major issue		Moderate weakness / issue			Moderate weakness / issue
5. Minimise barriers to entry						Strong weakness / major issue							Moderate weakness / issue		
6. Minimise transaction costs			Moderate strength / benefit			Strong weakness / major issue			Strong weakness / major issue	Strong weakness / major issue					Moderate weakness / issue

## Legend

	Strong weakness / major issue
	Moderate weakness / issue
	Moderate strength / benefit
	Major benefit / strength

# Heat Map - Comparison

**DWGM**

Characteristic	Market Feature (DWGM)													
	A	B	C	D	E	F	G	H	I	J	K	L	M	N
1. Credible reference price		Green			Light Green	Light Green	Light Green	Red			Red	Yellow	Yellow	
2. Timely & efficient investment									Red					
3. Readily available market information			Green											
4. Ability to manage risk		Green		Light Green		Light Green	Light Green	Red	Red	Red	Red	Yellow	Yellow	
5. Minimise barriers to entry	Green		Green											Yellow
6. Minimise transaction costs	Green			Light Green	Light Green					Red				

**AEMC Proposal**

Characteristic	Market Feature (AEMC Proposal)														
	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O
1. Credible reference price	Green			Light Green	Light Green		Red	Red			Yellow	Yellow			
2. Timely & efficient investment		Green									Yellow				
3. Readily available market information				Light Green										Yellow	
4. Ability to manage risk	Green	Green			Light Green	Red	Red	Red	Red	Red		Yellow			Yellow
5. Minimise barriers to entry						Red							Yellow		
6. Minimise transaction costs			Light Green			Red			Red	Red					Yellow

- Overarching observations
  - Current market has some desirable features and issues
  - Recognition that reform is needed – status quo has issues and time is of the essence
  - AEMC proposal has some desirable features and issues
  - General agreement of shared vision as long term aspiration
  - Recognition that market context and landscape is changing
  - Requirement for continuous reform – journey not destination



- AEMC approach
  - extensive change
  - higher risk / uncertain outcome
  - a number of years till change achieved
- Further develop / assess preferred model
  - Further analysis to develop preferred model
  - not recommended as just delays reform
  - significant work completed already
- Staged reform / hybrid approach
  - ‘best of both worlds’ – strengths of current and AEMC
  - targeted and prioritised reform – reduces risk and cost
  - commence implementation more readily
  - flexible to respond to changing circumstances as they arise
  - recognises continuous improvement



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