



Mr John Pierce
Australian Energy Market Commission
Level 6, 201 Elizabeth Street
Sydney NSW 2000
Lodged via www.aemc.gov.au

Tuesday, 5 April 2016

Dear Mr Pierce,

RE: Declared Wholesale Gas Market Discussion Paper (Ref GPR0002)

ENGIE appreciates the opportunity to comment on the Australian Energy Market Commission (AEMC) Victorian Declared Wholesale Gas Market Discussion Paper (Discussion Paper).

ENGIE is a global energy operator in the businesses of electricity, natural gas and energy services. ENGIE is the number one independent power producer in the world with 115.3 GW of installed power-production capacity, 19 GW of which is renewable. ENGIE employs 1,800 people in Australia and supplies 12 per cent of Australia's National Electricity Market, and has an installed generating capacity of more than 3,550 MW. ENGIE also owns Simply Energy which provides electricity and gas to more than 550,000 retail customer accounts across Victoria, South Australia, New South Wales and Queensland.

ENGIE appreciates the work that the AEMC have done to date on the review of the Victorian Declared Wholesale Gas Market (DWGM), and notes that the Discussion Paper provides important further detail on the AEMC's deliberations for DWGM reform.

ENGIE supports further detailed consideration of the AEMC's reform proposals to ensure that they will deliver more effective gas market outcomes. To this end, ENGIE suggests that the AEMC final report to the Victorian Government include a recommendation that before proceeding with the reforms, further consideration be given to the detailed design and likely costs and benefits. Such a detailed design process would be best carried out under the guidance of an industry working group, managed by the AEMC.

An important component of the detailed design work and evaluation will be to examine a number of scenarios through worked examples. This would provide industry, government and regulators an opportunity to understand how the new reforms might perform under real world scenarios, and to also gain an appreciation of the likely costs

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and benefits. For these reasons, ENGIE suggests that the AEMC run an industry workshop to step through a number of scenarios, including market outcomes, costs and benefits.

The remainder of this submission provides comment in response to the four main points presented in the Discussion Paper.

Managing pipeline capacity

The Discussion Paper provides an overview of how baseline pipeline capacity in Victoria would be calculated and sold by APA, and suggests that additional capacity over and above the baseline level would be released by the Australian Energy Market Operator (AEMO) each day on an interruptible basis. The Discussion Paper notes that additional capacity would only be made available by AEMO at entry exit points where baseline capacity has been fully sold.

The suggested approach is that APA would propose a level of baseline capacity at each entry-exit point which would then be subject to approval by the Australian Energy Regulator (AER). ENGIE agrees that this propose / approve arrangement provides a suitable framework for a regulated asset, and builds on the existing regulatory framework in the Australian energy sector.

One area that will require further detailed examination is how to ensure the appropriate balance between maximising utilisation of pipeline assets, and minimising the risk of congestion. As ENGIE understands what has been proposed, there would seem to be an incentive on APA to establish the baseline capacity as high as possible to achieve maximised regulated revenue. If this outcome were to occur, then it would lead to a greater likelihood of AEMO having to apply constraints to maintain the integrity of the pipeline network. To avoid this undesirable outcome of maximising regulated revenue and increased likelihood of congestion, ENGIE suggests that the regulatory framework include measures to establish a reasonable compromise for what constitutes baseline capacity.

In considering how to set the appropriate level for baseline capacity, one question that will arise is whether baseline capacity should be set based on the minimum or maximum demand, or somewhere in between.

If baseline capacity were to be calculated based on maximum demand, it will be underutilised for most of the time, which would in turn mean that there are few occasions where AEMO would be able to provide additional daily capacity. This outcome could lead to concern that participants are paying for baseline capacity that is rarely used.

If baseline capacity were to be calculated based on average or minimum demand, then participants will need to purchase additional daily capacity on days where their needs exceed the average/minimum demand. This would increase participants' reliance on being able to purchase additional capacity for higher demand days through the daily auction from AEMO.

As ENGIE understands the proposed approach, it would involve APA selling baseline capacity (presumably for a yearly term or greater) and AEMO selling additional capacity on a daily basis. Although the Discussion Paper does refer in passing to secondary trading of capacity rights, there appears to be no facilitated arrangement for secondary trading. ENGIE suggests that including a facilitated arrangement for secondary trading of pipeline capacity, perhaps with the option to trade capacity on a seasonal or monthly basis, might be a useful compliment to



the relative certainty of a multi-year agreement, and the competitive efficiency of a daily auction. A seasonal mechanism such as this might also provide useful signals regarding the need for new investment in pipeline infrastructure.

Capacity allocation mechanism

ENGIE recognises the existing authorised maximum daily quantity (AMDQ) and AMDQ credit certificates (AMDQcc) are valued by some participants in providing certain options for managing risks associated with tie breaking, congestion and uplift. ENGIE also notes the AEMC claim that if the proposed reforms were adopted, many of the risks that the AMDQ/AMDQcc framework are intended to manage would be reduced or eliminated, with the result that AMDQ/AMDQcc is no longer relevant.

If it can be demonstrated that the new arrangements overcome the need for the current AMDQ/AMDQcc framework, then ENGIE would have no fundamental reason to argue for the retention of AMDQ/AMDQcc. However, given the dependence on the current framework by some participants for risk management, it should be no surprise that those participants are cautious in agreeing to a new model that would eliminate this mechanism. This further strengthens ENGIE's view that the AEMC need to set out detailed worked examples of how the proposed reforms would operate in practice, and thus, how it is true that participants are able to manage their risks without relying on AMDQ/AMDQcc.

Even if it is possible to demonstrate that participants are able to manage their risks appropriately in the new entry-exit regime without AMDQ/AMDQcc, it is important that the transition from AMDQ/AMDQcc to entry-exit is managed in such a way that participants existing rights are recognised, and that risk exposures can be managed appropriately during the transition.

Capacity pricing and revenue

ENGIE understands that under the proposed daily auction AEMO will offer an amount of additional capacity at each entry-exit point for which the daily nominations are equal to the baseline capacity at that point. In other words, AEMO will not offer any additional capacity at any entry-exit point for which the total daily nominations fall short of the point's baseline capacity.

ENGIE understands that the rationale behind this approach is that the AEMC want to encourage the primary mechanism to be participants negotiating with APA for baseline capacity to meet their expected requirements, and not depend on the daily auction for their primary capacity. Nevertheless, ENGIE suggests that there may be a need to consider how this arrangement would operate under a range of scenarios to ensure that there are not any perverse outcomes.

For example, suppose that two parties (party A and party B) both have 7 TJ of baseline capacity at a particular entry-exit point, giving a total baseline capacity of 14 TJ. Suppose that party A is seeking to inject 10 TJ while party B does not want to inject any gas at that point. Party A is limited however to 7 TJ, and since not all of the entry-exit point's baseline capacity has been nominated, AEMO is unable to offer any daily capacity at that point, despite the fact that there would appear to be at least 4 TJ of capacity available. This results in unutilised capacity being unavailable, despite the fact that there is a willing buyer of this capacity.



There are quite likely a number of alternative scenarios along these lines that ENGIE suggest would be valuable for the AEMC to examine in the form of worked examples.

Balancing

ENGIE is broadly supportive of the concept that participants should be incentivised to balance their own injections and withdrawals, and that AEMO should then take any residual balancing actions that are needed to maintain network security. There are a number of scenarios that will need to be examined in more detail. For example:

- when the hub is in net balance but individual participants are not,
- large hub imbalance caused by one participant only,
- numerous participant imbalances in one direction balanced by one large imbalance in the other direction,
- locational imbalances.

ENGIE trusts that the comments provided in this response are of assistance to the AEMC in its deliberations. Should you wish to discuss any aspects of this submission, please do not hesitate to contact me on, telephone, 03 9617 8331.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Chris Deague". The signature is written in a cursive, flowing style.

Chris Deague
Wholesale Regulations Manager