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## Review of Victoria Declared Wholesale Gas Market (DWGM) – Draft Final Report

Dear Sirs,

RWE Supply & Trading (RWEST) welcomes the opportunity to comment on the above draft final report and, once again, commends the AEMC on the thoroughness and quality of its analysis.

The AEMC has undertaken a comprehensive evaluation of market design characteristics and policy options applicable in Europe and elsewhere, selecting those which it considers most appropriately reflect circumstances prevailing in Victoria and the rest of Australia today. In doing so its decisions are informed by real life examples and experience, which should help to avoid pitfalls and implement measures in a more timely manner.

RWEST fully support the core concept on which the DWGM is based: namely, non-discriminatory access to baseline levels of capacity within an entry/exit system in which gas is continually traded at a virtual trading point and shippers are primarily responsible for balancing their inputs and offtakes, driven by efficient commercial incentives. Establishing ambitious levels of baseline capacity ex-ante based on load-flow modelling, as occurs in the UK, provides certainty to stakeholders which ongoing dynamic technical capacity determination, as applies in some parts of Europe, does not. Continuous trading at a virtual point, as now applies throughout most of Europe, simplifies trading activity and opens the market to non-physical traders. And making shippers primarily responsible for collectively balancing the system maximises the efficiency of system balancing and stimulates liquidity.

Within this core concept a number of different market design options can be used to achieve the desired objective. Whilst the AEMC has indicated those options it considers to be most appropriate for the DWGM going forward, which we broadly agree with, it is important that these are elaborated on in detail during the market design stage and left open to adjustment where demonstrably necessary. For example, the extent to which the core balancing model (based on the Dutch and Belgium balancing systems) incorporates roll-over or financial settlement of end-of-day imbalances and the price applied to imbalances (average or marginal price) is linked to whether and how tolerances are applied and how easy it will be

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to provide ongoing timely and accurate SBS and POS data. Also, whilst the principle of accurately targeting balancing costs to "causers" is an appropriate one, this should not be at the expense of excessive technical complexity. A relatively small amount of socialisation may be a price worth paying if it reduces complexity and increases liquidity.

Once the final report on the DWGM is published the Gas Market Reform Group (GMRG) will have an important role to play in elaborating the final policy options and market rules necessary to commence the transition to full implementation in 2020. Clearly this role will be challenging and will require the constructive participation of key categories of stakeholders committed to achieving the COAG Energy Council Vision. For the sake of efficiency and expediency not every stakeholder will be able to actively participate. So in order to ensure wider buy-in across the stakeholder community it is vital the GMRG adopts best practice by ensuring its activities are fully transparent and that it consults with stakeholders on recommended market design options and rules developed within the group. A high level project plan with milestone dates for key development activities (e.g. capacity, balancing, transition) would aid shipper understanding as would a dedicated website and distribution list. Web streaming of public stakeholder information/development workshops should also be considered to maximise accessibility and engagement.

RWEST continues to follow Australian gas market developments with interest. The market design options proposed in this draft final report, which we are very familiar with and used to operating under, represent a firm foundation on which the DWGM can be established and thrive, provided there is continued regulatory and political impetus for it to do so. As the DWGM moves towards the transitional phase followed by full implementation, we anticipate entering the Australian market and offering trading services to market participants and end consumers, as well as sharing in the opportunities afforded by competitive wholesale gas and electricity markets.

We wish you and the GMRG every success in achieving the COAG Energy Council vision. Should you wish to discuss our response in more detail please do not hesitate to contact us.

Yours faithfully,



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