

26 April 2019

Mr John Pierce
Chairman
Australian Energy Market Commission
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Dear Mr Pierce

Australian Energy Market Commission Victorian Declared Wholesale Gas Market rule changes

AEMO welcomes the opportunity to comment on the Australian Energy Market Commission's (AEMC) Victorian Declared Wholesale Gas Market (DWGM) simple wholesale price, forward trading market and improvement to AMDQ regime rule change consultation papers.

AEMO is supportive of the incremental reforms to the DWGM that the Victorian government has proposed.

Forward trading market

AEMO supports the implementation of a Forward Trading Market (FTM) for the DWGM. The FTM would enable:

- Retailers to manage their short-term commodity purchases ahead of the gas day by providing a transparent platform to buy and sell standardised gas products.
- Producers to participate directly in the market. For example, by allowing a producer to sell excess short-term production (above long-term contractual commitments) at a market price.
- The linking of gas and electricity markets by allowing gas fired generators to purchase gas supply for generation ahead of the gas day.

A liquid forward market would also contribute to the development of a short-term forward curve for gas which would aid the price discovery process providing a signal for efficient short-term production, storage, withdrawals and trading activity.

AEMO currently operates the Gas Supply Hub (GSH) which is a trading exchange for physical gas and capacity products currently operating at Wallumbilla and Moomba enabled under Part 22 of the National Gas Rules. If the FTM is implemented, utilising the GSH framework and trading platform would have considerable benefit for industry, and we have provided further detail on this in our submission.

We have highlighted in our submission that further work is required to define how integration between the FTM and DWGM will be achieved as several important questions remain open in the consultation paper. Getting the right integration between the two markets will be important to the success of the products listed on the FTM, but this element of the design will also drive implementation cost and complexity.

Simpler wholesale Price

AEMO continues to be supportive of reforming the uplift allocation framework through socialising the cost of congestion uplift. A number of issues were identified during the 2017 review including:

- That the uplift framework poorly allocates cost-to-cause for congestion, and that the congestion scenario that the uplift framework was designed for is no longer the only relevant scenario.
- That the uplift framework is overly complex and may act as a barrier to entry.
- That the incentives created by the uplift framework can be a deterrent to trading gas on the DWGM.

These issues are still relevant and so reform is warranted. However, AEMO noted in the review and we continue to highlight that consideration should be given to how congestion (including injection congestion) will be efficiently managed in the future if congestion uplift is socialised. We have previously highlighted that a planning standard could be considered to mitigate against future congestion by ensuring that there is an efficient level of investment in network capacity. AEMO is still interested in exploring what mechanisms may be required once congestion uplift is socialised.

The consultation paper asks whether more cost-reflective uplift arrangements should be considered as an alternative to socialising the costs of congestion. We consider that this would be a substantial undertaking in terms of both market design and system change effort and, would likely affect the implementation timeframe for this rule change. We also do not necessarily think that further reform to the uplift framework is the only way to address future costs of congestion. We caution against this rule change process trying to develop more cost-reflective uplift arrangements (as an alternative to socialising the costs) in isolation without considering other aspects of the market's design and regulatory arrangements in parallel. In essence, this would require another market review.

The review recommended a staged approach towards implementing the target model, and the background paper refers to these rule changes as incremental reforms. An entire redesign of the uplift framework (and other aspects of the market design) would not be consistent with these recommendations.

AMDQ regime

AEMO supports the changes proposed to the AMDQ regime. We consider that creating entry and exit AMDQ rights that are easily tradeable will make the tie-breaking rights provided by AMDQ more accessible and useful to industry. We note that further work is required to define the rights and deal with how existing rights are transitioned to the new regime.

AEMO looks forward to engaging further with you during the course of these rule changes. If you would like to discuss the contents of this submission further, please do not hesitate to contact Paddy Costigan on 03 9609 8407.

Yours sincerely,



Peter Geers

Chief Strategy & Markets Officer

Attachments:

AEMO submission to the Simple Wholesale Price Rule Change
AEMO submission to the Forward Trading Market Rule Change
AEMO submission to the Improvement to AMDQ Regime Rule Change

STAKEHOLDER FEEDBACK TEMPLATE

SUBMITTER DETAILS

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| Question | Response |
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| QUESTION 1: CURRENT ARRANGEMENTS | |
| <i>1a) How do participants currently manage their DWGM spot price risk for gas? How effective are the current options for managing risk?</i> | No comment |
| <i>1b) How accessible and competitive are GSAs and off-market secondary gas contracts?</i> | No comment |
| <i>1c) What reasons, if any exist, have limited participants' use of ASX products to date? Is the recent small increase in trading a sign that the market is beginning to mature? Are the transaction costs, such as margining requirements, a barrier to trading ASX futures?</i> | No comment |

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| <p><i>1d) Do the existing gas commodity contracting options act as a barrier to entry or expansion in the DWGM?</i></p> | <p>No comment</p> |
| <p><i>1e) Would the introduction of the FTM in the DWGM be beneficial to participants? How would the FTM affect the existing risk management products?</i></p> | <p>An FTM would provide a mechanism to manage short-term commodity purchases and sales ahead of the gas day. A transparent trading platform that lists standardised products and is underpinned by a centrally managed settlement and prudential framework would be of value to participants intending to forward trade gas. The FTM could enable:</p> <ul style="list-style-type: none"> • Retailers to manage their short-term commodity purchases ahead of the gas day by providing a transparent platform to buy and sell standardised gas products. • Producers to participate directly in the market. For example, by allowing a producer to sell excess short-term production (above long-term contractual commitments) at a market price. • The linking of gas and electricity markets by allowing gas fired generators to purchase gas supply for generation ahead of the gas day. <p>The standardization of products and centralisation of settlements and prudentials provided by the FTM would also allow a participant to trade (either through the exchange, or bilaterally off-market) with many potential new counterparties without having to put bilateral arrangements in place. From discussions with industry, AEMO understands that this has been a major benefit of the introduction of the Gas Supply Hub as the need to have bilateral arrangements in place can be a deterrent to trade.</p> <p>AEMO considers that an FTM would also be complementary to existing bilateral trading arrangements and would not inhibit bilateral trading at notional points at the border of the DTS.</p> |

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| <p>1f) Are there any other mechanisms that could be introduced to better manage gas commodity price risk in the DWGM, other than the FTM?</p> | <p>An FTM based on the Gas Supply Hub (GSH), is a readily deployable solution. A number of Victorian market participants are already familiar with and active in the GSH and so implementation of the FTM through the GSH will likely aid market adoption.</p> |
| <p>QUESTION 2: Design elements of a forward trading market</p> | |
| <p>2a) How similar should the design of the FTM be to the existing GSH?</p> | <p>AEMO proposes that FTM products would be traded through the same platform as GSH products and utilise the same settlement and prudential systems.</p> <p>The key benefits from delivering the FTM through the GSH include:</p> <ul style="list-style-type: none"> • Common prudentials with other products traded on the GSH, the Capacity Trading Platform and the Day Ahead Capacity Auction. This would allow participants to provide common collateral (e.g. a bank guarantee) that would be shared across multiple markets traded on the GSH. Prudential positions would also be offset e.g. a purchase of gas at Wallumbilla would be offset against a sale of gas in the FTM resulting in a net exposure for the participant. • Combined settlement with a single invoice that would net sales and purchases across multiple markets into a single payment or charge. • Utilising a common IT platform (currently Trayport) for trading the FTM products and other GSH and capacity products. • Utilising common reporting and settlement systems. <p>AEMO considers that it would be efficient in terms of development cost and beneficial to industry to deliver the FTM through the GSH. It is not clear to AEMO what the benefits would be to developing bespoke market arrangements specifically for the FTM.</p> |
| <p>2b) What are the important elements for this market to have?</p> | <p>The market should have the following features:</p> <ul style="list-style-type: none"> • Standardisation. The trading products will need to have standard terms and conditions to make them accessible to as broad a range of participants as possible. |

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| | <ul style="list-style-type: none"> • Centralised settlement and prudential management. A robust prudential framework should underpin the market to minimise counter-party risk and build market confidence. • Anonymised trading. As the market will be voluntary and it may take time for liquidity to develop (particularly in longer-dated products), anonymity of orders and trades will likely be important to growing the market and encouraging initial participation. • Governance. The market should be subject to a strong and transparent governance framework with a transparent change process. Market conduct should be enforced by the AER. • Transparency. While the participant-specific details of trades and orders should be anonymised, market information should be made public e.g. publication of trade prices and volumes to aid price discovery. |
| <p>2c) <i>How could liquidity in the FTM be encouraged and maintained?</i></p> | <p>The experience with the GSH shows that it can take time for liquidity to develop in a new market and that liquidity typically grows outwards from the prompt products to the longer-dated products. AEMO considers it important that the market is adaptive and that incremental adjustments are able to be made to the market's design to meet the needs of industry. In addition, using the current GSH framework and systems will enable a number of existing participants who are already set up for the GSH and/or the PCT to access the FTM and this reduces a potential barrier to entry.</p> |
| <p>2d) What participants should operate in the FTM? Should financial intermediaries be allowed to participate?</p> | <p>An FTM delivered through the GSH would be a market for physical delivery of gas into the Declared Transmission System (DTS). FTM market participants will need to be DWGM market participants (or acting as an agent for a DWGM participant) and have the ability to deliver or receive gas into the DTS. This does not necessarily prevent financial intermediaries from participating but they will need to be capable of injecting or withdrawing gas if they have a net long or short position on the FTM.</p> |

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| | <p>A financial market is likely to have considerable regulatory and administrative burden (additional regulatory and licensing requirements, potentially more onerous collateral requirements) for AEMO and participants increasing both participation cost and complexity. As such, a physical market will likely have lower barriers to entry for existing and new DWGM participants.</p> |
| <p>2e) What products should be offered on the market? Should there be seasonal products? What should be the process for adding/removing products?</p> | <p>Product specifications should be developed in consultation with industry and able to be changed in a timely and transparent process. The current product development approach (through the Exchange Agreement change process) has worked well and a number of changes have been made to the products since the market was implemented in 2014.</p> <p>AEMO considers that there is value in mirroring the tenors available for Wallumbilla and Moomba. If the product tenors are the same, then spread products between Wallumbilla, Moomba and Victoria could be established. Spread products link markets together and allow participants who have gas at both markets or transportation between those markets to monetise their spare capacity.</p> |
| <p>2g) How significant would the costs of implementing the FTM be? Should the FTM operate on the Trayport system or another platform? How should prudentials be treated? What level of integration should there be between the FTM and the DWGM scheduling system?</p> | <p>Implementation</p> <p>To implement the FTM AEMO would need to:</p> <ul style="list-style-type: none"> • Modify exchange trading system to list the new FTM products • Minor modifications to settlement, prudential and reporting systems for the GSH to include the new FTM products • Modify DWGM settlement systems to incorporate FTM trades and settle variances. • Make changes to market procedures and the exchange agreement. <p>Once the design for the FTM has been finalised, AEMO will estimate the cost of the implementation project as per our typical budgeting and project management processes.</p> |

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| | <p data-bbox="882 240 987 268">Platform</p> <p data-bbox="882 280 2029 427">AEMO considers that there are benefits for industry in using the same trading platform as the GSH and CTP (currently Trayport) for the FTM. Utilising the same platform would allow traders to access the multiple markets via a single interface and login. Participants with access to the GSH would also be granted access to the FTM.</p> <p data-bbox="882 480 2029 778">A single platform will also enable spread products to be established between markets e.g. Wallumbilla and Victoria. Spread products link markets together and allow participants to trade any price difference that emerges between markets. A participant who trades the spread generates implied orders (that can be traded) in the base products and hence spread trading provides additional liquidity to both of the underlying markets. The spread product implemented between Wallumbilla and South East Queensland in 2017 has proven to be a popular trading product and its adoption by industry has improved liquidity and trading volume in both markets.</p> <p data-bbox="882 831 2029 1018">There are also cost efficiencies from leveraging an existing system rather than building a bespoke platform for the FTM. Given the proposed design elements in the consultation paper, AEMO has not identified any factors that would prohibit the facilitation of the FTM through the GSH exchange trading system. The other benefits from utilising the GSH framework for the FTM are provided in our response to question 2a).</p> <p data-bbox="882 1070 1021 1098">Prudentials</p> <p data-bbox="882 1110 2029 1337">AEMO consider that it would be both practical and beneficial to combine settlement and prudentials for trades on the FTM with settlement and prudentials for the GSH and CTP. Common prudential arrangements would allow participants to provide common collateral (e.g. a bank guarantee) that would be shared across multiple markets. Prudential positions would also be offset e.g. a purchase of gas at Wallumbilla would be offset against a sale of gas in the FTM resulting in a net exposure for the participant.</p> |

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| | <p data-bbox="887 242 2020 392">As it is proposed that delivery variances would be settled in the DWGM at the 6:00 AM price, then the prudential exposure for delivery variances would be managed in the DWGM as per the current arrangements. If this aspect of the design changes, then the prudential approach may need to be reconsidered.</p> <p data-bbox="887 437 1361 472">Integration with the DWGM scheduling</p> <p data-bbox="887 478 2020 667">AEMO considers that the FTM should be incorporated into the current DWGM scheduling processes without the need for further integration. Participants should be able to bid their positions (including any open FTM position) into the market and be scheduled based on the current market's design and scheduling arrangements i.e. scheduled on price subject to any constraints and AMDQ (if tie-breaking is required).</p> <p data-bbox="887 711 2020 1018">AEMO does wish to highlight that as the FTM products should be physical products, participants will need to be capable of entering a physical position to meet any open FTM position. Consideration will need to be given as to what this means for uncontrollable demand and any impact to the accuracy of demand forecasts. For example, if a participant purchases 10 TJ of gas on the FTM but on the gas day only intends to use 5 TJ of gas (they procured gas above their expected demand), then a demand forecast of only 5 TJ should be submitted. The rules will need to consider what participants are required to do to ensure physical delivery or receipt of any forward traded products.</p> <p data-bbox="887 1062 1272 1098">Integration of FTM with DWGM</p> <p data-bbox="887 1104 2020 1329">AEMO sees benefit in integrating the FTM with DWGM. AEMO suggests that integration could be achieved through the automatic delivery (transfer of title) of a FTM trade into the Declared Transmission System. This would mean that a seller of an FTM product would effectively be short in the DWGM and they would have an obligation to inject gas into the DTS to meet their FTM trades. And a buyer would be long in the DTS with an obligation to withdraw gas from the DTS in accordance with its net position in the FTM. As noted in the consultation</p> |

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| | <p>paper, FTM trades would be netted with DWGM positions for settlement. The advantages of integration include:</p> <ul style="list-style-type: none"> • Utilising the DWGM to facilitate automatic delivery and title transfer of FTM trades • Utilising the DWGM to manage any delivery variances • Anonymity of trading and delivery |
| <p>QUESTION 3: Rule Change Environment</p> | |
| <p><i>3a) How will the Simpler Wholesale Price and Improvements to the AMDQ regime rule changes impact on the need or usefulness of the FTM? Does it improve the attractiveness of the FTM over the existing price risk management options or reduce it?</i></p> | <p>The simpler wholesale price rule change is complementary with the FTM rule change. As identified by the AEMC in the consultation paper, under the current arrangements' participants may be disincentivised from trading due to challenges with hedging congestion uplift exposure. For example, a Participant who is a net buyer in the DWGM is fully exposed to congestion uplift as they are not injecting any gas that could be used as part of a congestion uplift hedge (if the participant owns AMDQ). Simplifying the wholesale price through socialising the costs of congestion uplift would help in this respect.</p> <p>The proposed changes to the AMDQ regime would also be complementary. Making AMDQ more readily tradeable would enable participants to match their forward position with their AMDQ position. For example, a seller in the FTM may want to acquire AMDQ at a specific injection location to have tie-breaking rights to meet its FTM position.</p> |
| <p><i>3b) If the ASX were to introduce a market maker for its Victorian gas product, how is the value proposition of the FTM affected? Would the introduction of the FTM still be of benefit to the market?</i></p> | <p>Forward physical market and futures market</p> <p>AEMO sees the financial and physical markets as complementary rather than as substitutes. Improved liquidity and further development of the ASX's financial products is both welcomed and encouraged.</p> |

| Question | Response |
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| | <p>A liquid short-term physical market has the potential to reduce the risk associated with, and enhance the trading of, quarterly financial contracts by DWGM participants. For example, a gas producer may be more likely to enter a quarterly trade if they have the ability to make short-term purchases to manage the risk of variations in production during the quarter. Similarly, a gas-powered generator may not expect to operate every day during a quarter so could use a mix of ASX and FTM trades to manage their gas supply.</p> <p>Market maker in the futures market</p> <p>The introduction of a market maker to the ASX's futures products would be a positive step in improving liquidity in the gas market. This improved liquidity would likely be beneficial for participation in the spot and physical forward markets as participants with a physical and financial position will trade around their exposures in both markets.</p> |
| <p><i>3c) If the FTM were to be implemented, what operational and implementation issues may arise? How much time is required for market bodies and participants to prepare for the introduction of an operational FTM?</i></p> | <p>The integration approach with the DWGM needs to be further defined as the extent of the integration will impact design complexity, implementation timeframes and cost. The next stage of the rule change process should seek to clarify the integration requirements for settlement and scheduling (if there are any).</p> <p>The time required for implementation depends on the extent of consultation required after final decision and the final design. AEMO would need to make a number of changes to existing systems and market procedures. An implementation estimate can be prepared once the design of this rule change (and the other DWGM rule change proposals) have been finalized.</p> |

STAKEHOLDER FEEDBACK TEMPLATE

SUBMITTER DETAILS

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| Question | Response |
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| QUESTION 1: CURRENT ARRANGEMENTS FOR CONGESTION UPLIFT | |
| <p>a) In relation to the current congestion uplift framework:</p> <ul style="list-style-type: none"> • is this framework overly complex or are congestion uplift charge outcomes able to be understood and predicted? • does it effectively allocate costs to causers? • is the evolution of the market likely to change the frequency and materiality of congestion uplift payments? • to what extent do concerns about congestion uplift influence market behaviour? | <p>Issues with congestion uplift</p> <p>A number of issues with the congestion uplift framework were identified by AEMO and industry in the AEMC's 2017 review including:</p> <ul style="list-style-type: none"> • Complexity of the uplift framework and the uplift hedging arrangements serving as a barrier to entry • The need to have a physical injection at the same location as your AMDQ to hedge congestion uplift acting as a disincentive to trade and wheel gas through the DTS • Congestion uplift being a poor mechanism for allocating cost to cause for congestion. <p>AEMO agrees that the current uplift framework is not functioning as well it could and is in need of change. We note that the current methodology can result in uplift costs being allocated to congestion uplift even when no congestion has occurred. We are supportive of the approach to simplify the uplift framework by socializing the cost of congestion uplift. In the review, we stated that such a solution is likely to better promote the NGO if it can be established that:</p> <ul style="list-style-type: none"> • System demand driven congestion in the DTS is rare and therefore the removal of congestion uplift is unlikely to materially impact incentives for investment, especially where congestion uplift costs when averaged over a year are likely to be low. • The ability to allocate the costs of congestion to the actual causers is sufficiently difficult that misallocation is likely meaning that socialising the congestion costs is appropriate. • The introduction of a new formal planning standard will effectively manage future levels of congestion and protect against un-intended outcomes. <p>As noted above, we suggested the adoption of a planning standard would be a useful mechanism for managing future congestion by requiring that the DTS is capable of providing capacity at a sufficient level to meet the needs of industry and consumers. AEMO is still interested in understanding what mechanisms will be in place to manage any future congestion (whether driven by demand or supply).</p> |

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| <p>b) To what extent does the congestion uplift hedge protection framework:</p> <ul style="list-style-type: none"> • enable market participants to effectively manage the risk of congestion uplift payments without incurring unreasonable transaction costs? • provide any other benefits for market participants or the operation of the DWGM, such as signals and incentives for investment in additional transmission capacity? | <p>AEMO notes market participants have purchased unallocated authorised MDQ at auction, and have:</p> <ul style="list-style-type: none"> • configured Injection Hedge Nominations to maximise uplift hedge • allocated authorized MDQ to maximize injection tie breaking rights <p>Although this indicates market participants are using uplift hedges to manage their uplift exposure, the availability of authorised MDQ (both unallocated or available for sale) is limited which reduces the effectiveness of this measure.</p> |

QUESTION 2: PROPOSED SOLUTION

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| <p>a) If congestion uplift costs were spread across market participants, and congestion uplift hedge protection did not apply, what effect might this have on:</p> <ul style="list-style-type: none"> • the clarity of congestion signals in the short-term? • the clarity of long-term term signals to invest in transmission capacity? • the materiality of uplift payments? • the ability of market participants to manage risk related to congestion uplift payments? • outcomes for market participants? | <p>AEMO considers that investment signals from congestion uplift are muted under the current uplift regime. We provide additional detail on this issue in our response to Question 6 which also asks about the impact on investment and signals.</p> |
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| <p>b) If congestion uplift costs were spread across market participants, what would be the best method to recover congestion costs? Should a pro rata method be used, as is currently applied for common uplift, or a different method?</p> | <p>If congestion uplift charges continued to apply, AEMO would need to determine congestion charges separately from common uplift charges. AEMO therefore considers it may be more appropriate to recover ancillary payments through a combination of surprise uplift charges and DTS Service Provider uplift charges (if present) with any remaining uplift recovered through pro rata common uplift charges.</p> <p>AEMO suggests the AEMC further examines the case for recovering common uplift charges from market participants on pro rata participant injections and withdrawals rather than just withdrawals.</p> <p>DTS SP uplift</p> <p>AEMO suggests that the AEMC considers improving transparency by requiring the methodology for the determination of DTS SP uplift to be included in the AMDQ Procedures and moving limitations to liability for DTS Service Provider uplift in rule 240(7) from the Service Envelope Agreement to the rules. Consideration also needs to be given to the impact of the EA rule change on NFTCs and DTS SP congestion uplift (see our response to question 5c).</p> |
| <p>c) If congestion uplift payments were spread and the cost of congestion was decoupled from AMDQ:</p> <ul style="list-style-type: none"> • what effect would this have on the value of AMDQ? • would this create opportunities to simplify current processes around IHN and AIHN? If so, how? • what effect might this have on the ancillary payments for the market as a whole? | <p>AEMO notes market participants have transferred / nominated AMDQ to the controllable system withdrawal point at Culcairn to the limit of available capacity. As this does not provide additional uplift hedge protection over leaving AMDQ at the reference hub, we conclude AMDQ is useful to market participants to manage scheduling risk and would continue to provide valued benefits.</p> <p>If congestion uplift was removed, there would be no need to provide an IHN or AIHN as there would be no need to either receive an uplift hedge (IHN set) or ancillary payment (IHN limited or not set).</p> <p>AEMO expects that bid structuring will continue to be the major determinant of ancillary payments rather than the removal of IHNs. With IHNs set, historically some scheduled injections that would otherwise have received ancillary payments did not. This means there may be an increase in ancillary payments in some circumstances. However, market participants have always been able to structure their bids and IHNs at a close proximity point to be able to receive uplift hedge from being scheduled for some injection bid steps and to receive ancillary payments for being scheduled for others.</p> |

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| <p>QUESTION 3: OTHER APPROACHES</p> | |
| <p>Would other approaches, including (but not limited to) more cost reflective uplift payments or DFPC pricing, better address the issues raised by the Victorian Minister in the simpler wholesale price rule change request than the proposed solution to smear congestion uplift across market participants?</p> | <p>Cost reflective uplift</p> <p>AEMO considers that an approach to introduce more cost reflective uplift charges would require the identification of all scenarios that would result in uplift charges and designing specific cost recovery mechanisms for each. This is likely to extend the implementation time, increase implementation costs, create increased complexity and increased barriers to entry. Cost reflective uplift approaches should also not be considered in isolation from other aspects of the market’s design as there may be more effective ways of achieving cost to cause. However, consideration of other aspects of the market design would require a broader review and would seem to be out of scope for this rule change, given the review and the background paper refers to these changes as incremental reforms. For these reasons, AEMO does not support this approach at this stage.</p> <p>DFPC Prices</p> <p>AEMO discussed DFPC with the Gas Wholesale Consultative Forum (GWCF) in 2014 and 2015, following which the GWCF elected not to pursue the concept. AEMO notes that there is unlikely to be any synergy between DFPC and the other current rule change proposals, so the DFPC change should be considered on its own merits versus the costs of its implementation (which we estimate would be significant, see the response to question 9). The introduction of DFPC is likely to extend the implementation time, increase implementation costs and create increased complexity.</p> <p>The AEMC could undertake further analysis and consultation to understand the likely level of financial trading that a DFPC mechanism would facilitate in order to decide on whether the concept is worth pursuing.</p> |

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| <p>QUESTION 4: CURRENT ARRANGEMENTS</p> | |
| <p>What effect do the current arrangements, in which constraints that would act to physically limit scheduled withdrawals from the DTS are not represented in the pricing schedule, have on:</p> <ul style="list-style-type: none"> • incentives for market participants to bid in ways that take account of an expected constraint? • the level of market prices? • the level of uplift payments? • the level of gas trading? • the predictability of market outcomes (i.e. reflecting the supply/demand balance)? • the value of AMDQ? | <p>AEMO considers the lack of constraints in the PS may cause higher prices where MP's cumulative withdrawal bids exceed the constraint to deliver gas to a system withdrawal point. However, the MPs submitting bids can structure their bids to limit the impact on themselves (or even cause lower prices) by submitting injection bids to cover the expected imbalance exposure created in the constrained OS.</p> <p>This may adversely affect other MP whose injections scheduled in the PS are constrained off in the OS because the constrained off injections will not:</p> <ul style="list-style-type: none"> • provide uplift hedges; or • may create forced imbalance trading (constrained off MP will no longer have injections to offset withdrawals) <p>It is difficult for constrained off MP to predict this outcome.</p> <p>AEMO does not consider there is an impact on AMDQ, as AMDQ is not used when setting constraints. Exit A may be more valuable where constraints to controllable system withdrawal points are applied in both OS and PS, as they provide tie breaking rights for holders.</p> |
| <p>QUESTION 5: PROPOSED SOLUTION</p> | |
| <p>a) If constraints limiting scheduled withdrawals from the DTS were represented in the pricing schedule, what effect would this have on:</p> <ul style="list-style-type: none"> • market participants' bid and offer practices? • market participants' ability to effectively manage price and volume risk? • outcomes for the market as a whole (i.e. level of market prices and volume of trading) • outcomes for individual market participants? | <p>Participants would continue to be scheduled based on price if this rule change is implemented. As tie-breaking only applies to equally priced bids once a constraint binds, participants will still have an incentive to bid at the market price cap (or price floor for injection bids) to ensure they are scheduled. While bid behaviour is unlikely to change, outcomes will be more predictable.</p> <p>The AEMC should consider whether extending the proposed solution to include constraints on supply congestion is beneficial. Supply congestion may occur where there are more bids for injection at less than the marginal price than can be accommodated by the pipeline. This scenario may be possible at Iona and if any of the proposed LNG import facilities are built. Any unintended consequences for DTS SP congestion uplift should also be considered.</p> |

| Question | Response |
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| <p>b) If AMDQ exit rights were introduced in the related rule change on 'DWGM improvements to AMDQ regime', would it still be worthwhile implementing the proposal to internalise withdrawal constraints in the pricing schedule?</p> | <p>AEMO considers it would still be relevant to internalise withdrawal constraints if exit AMDQ was introduced.</p> <p>Exit AMDQ would provide tie breaking rights to give priority in scheduling equally priced withdrawal bids, so there is still likely to be competition to become the marginal bidder at some locations where withdrawal capacity exceeds exit AMDQ.</p> |
| <p>c) Are the proposals to smear congestion uplift and internalise withdrawal constraints in the DTS mutually exclusive? Are there benefits of implementing both proposals?</p> | <p>If transmission constraints are applied to both schedules and congestion uplift is removed, then positive ancillary payments will primarily apply when AEMO constrains on gas in the operating schedule e.g. LNG to relieve a constraint (typically a surprise-type event).</p> <p>If withdrawal capacity is constrained, and an NFTC is applied to both schedules then withdrawal and injection bids would be scheduled in merit order up to the capacity of the constrained pipeline(s) – no ancillary payments or uplift would be generated and as such the constraint would be reflected in the market's price. The market's price may be lower or higher than the status quo depending on the bid stacks (and where they intersect) on the day.</p> <p>DTS SP Uplift</p> <p>AEMO wishes to highlight that the impact of both changes on the DTS SP uplift framework needs to be considered by the AEMC. In particular, if constraints for withdrawals (and potentially injection congestion) are applied to both schedules, would this have an unintended consequence for the allocation of DTS SP uplift? For example, if a compressor fails (due to the fault of the DTS SP) and AEMO has to apply an NFTC which constrains off injections this would result in higher priced injections being scheduled from another location to meet demand. The cost of these injections would be paid for by all of the market through the market price and it may be challenging to recover these costs from the DTS SP if they are in breach of the SEA.</p> |

QUESTION 6: TRANSMISSION INVESTMENT AND OPERATION IN THE DTS

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| <p>If one or both of the proposals to spread congestion uplift payments or internalise withdrawal constraints in the pricing schedule were made, what effect would this have on:</p> | |
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| Question | Response |
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| a) the effectiveness of the AMDQ regime? | <p>This will depend on the extent to which the congestion uplift hedge provided by AMDQ is valued by participants and acts as a signal for investment. AEMO notes that the AEMC concluded in the 2017 DWGM review that “AMDQ was not driving market-led investment and that a reduction to its value (through removing congestion uplift protection) may not change investment signals compared to the status quo”. Given this premise, there is unlikely to be a material impact to the AMDQ regime.</p> <p>Participants will still value the tie-breaking rights given by AMDQ and this is likely to drive a price for entry or exit AMDQ where transportation capacity is constrained relative to injection or withdrawal capacity.</p> |
| b) efficient operation of the DTS in the short-term? | <p>In AEMO’s view the proposals will aid the efficient operation of the DTS, as it improves the predictability of outcomes.</p> |
| c) efficient investment and operation of the DTS in the long-term? | <p>In the longer term, congestion (either supply congestion, or withdrawal congestion) may re-emerge. AEMO is not convinced that a tweak to the uplift regime is the best way to address future congestion. Addressing congestion through the uplift regime would require a complex set of scenarios to be developed (to address the various different types of congestion) and then translated into settlement equations and market hedge mechanisms. This would likely lead to a far more complex and expensive market design and would not necessarily provide meaningful signals for investment.</p> <p>As noted in our submission to the review, we consider that with congestion uplift being removed, a formal planning standard should be introduced to mitigate against future pipeline congestion. The planning standard should be designed to ensure that system has sufficient capacity (and where necessary, require investment) to meet a certain level of demand and manage multiple injection sources. The planning standard would determine an efficient level of congestion. This standard should guide any future investment (and creation of new AMDQ) in the regulated asset base that is required to meet the planning standard. The planning standard should provide greater clarity to the current regulatory investment framework and benefit consumers by ensuring that congestion is managed at an efficient level. AEMO and the DTS SP have roles in authorizing new and modified connections to the DTS, and a planning standard would assist decision making.</p> <p>If there is a desire to have more market-led investment, then this could warrant a future review of the transportation rights. As this would be a more substantial reform, it could be a trigger for further consideration of the target model.</p> |

| Question | Response |
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| <p>QUESTION 7: TRADING BETWEEN THE DWGM AND INTERCONNECTED PIPELINES AND FACILITIES</p> | |
| <p>a) Does the current uplift framework (including congestion uplift hedge protection) inhibit the trading of gas within the DTS and between the DTS and interconnected pipelines and facilities? Does it allow producers and shippers to effectively operate across gas trading hubs without incurring substantial transaction costs?</p> | <p>The current uplift framework increases risk in trading gas between the DTS and interconnected facilities, as there is an unmanageable risk of congestion uplift e.g for a participant who injects at Longford but does not have any customers and so has no authorised MDQ. A trader will need to price this risk in their operating strategy, meaning there could be a consequence for transaction costs and efficiency.</p> |
| <p>b) If congestion uplift payments were smeared across market participants and/or withdrawal constraints were included in the pricing schedule, how would this affect the ability of market participants to move gas within (across) the DTS and from the DTS to interconnected facilities and pipelines?</p> | <p>AEMO considers that the proposals do not affect a market participant's ability to move gas within and from the DTS. The application of withdrawal constraints would result in the same physical flows of gas (because the constraints are already applied to the OS), and congestion uplift plays no role in scheduling gas movements (because congestion uplift is determined from scheduling outcomes and AMIQ). The proposals do allow market participants to better understand, manage and price market risks.</p> |
| <p>QUESTION 8: PROMOTING COMPETITION IN UPSTREAM AND DOWNSTREAM MARKETS</p> | |
| <p>To what extent may any one the following proposals, if implemented individually, encourage the introduction of new gas supplies to the market and/or promote competition among retailers for the sale of gas:</p> | |
| <p>a) Socialising congestion uplift payments?</p> | <p>Socialising congestion uplift payments should reduce the risk of participating in the market as a net-buyer. The socialisation of congestion uplift cost coupled with the removal of the complex uplift hedging mechanisms would reduce barriers to entry and may encourage new entrants into the market which would promote competition amongst retailers.</p> |

| Question | Response |
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| <p>b) Other approaches in relation to DWGM wholesale pricing, including (but not limited to) more cost reflective uplift payments or DFPC pricing?</p> | <p>Cost reflective uplift approaches should not be considered in isolation. A more cost-reflective approach to uplift payments would need to be considered against making changes to other aspects of the market's design e.g. the pricing determination mechanism, the approach to bidding and scheduling and, the transportation rights framework. In essence, another market review. Given the recommendation made in the review and the content of the Victorian government's rule change submission AEMO would suggest proceeding with the simplification approach.</p> |
| <p>c) Internalising withdrawal constraints in the pricing schedule?</p> | <p>AEMO sees no direct impact on retail or supply competition.</p> |

| Question | Response |
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| <p>QUESTION 9: REGULATORY AND ADMINISTRATIVE BURDEN</p> | |
| <p>a) If any of the following solutions were implemented, what would the expected regulatory and administrative burden be for AEMO and market participants:</p> <ul style="list-style-type: none"> • Socialising congestion uplift • Other approaches to address the issues raised by the Victorian Minister in relation to wholesale pricing (i.e. more cost reflective uplift payments, DFPC pricing or another option) • Internalising withdrawal constraints in the pricing schedule. | <p>Socialising congestion uplift</p> <p>AEMO would need to make Procedure changes and system changes to facilitate socialization of congestion uplift this is likely to be a moderate effort after the final determination has been made.</p> <p>More cost reflective uplift payments</p> <p>A more substantial effort will be required to develop cost reflective uplift payments tasks would include:</p> <ul style="list-style-type: none"> • Developing an uplift and ancillary payment design in consultation with industry • Significant changes to the settlement systems (and potentially other market systems) based on the new design • System changes to facilitate any new hedging mechanisms • Procedure changes <p>DFPC Pricing</p> <p>Introducing DFPC pricing would be a substantial system change due to the complexities associated with overlaying this new pricing mechanism onto the existing system and market arrangements. Preliminary consideration of this issue by AEMO has indicated that in addition to significant changes to the settlement systems, changes to the market clearing engine would be required to facilitate DFPC pricing. AEMO would also have to make Procedure and operational changes to implement DFPC. AEMO considers that including DFPC would materially increase the implementation time and costs for these rule changes.</p> <p>Internalizing withdrawal constraints</p> <p>AEMO would need to make some Procedure and operational changes to implement this but does not expect that market systems need changes.</p> |

| Question | Response |
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| b) What would be an appropriate timeframe for AEMO to implement each of the solutions listed above in 9(a)? | AEMO considers that the time required for implementation depends on the extent of consultation required after final decision and the final design. AEMO notes that implementation during or close to winter may generate additional risks to the market and should be avoided. AEMO will scope the project cost and duration to implement the changes following publication of the draft rules. |

ATTACHMENT 1

STAKEHOLDER FEEDBACK TEMPLATE

The template below has been developed to enable stakeholders to provide their feedback on the questions posed in this paper and any other issues that they would like to provide feedback on. The AEMC encourages stakeholders to use this template to assist it to consider the views expressed by stakeholders on each issue. Stakeholders should not feel obliged to answer each question, but rather address those issues of particular interest or concern. Further context for the questions can be found in the consultation paper.

SUBMITTER DETAILS

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CHAPTER 5 – SECTION 5.1 – SEPARATE ENTRY AND EXIT AMDQ RIGHTS

| BENEFITS | |
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| 1. How and to what extent would the proposed rule change help to improve the investment signal in the DTS? | Separation of entry and exit AMDQ allows market participants to more readily obtain market benefits for investments in infrastructure. |
| 2. Is AMDQ(cc) firm enough to inform the regulatory investment decision-making process? | AMDQ CC does not provide firm access to the DTS and regulatory investment decision making is not based on generating firm capacity. |

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| 3. To what extent would the proposed rule change reduce the free-rider effect, if any? | <p>As scheduling is based on price, the free rider effect remains. The current tie breaking rights and scheduling framework provide amdq holders with scheduling priority on high demand or capacity constrained days, and for all market participants to access the system when capacity is not in demand.</p> <p>Free-riders still pay transmission tariffs for using the system, so even if they are not paying for privately funded enhancements, they are still contributing to cost recovery on the capital base.</p> |
| 4. Would participants have interest in acquiring exit AMDQ cc? Would it help participants to manage scheduling risks? | <p>AEMO notes market participants have transferred / nominated AMDQ to the controllable system withdrawal point at Culcairn to the limit of available capacity. As this does not provide additional uplift hedge protection over leaving AMDQ at the reference hub, we conclude transfer/nominated AMDQ (which is equivalent to exit AMDQ) is useful to market participants to manage scheduling risk. Exit AMDQ as proposed may allow for similar rights to be attained seasonally at Iona at which AEMO expects would be of value to industry.</p> |
| 5. Will the proposed rule change improve: a. Trading of gas between jurisdictions? b. Upstream or downstream competition? | <p>AEMO expects the proposed rule change will provide an avenue to obtain market benefits for investment in infrastructure that may support trading and competition.</p> |
| 6. Any other benefits? | <p>No comment</p> |

IMPLEMENTATION

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| 7. How existing AMDQ and AMDQ cc should be converted into entry and exit AMDQ? | <p>AEMO considers the following conversions would be appropriate for holders of AMDQ as at a census date:</p> <ul style="list-style-type: none">• Authorised MDQ – GJ for GJ conversion to exit AMDQ at site, reference hub or controllable close proximity withdrawal point (CPWP)• Authorised MDQ – diversified GJ for GJ conversion to entry AMDQ at Longford CPP• AMDQ cc – GJ for GJ conversion to entry AMDQ at relevant CPP• AMDQ cc nominated to site or reference hub – GJ for GJ conversion to exit AMDQ at site or reference hub• AMDQ cc nominated to controllable SWP – GJ for GJ conversion to exit AMDQ at CPWP <p>Note that under current arrangements, ownership of AMDQ may have been transferred for a limited period and will revert to the original owner at the end of this period. AEMO considers it would be appropriate for conversions to apply from the date of conversion until the earlier occurrence of ownership expiry (in the case of AMDQ cc or authorised MDQ) or the end of the current access arrangement on 31 Dec 2022.</p> <p>AEMO considers that protocols for determination of capacity available for auction should be included in the AMDQ Procedures.</p> |
| 8. What are the costs associated with the implementation of the proposed rule change? | <p>AEMO is unable to estimate costs as there is currently insufficient detail to allow costing of changes.</p> |
| 9. If separate entry and exit AMDQ rights are implemented, how much time would be required for market bodies and participants to prepare for the introduction of the improved AMDQ regime? | <p>AEMO considers that the time required for implementation depends on the extent of consultation required after final decision and the final design. AEMO notes that implementation during or close to winter may generate additional risks to the market and should be avoided. AEMO will scope the project cost and duration to implement the changes following publication of the draft rules.</p> |
| 10. Are there any unintended consequences? | <p>AEMO notes that unlike the target model, firm backhaul capacity is not required in this model.</p> <p>Tie breaking rights based on entry and exit AMDQ, with constraints at individual system points limiting directional flow will continue to allow scheduling of backhaul and bi-directional flows.</p> |

CHAPTER 5 – SECTION 5.1.3 – OTHER CONSIDERATIONS

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SOCIALISE CONGESTION UPLIFT

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| 11. Would entry and exit AMDQ still be valuable to market participants in case the congestion uplift hedge benefit were no longer associated with AMDQ, as proposed in the <i>DWGM Simpler wholesale price</i> rule change request? | AEMO notes market participants have transferred / nominated AMDQ to the controllable system withdrawal point at Culcairn to the limit of available capacity. As this does not provide additional uplift hedge protection over leaving AMDQ at the reference hub, we conclude transfer/nomination (which is equivalent to exit AMDQ) is useful to market participants to manage scheduling risk. |
| 12. Are there any unintended consequences? | No comment |

INTERNALISING WITHDRAWAL CONSTRAINTS IN THE PRICING SCHEDULE

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| 13. If separate exit AMDQ rights were introduced, would it still be worthwhile implementing the proposal to internalise withdrawal constraints in the pricing schedule, as proposed in the DWGM Simpler wholesale price rule change requests? Please elaborate. | <p>AEMO considers internalising withdrawal constraints complements establishing exit AMDQ.</p> <p>Exit AMDQ would be set on some basis (say 1:20 peak day), so on most days any internal constraints applied would be higher than exit AMDQ. This means that where withdrawal bids exceeded exit AMDQ, holders of exit AMDQ would be scheduled to the full extent of their holding in the tie breaking process and would be further scheduled on a pro rata basis with those not holding exit AMDQ for the balance up to the internal constraint limit. This would tend to make exit AMDQ more attractive.</p> <p>AEMO considers that exit AMDQ neither complements nor detracts from internalising withdrawal constraints, which would always be determined based on the actual constraints applying for that schedule rather than the exit AMDQ.</p> |
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CHAPTER 5 – SECTION 5.2 – IMPROVED TRADING OF AMDQ RIGHTS AND BENEFITS

| BENEFITS | |
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| <p>14. Will the proposed rule change improve the ability for participants to manage the risk of uplift hedges or physical congestion, assuming that trading is liquid? It is important to note that, if a rule is made in relation to the rule change request on <i>DWGM Simpler wholesale price</i>, then the rights associated with congestion uplift hedge will cease to exist.</p> | <p>No comment</p> |
| <p>15. Will a trading platform (that provides better risk management, reduced complexity and reduced transaction costs) help to encourage new entrants?</p> | <p>Retailers AEMO considers a trading platform is unlikely to encourage or discourage new entrants that are small retailers, as such participants typically establish themselves by purchasing gas directly from the pool – in which case they are unlikely to need to purchase AMDQ from the platform. The platform may be of use as new entrant retailers grow and seek to supply their own load they may want to acquire AMDQ from the platform to improve their scheduling certainty.</p> <p>Traders The trading platform may encourage new entrants that are traders, as</p> <ul style="list-style-type: none"> • transparent pricing on the trading platform would allow market participants to better evaluate the benefits of purchasing AMDQ in support of their market strategy e.g. a participant arbitraging between Wallumbilla and Victoria; and • the platform would provide a mechanism to make trades if AMDQ was available |
| <p>16. Will the proposed rule change improve participant's access to AMDQ and/or their ability to trade AMDQ they cannot use?</p> | <p>AEMO considers auctions of tranches of AMDQ will improve access to AMDQ for those market participants who value it the most.</p> <p>The transparent pricing on the trading platform and for auctions would allow market participants to better evaluate the benefits of buying or selling AMDQ in support their market strategy and provide a mechanism to trade.</p> |
| <p>17. Will the proposed rule change provide for more efficient allocation of AMDQ between market participants? I.e. will participants find the exchange useful?</p> | <p>No comment</p> |

Stakeholder feedback

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| 18. Will the proposed rule change improve the quality of decisions to invest in the DTS? | No comment |
| 19. Will the proposed rule change improve: a. Trading of gas between jurisdictions? b. Upstream or downstream competition? | AEMO considers the proposed rule change provides an avenue to obtain market benefits for investment in infrastructure that may support trading and competition. |
| 20. Any other benefits? | |

CHAPTER 5 – SECTION 5.2 – IMPROVED TRADING OF AMDQ RIGHTS AND BENEFITS (CONTINUED)

| IMPLEMENTATION | |
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| 21. Would participants be interested in secondary AMDQ trades? Buyers and sellers? | <p>AEMO notes primary AMDQ trading has been limited to the sales by the DTS service provider and AMDQ CC auctions, so all other trading activity to date has been secondary trades between buyers and sellers.</p> <p>Secondary trades of authorised MDQ have been limited as discovery of counterparties is difficult. A trading platform would help discovery and allow anonymous trading, but may have participation limitations that may impact sites with authorised MDQ that are not market participants (need to register, prudential criteria etc)</p> |
| 22. What design features of the newly introduced capacity trading platform in the east coast could be applicable / desirable for the secondary trading platform of AMDQ? | <p>AEMO notes the current AMDQ trading and auction process is significantly different to that capacity trading platform (CTP). Currently, registration of AMDQ trades excludes financial settlement, and registration of AMDQ auction purchases requires payment prior to registration of capacity (so there is no need for prudential exposure management). Payments are for the capacity purchased for the entire period auctioned or traded. The AMDQ is registered to the purchaser for the entire period of the trade/auction (which for authorised MDQ can be in perpetuity). Market participants can take part in all AMDQ trades and auctions, and site customers can only take part in authorised MDQ trades and auctions. No trading is anonymous.</p> <p>Access to the CTP is limited to registered trading participants (who may trade on behalf of themselves or as Agent Participant for other parties). All trades are anonymous. Trades are made at a price per GJ per gas day for the tenor (tenure) of the product. Prudential exposures of trading participants are checked and updated at the time trades are executed, with trades disallowed if prudential requirements are not met. An important feature of the CTP is that capacity trades are netted and registered over a rolling 14-day window, with payment for each gas day of the trade becoming due only on registration. The net trading positions are settled monthly.</p> |

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| | <p>Products listed on the CTP are zonal, with specific allowable (ie interchangeable) entry and exit points. The zones are determined by AEMO in consultation with industry. The purchaser must nominate which entry and exit points are to be used. These would translate to DWGM as set out in question (26).</p> <p>Current market systems for registration of AMDQ will require substantial changes whether the existing process or the CTP process is used. In the interest of standardisation, AEMO suggests that the AEMC considers using the CTP for secondary trading of AMDQ. This would spread payments over a longer period, which may have added benefit for smaller market participants. Other benefits include:</p> <ul style="list-style-type: none">• Standardised product definitions.• A common settlement across multiple markets• Common prudential framework with the GSH, Capacity Auction and Capacity Trading platform with shared collateral.• Common IT and trading systems which reduces the administrative burden transaction costs for participants• Transparent reporting of anonymous trading for price discovery |
| 23. What are the costs associated with the implementation of the proposed rule change? | <p>AEMO considers that the time required for implementation depends on the extent of consultation required after final decision and the final design. AEMO notes that implementation during or close to winter may generate additional risks to the market and should be avoided. AEMO will scope the project cost and duration to implement the changes following publication of the draft rules.</p> |
| 24. How much time would be required for market bodies and participants to prepare for the introduction of an operational electronic platform for the secondary trading of AMDQ? | <p>AEMO considers that the time required for implementation depends on the extent of consultation required after final decision and the final design. AEMO notes that implementation during or close to winter may generate additional risks to the market and should be avoided. AEMO will scope the project cost and duration to implement the changes following publication of the draft rules.</p> |
| 25. Are there any unintended consequences? | |

CHAPTER 5 – SECTION 5.2.3 – OTHER CONSIDERATIONS

Stakeholder feedback

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26. Should the transfer algorithm be integrated into the trading platform? Or should the trades be conducted exclusively at the reference hub, with transfers/nominations to other locations taking place through a separate step outside of the platform?

AEMO notes that the exchange trading system cannot accommodate a transfer algorithm.. The CTP utilises a zonal model where each zone allows for multiple entry and exit points that are interchangeable, and the buyer and seller must nominate entry and exit point at the time of purchase.

Given the relatively small size of the network and number of controllable points, introducing multiple DTS zonal capacity products would limit usefulness and participation in trading, so consideration should be given to limiting trading in DTS capacity products to controllable entry and controllable exit points as below:

- Exit AMDQ between reference hub and specific controllable close proximity withdrawal points (CPWP) via a pipeline path (eg northern pipeline to Culcairn CPWP)
 - Entry point = reference hub
 - Exit point = CPWP; alternate CPWP on pipeline path;
- Entry AMDQ between specific controllable close proximity injection points (CPP) to the reference hub via a pipeline path (eg south west pipeline from Iona CPP, northern pipeline from Culcairn CPP)
 - Entry point = CPP; or alternate CPP on pipeline path
 - Exit point = Reference hub; or CPWP on pipeline path;

Market participants wishing to transfer purchased entry CPP to an alternate entry CPP on the pipeline path would be able to nominate this on the CTP. For example, a market participant could purchase entry AMDQ from Longford CPP on the Longford Melbourne Pipeline and nominate this as entry AMDQ for the Pakenham CPP on the Longford Melbourne Pipeline (but could not, for example, nominate to the Iona CPP as that is on a different pipeline path).

Exit AMDQ at distribution and transmission customer sites potentially will not contribute to an uplift hedge (see DWGM simpler wholesale price rule change proposal), meaning benefits would be so limited that trading is unlikely. Consideration should be given to excluding trading in exit AMDQ at the reference hub, but this will depend on the overall approach to exit AMDQ associated with distribution and transmission customers.

Further consideration is needed to determine treatment for growth in uncontrollable demand on an exit AMDQ pipeline path (eg uncontrollable demand in Albury/Wodonga on northern pipeline to Culcairn CPWP), and lateral pipelines (eg Springhurst – Koonoomoo on northern pipeline to Culcairn CPWP) and the effect this may have on the available exit AMDQ. Current practice is that uncontrollable demand is met before spare capacity is made available to transfer/nominate AMDQ. This would be addressed by the adoption of a planning standard (refer our response to Q1 of the 'DWGM Simpler Wholesale Price').

Note that new or changed connection points to the DTS are subject to DTS SP/AEMO connection approval (NGR Part 19, Division 3, Subdivision 1 – Connection to the declared transmission system). Consideration could be given to allow the applicant for an uncontrollable connection to purchase exit AMDQ at an appropriate CPWP to avoid a limiting operating agreement, but this would require that the exit AMDQ is nominated to an uncontrollable SWP (so it did not contribute to tie breaking rights at the relevant CPWP). AEMO and DTS SP approval would be needed on a case by case basis.

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CHAPTER 5 – SECTION 5.2.3 – INTERACTION WITH RULE CHANGE REQUEST ON DWGM FORWARD TRADING MARKET

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| <p>27. How will the <i>DWGM Forward trading market</i> rule change, if a rule is made, affect the case for a secondary trading market for AMDQ? Does it make it more attractive or reduce the need for a facilitated market for AMDQ transfer and secondary trading?</p> | <p>AEMO considers introduction of the DWGM Forward trading market would make AMDQ transfer and trading more attractive, as market participants selling a forward product would have access to transparent pricing and availability of entry AMDQ to make pricing decisions and make entry AMDQ purchases to get priority in scheduling injections. Purchasers would similarly be able to access exit AMDQ to get priority in scheduling withdrawals.</p> |
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CHAPTER 5 – SECTION 5.3 – MAKING AMDQ AVAILABLE FOR A RANGE OF DIFFERENT TENORS

| BENEFITS | |
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| <p>28. How and to what extent would the proposed rule change help to improve the investment signal in the DTS?</p> | <p>AEMO considers the rule change would provide transparent pricing for capacity. Prices increasing beyond the level needed to justify an augmentation would allow DTS SP to make a case for including an augmentation in their next access arrangement (with additional amdq auctioned by AEMO) or for market participants to arrange a privately funded augmentation with DTS SP in return for entry/exit AMDQ.</p> |
| <p>29. Would participants have interest in acquiring AMDQ of different tenures? Would it help participants manage their gas portfolio?</p> | <p>AEMO notes that some market participants have been required to purchase AMDQ cc for a five year tenor at auction despite having shorter contracts for delivery on interconnecting pipelines. This would indicate some demand for different tenors.</p> |
| <p>30. Will the proposed rule change improve:</p> <ol style="list-style-type: none"> Trading of gas between jurisdictions? Upstream or downstream competition? | <p>AEMO considers the proposed rule change provides an avenue to obtain market benefits for investment in infrastructure that may support trading and competition.</p> |
| <p>31. Will this encourage new entrants, in particular smaller new entrants, that don't have the resources to commit to five years of AMDQ?</p> | <p>AEMO considers that shorter tenors will better align with shorter contract periods typically used by smaller market participants. Aligning AMDQ trading with the capacity trading platform approach (see question 22) will replace an up-front payment cost with ongoing charges and allow capacity to be changed as needed. These factors will make it easier for new entrants to get started and grow.</p> |
| <p>32. Any other benefits?</p> | |

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CHAPTER 5 – SECTION 5.3 – MAKING AMDQ AVAILABLE FOR A RANGE OF DIFFERENT TENORS (CONTINUED)

IMPLEMENTATION

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| <p>33. Please provide examples on the various AMDQ tenures that would be useful for market participants.</p> <p>a. Would the tenures need to be different for entry and exit AMDQ?</p> | <p>No comment</p> |
| <p>34. What are the key issues that would have to be considered during the transition period? I.e. Prior to the next AMDQ cc auction / next access arrangement period.</p> | <p>Uncontrollable exit AMDQ – value, tradability Ownership of Entry AMDQ at Longford – accrue to retailer or auctioned to highest bidder? Developing auction tenors – should be determined in AMDQ Procedures for increased flexibility Eligibility criteria to hold controllable entry or exit AMDQ such as:</p> <ul style="list-style-type: none"> • contract to deliver to CPP required to bid at auction and continue to hold entry AMDQ; • firm contract to receipt from CPWP required to bid at auction and continue to hold exit AMDQ at CPWP. <p>Controllable entry/exit AMDQ – interchangeable injection/withdrawal points</p> |
| <p>35. Should the different tenures be determined during the rule change process or should it be determined in consultation with industry during implementation during AEMO procedures?</p> | <p>AEMO considers tenors should be determined in consultation with industry during implementation. NGR could include high level principles.</p> |
| <p>36. What are the costs associated with the implementation of the proposed rule change?</p> | <p>AEMO considers that the time required for implementation depends on the extent of consultation required after final decision and the final design. AEMO notes that implementation during or close to winter may generate additional risks to the market and should be avoided. AEMO will scope the project cost and duration to implement the changes following publication of the draft rules.</p> |
| <p>37. How much time would be required for market bodies and participants to prepare for the introduction of AMDQ of a range of different tenures?</p> | <p>AEMO considers that the time required for implementation depends on the extent of consultation required after final decision and the final design. AEMO notes that implementation during or close to winter may generate additional risks to the market and should be avoided. AEMO will scope the project cost and duration to implement the changes following publication of the draft rules.</p> |

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| 38. Are there any unintended consequences? | |
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