



26 April 2019

Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

APA submission to AEMC on DWGM Rule change proposals:

GRC0049 DWGM simpler wholesale price,
GRC0050 DWGM Forward Trading Market,
GRC0051 DWGM Improvement to AMDQ regime

APA is keen to ensure that the Australian gas market functions as well as possible. In APA's view, this will be the best way to ensure we can deliver positive results in the long term interests of consumers.

APA's comments to these Rule change proposals are in the spirit of achieving two key objectives:

- promoting the security of the DWGM and Victorian gas supply, by ensuring that any gas bid into the DWGM, particularly from the north, can be transported to a VTS injection point; and
- enabling the free and fair trade of gas in the marketplace.

Together these objectives will retain security of supply for Victoria, engender greater competition in supply and ultimately reduce prices, promoting the long term interests of consumers.

In order to promote the security of the DWGM and free and fair trade in gas, it is critical to ensure that the interfaces between the contract carriage and market carriage frameworks do not act as barriers to trade and that the frameworks maintain signals to invest in new capacity in both the DWGM and interconnected contract carriage pipelines.

This interface has recently been made even more complex by the introduction of Parts 24 and 25 of the Rules, featuring the (contract carriage) Capacity Trading Platform and Day-Ahead Auction of reserved but unutilised capacity.

In particular, APA is concerned to ensure that the interplay between the Capacity Trading platform, the Day-Ahead Auction, and the accreditation for, allocation and trading of AMDQ credit certificates do not inadvertently act as a barrier to the free and fair trade in gas.

APA considers that the proposed changes to the DWGM must harmonise in a way that ensures that gas bid into the DWGM has in place firm arrangements ensuring that it can be delivered to a DWGM injection point, and that legitimately available gas that seeks entry to the DWGM is not inappropriately barred from participating in the DWGM auction.

APA is most concerned that the market could potentially be affected by a number of mechanisms, each designed in isolation, that have the potential to act in concert to create unintended consequences to the detriment of DWGM security and free and fair trade in gas. This will undoubtedly be the most complex aspect of this Rule Change package.

At a high level, APA has identified a number of areas of complexity that will need to be reconciled:

- the need to demonstrate control of gas flows at an injection point (in particular an ability to follow any AEMO directions to increase or curtail supply) in order to be eligible to gain accreditation and/or acquire AMDQcc; in particular:

- o entry or exit AMDQ at an interconnection point must be limited to be the lesser of the capacity of the Victorian Transmission System (where exit AMDQcc must be limited to reflect Victoria's security of supply needs) and the capacity of the interconnecting pipeline;
 - o whether AMDQcc are to relate to a particular connection asset or to a Close Proximity Point;
 - o it will be important to recognise the key differences between the accreditation requirements for a Market Participant to participate the DWGM and to participate in the AMDQcc auction;
 - o any form of "interruptible" AMDQcc must be subsidiary to Firm AMDQcc – failure to do this will impact sharing of tie-breaking rights, consequentially impacting the upstream allocation to firm transportation contracts, and erodes the value of firm pipeline capacity on contract carriage pipelines. The AEMO schedule must recognise the rights of upstream shippers.
- the interplay between the role of AMDQcc and the initiative to create a forward market for gas within the context of the daily DWGM auction procedure, the eligibility to participate in the forward market, and whether shippers can commit to delivery at a future date, particularly where shippers may be relying on the future availability of non-firm capacity.

Inevitably the effectiveness of these Rules will depend on a detailed analysis of the interplay between disparate Parts of the Rules and the application of those Rules through AEMO procedures. There may be circumstances in which this Rule change package requires consequential changes to AEMO procedures as well, and the Rules may need to specify the nature of AEMO's procedures.

As the current Rule change requests from the Victoria government do not include proposed Rules, it is not possible to conduct this detailed forensic analysis until the draft Rule package has been released. In the meantime, APA undertakes to work constructively with the AEMC to develop a Rule change package that will serve the needs of Australian gas consumers in the longer term.

APA supports the Simpler Wholesale Price Rule Change proposal to limit the market impact of out-of-merit-order dispatch to the cost of the particular tranche of dispatched gas (as opposed to settling the market at the higher price). However we are concerned about the incentive effects of abandoning the cost-to-cause framework. APA is concerned that this could encourage consequence-free risky or inappropriate bidding behaviour, which cannot be controlled through notional "good faith" bidding requirements.

APA looks forward to continued engagement with the AEMC through this Rule change process. Please contact Scott Young on (02) 9275 0031 or at scott.young@apa.com.au in the first instance.

Yours faithfully

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