

25 October 2019

John Pierce  
Chairman  
Australian Energy Market Commission

Submitted online: [www.aemc.gov.au](http://www.aemc.gov.au)

**Reference Project Numbers: GRC0049**

Dear Mr Pierce,

**Re: Draft Rule Determination - National Gas Amendment (DWGM Simpler Wholesale Price) Rule 2019**

Brickworks Building Products Pty Ltd (Brickworks) welcomes the opportunity to comment on the Australian Energy Market Commission's (AEMC) Draft Rule Determination for the National Gas Amendment (DWGM Simpler Wholesale Price) Rule 2019 (Draft Rule).

Brickworks is a domestic manufacturer of building products consuming 1 PJ per annum of natural gas at our Austral Bricks plant located in Wollert. From 1<sup>st</sup> January 2020, Brickworks becomes a registered market participant within the Victorian Declared Wholesale Gas Market (DWGM) as a self-contracting user.

Brickworks supports the AEMC's draft decision that withdrawal constraints should be considered when determining the pricing schedule. This change will lead to a rational pricing outcome reflective of withdrawals that can physically occur.

Brickworks is also supportive of the AEMC's decision to not spread congestion uplift across market participants which would have disincentivised market participants from preventing congestion.

In relation to uplift congestion costs, Brickworks believes there are two key inter-related issues that require consideration:

- 1) whether physical injections should be factored into the cost allocation, and
- 2) whether the existing methodology that determines what ancillary costs are recovered from uplift congestion is appropriately allocating costs to those market participants that caused the cost to occur.

In principle, Brickworks is supportive of the AEMC's draft rule to remove the injection test from the congestion uplift framework. The existing injection test is inadequate as it provides market participants with an AMDQ hedge against uplift congestion costs only to the extent that gas is physically injected at Longford. The existing mechanism disadvantages market participants to the extent that they physically inject gas from injection points other than Longford and market participants that are buying gas from the DWGM pool who are not physically injecting gas. However, Brickworks is concerned that the draft rule may lead to a small number of market participants being left fully exposed to larger uplift congestion costs than under the existing mechanism and that those market participants may not be the causer of the underlying ancillary cost. The draft rule appears to have the effect that those market participants who were unable to acquire sufficient capacity certificates would become fully exposed to uplift congestion costs.

In the example provided by the AEMC that occurred on 1<sup>st</sup> October 2016, market participants were physically unable to inject gas at the Longford point due to an outage at the Longford processing facility which resulted in \$2.8 million of uplift congestion costs being allocated to market participants. Under the existing methodology, all market participants would have shared in the uplift congestion cost to the extent that they were not injecting at Longford. Brickworks believes that the draft rule could result in a similar incident passing through extremely large uplift congestion costs to a small volume of withdrawals that have been left exposed due to the market participant being unsuccessful at acquiring sufficient capacity certificates. Brickworks believes that this scenario highlights that market participants will face an increased risk of very large uplift congestion costs if the draft rule is implemented as proposed.

To minimise the risk to market participants incurring very large uplift congestion costs, either:

- the proposed change to remove the injection test under the draft rule should be amended to include physical injections from all injection points in the injection test, and/or
- the proposed change to remove the injection test under the draft rule must be accompanied with an obligation on AEMO to amend the procedure that allocates uplift congestion costs to remove ancillary costs which are not being caused by the market participants who are allocated the uplift congestion cost,

or, the proposed change to remove the injection test under the draft rule should be rejected by the AEMC in the final determination.

Brickworks recommends that the draft rule to remove the injection test from the congestion uplift framework is implemented with an added obligation on AEMO to remove ancillary costs that are due to unplanned production or storage facility outages (i.e. the type of ancillary costs that occurred on 1<sup>st</sup> October 2016) from being allocated to uplift congestion. This would prevent an incident like what occurred on 1<sup>st</sup> October 2016 from causing very large uplift congestion costs being passed through against a small withdrawal quantity to those market participants left stranded without capacity certificates and who were not the causers of the underlying ancillary cost.

Brickworks has also identified the following specific issue with the Draft Rule:

- The AEMC has proposed that both uncontrollable exit capacity certificates and exit capacity certificates provide protection against uplift congestion costs, however draft rule 240(2)(b) which governs how the AEMO must allocate uplift payments does not include protection for uncontrollable exit capacity certificates. Rule 240 should be amended for the AEMO to take into account the extent to which a market participant's sum of the uncontrollable exit capacity certificates and exit capacity certificates are exceeded by the sum of its scheduled withdrawals and forecast demand for the relevant gas day.

If you would like to discuss this submission further, please don't hesitate to contact me on 0491 222 142.

Yours sincerely,



Melissa Perrow  
General Manager Energy