

25 October 2019

John Pierce  
Chairman  
Australian Energy Market Commission

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

**Reference Project Numbers: GRC0051**

Dear Mr Pierce,

**Re: Draft Rule Determination - National Gas Amendment (DWGM Improvement to AMDQ Regime) 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 Improvement to AMDQ Regime) 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.

We agree with the AEMC's view that the current mechanism for allocating uplift congestion costs to market participants is inefficient and results in some market participants receiving a preferential treatment over others. However, we are concerned that the AEMC has not fully taken into consideration the underlying justification for the current authorised maximum daily quantity (AMDQ) allocation.

Large Victorian gas (tariff D) consumers were historically granted AMDQ reflective of their gas withdrawals which provided their retailer with protection against incurring uplift congestion costs. This recognised that tariff D consumers generally have flat load profiles due to not having temperature or seasonal variations to their gas consumption and that large Victorian gas consumers were not the causers of congestion within the DWGM. Brickworks brick plant within the DWGM consumes gas consistently every hour throughout the year except for occasional short periods of maintenance that require a kiln to be offline. Under the existing AMDQ framework, the AMDQ allocated to tariff D consumers effectively exempts the relevant market participant (i.e. retailer or self-contracting user) from being exposed to congestion uplift costs thus fully recognising that tariff D consumers are not the causer of the underlying ancillary service.

Under the proposed Draft Rule, the AEMC will extinguish the AMDQ rights of tariff D consumers with no compensation for the loss and expose large Victorian gas consumers to additional costs. The proposed Draft Rule imposes a new cost on some industrial and manufacturing consumers for the purchase of uncontrollable exit capacity certificates (UECC), which are effectively replacing the existing free allocation of AMDQ, and exposes the remaining large Victorian gas consumers to the risk of incurring unforeseen and potentially large uplift congestion costs where UECC are not able to be acquired. Uplift congestion costs will be incurred by all tariff D consumers where their withdrawals are not matched to UECCs, either directly as a self-contracting user or indirectly as a cost pass through under the gas supply agreement with their retailer. It is standard retailer contracting practice to pass through unexpected market costs to large gas consumers unlike small (tariff V) gas consumers who are charged a bundled tariff and not exposed

pass-through market costs. It is therefore important that the AEMC considers how the proposed UECC's are matched to large Victorian gas consumers.

The existing AMDQ allocation to large Victorian gas consumers ensures that retailers are not exposed to unforeseen uplift congestion costs and would not be disadvantaged if they won that customer's load. This has the effect of levelling the playing field to ensure that all retailers can offer gas pricing to large Victorian gas consumers resulting in lower gas prices from increased retail competition. The AEMC should carefully consider whether there are any unintended consequences to the costs incurred by large Victorian gas consumers because of the potential for:

- large market participants being capable of hoarding the UECCs preventing smaller market participants from being able to obtain UECCs at auction,
- large market participants using their market power to make trading profits from the secondary trading of UECCs at the expense of smaller market participants,
- retailers internally allocating UECCs against small (tariff V) consumer load thereby maximising their cost recovery from large Victorian gas (tariff D) consumers causing increased gas costs,
- the existing effective exemption to congestion uplift costs to Victorian gas consumers being diluted due to reallocating part of the existing AMDQ (that only applies Victorian gas consumer withdrawals) to interstate gas exports and discretionary withdrawals into storage, and
- a timing mismatch between the auctioning of UECCs and the contracting of gas by large Victorian gas consumers.

Brickworks proposes that the disadvantages to large Victorian gas consumers under the proposed Draft Rule would be eliminated if the Australian Energy Market Operator (AEMO) was required to allocate, each year, sufficient UECCs that can only be matched to tariff D withdrawals. This could be achieved by creating a fourth capacity certificate that is specifically reserved for tariff D withdrawals. A tariff D specific UECC would continue to recognise that large Victorian industrial and manufacturing gas consumption is not the causer of seasonal and temperature related congestion within the DWGM. The benefit of creating a tariff D specific UECC is that any market participant would be able to acquire sufficient allocation of UECCs to hedge against the withdrawals of tariff D sites, avoiding the pass-through of unforeseen (and unbudgeted) uplift congestion costs to large Victorian gas consumers who did not cause the cost to occur.

Should the AEMC proceed with the proposed Draft Rule, Brickworks has identified the following specific issues:

- The Draft Rule does not appear to address how AEMO will allocate exit rights between the exit capacity certificates and the uncontrollable exit capacity certificates nor how exit rights relate to the draft rule 328 requiring AEMO to conduct system capability modelling. We note that draft rule 328(2) only references "system withdrawal points" which appears to exclude "distribution delivery points", however draft rule 328 governs how AEMO must allocate capacity certificates. It is not clear how AEMO sets the allocation of uncontrolled exit capacity certificates and whether this interacts with the allocation of exit capacity certificates. Hedging against uplift congestion costs for interstate exports or discretionary withdrawals into storage should not be provided at the expense of Victorian gas consumer withdrawals. The AEMC should provide detailed information for further consultation prior to making a final determination on the Draft Rule on how exit capacity certificates and uncontrollable exit capacity certificates should be allocated by AEMO and whether there is any interaction between the two allocation volumes.

- The purchase of capacity certificates, either via auction or on the secondary market, should be matched to the market participant's need; either their contracted injection quantity, their contracted transport capacity or the volume of contracted customer withdrawals. To effectively manage risk, market participants should be able to purchase capacity certificates shortly after the time that they have entered into a contract and that it not be delayed until a later point in time when AEMO formerly registers that change under market rules. For example, a tariff D MIRN is not transferred by AEMO until the date that a customer moves from one market participant to another. Under the Draft Rule it is not clear how a market participant will be able to purchase UECCs for tariff D withdrawals and what prevents other market participants from hoarding UECCs that they do not need in the hopes of making windfall gain profits by selling via the secondary market. Similarly, market participants should be able to purchase entry capacity certificates shortly after entering into a new gas supply agreement to manage their risk exposure and not be required to wait until a much later point of time when AEMO eventually authorises the injection capacity at that injection point.
- A sufficient transition period is required for market participants to acquire capacity certificates ahead of the 1 January 2023 commencement date. Draft rule 71 requires that AEMO must schedule a first auction by no later than 28 October 2022 (20 business days after 1 October 2022). This timeframe appears too short to ensure that market participants have appropriate risk management in place prior to the commencement date. Brickworks suggests that AEMO should be required to provide notice of a first auction by no later than 1 January 2022 and conduct multiple auctions throughout 2022 to provide market participants with sufficient opportunity to purchase capacity certificates via an auction or on the secondary market prior to the commencement date.
- AEMO should be required to publicly provide information on the volume of allocated and unallocated capacity certificates for each certificate zone to ensure that market participants make rational decisions when entering into new contracting arrangements. Market participants should not be exposed to the risk of entering into new agreements and being left stranded with no unallocated capacity certificates available. Brickworks suggests that the AEMO be required to maintain an update to date public register showing the total number of each capacity certificate at each certificate zone that are allocated and unallocated in addition to publishing auctions dates for at least the next 3 years.

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