



DWGM improvement to AMDQ regime

The Australian Energy Market Commission has made a rule that amends the National Gas Rules to replace the current authorised maximum daily quantity (AMDQ) regime in the Victorian declared wholesale gas market (DWGM) with an improved entry and exit capacity certificates regime. The new regime will commence on 1 January 2023.

Overview of the final rule

From the commencement of the next Declared Transmission System (DTS) access arrangement period on 1 January 2023, the final rule retires the current instruments of authorised MDQ and AMDQ credit certificates (AMDQ cc), and replaces these with a new regime consisting of:

- entry capacity certificates that provide injection tie-breaking benefits
- exit capacity certificates that provide withdrawal tie-breaking benefits.

The changes do not affect current holders of AMDQ cc as these expire before the commencement of the new regime on 1 January 2023.¹ The Commission has decided not to grant capacity certificates under the new regime to current holders of authorised MDQ, including tariff D customers, in order to simplify the framework by removing the distinction between authorised MDQ and AMDQ cc and to create a level playing field for market participants to obtain the benefits of injection and withdrawal tie-breaking.

The allocation of capacity certificates will primarily occur via the capacity certificates auction, which will be operated by AEMO.

Capacity certificates are for entry or exit within a zone and AEMO is required to determine the capacity certificates zones and publish these in a register. AEMO is also required to conduct system capability modelling at least annually to inform AEMO's determination of the types and amounts of capacity certificates available at each auction.

The final rule introduces a number of requirements to implement the capacity certificates auction, including the following:

- Certificates will be auctioned at least twice a year, in blocks of monthly certificates that can be bid for as a single month or as a linked bid for multiple months.
- The key elements of the auction format include that it must take place in one round with a reserve price of zero and must be conducted on a sealed bid, pay as cleared basis, with all winners of a particular auction product to pay the same clearing price per gigajoule (GJ) for that auction product.
- Participation in the auction is restricted to market participants.
- AEMO is required to make *Capacity Certificates Auction Procedures* that will set out further details of the auctions and involve industry consultation in their establishment and any subsequent revision.

Market participants can trade capacity certificates between each other and AEMO will develop *Capacity Certificates Transfer Procedures* for requests to AEMO to transfer capacity certificates to give effect to a trade. To enhance market transparency, AEMO will report information about capacity certificate transfers. The final rule also requires AEMO to develop a listing service, which market participants can use to list any capacity certificates

¹ Except for 30 TJ of AMDQ cc at Culcairn has been allocated until 30 June 2023 and as a result, a transitional rule of the final rule converts this allocation into an equivalent capacity certificate, being an entry capacity certificate at the relevant zone to be determined by AEMO, for this additional period.

they may want to buy or sell.

Benefits of the more preferable rule

Having regard to the issues raised in the rule change request, the Commission is satisfied that the more preferable rule is likely to contribute to the achievement of the National Gas Objective. The final rule:

- improves the ability of market participants to obtain capacity certificates to manage scheduling risk through tie-breaking benefits
- creates a level playing field for all market participants to obtain capacity certificates through primary auctions, which allows them to be allocated to those that value those most and promotes efficient use of pipeline capacity
- encourages more efficient allocation of pipeline capacity by allowing market participants to buy a set of entry and exit capacity certificates, that gives greater price and volume certainty to their preferred gas transportation pathways
- improves and simplifies current arrangements, which may encourage new entrants and promote competition in upstream and downstream markets and inter-regional trade.

Context and rule change request

On 5 November 2018, the AEMC received three rule change requests from the Victorian Minister for Energy Environment and Climate Change to amend the National Gas Rules (NGR). The rule change requests proposed the following changes:

- introduce a simpler wholesale gas price for the DWGM in Victoria (*DWGM simpler wholesale price*)
- establish a forward trading exchange which will make it easier for buyers and sellers to trade gas and lock in a future price in the Victorian gas market (*DWGM forward trading market*)
- improve the allocation and trading of pipeline capacity rights (*DWGM improvement to AMDQ regime*).

These requests were based on recommendations made by the AEMC in June 2017, as part of the Review of the Victorian declared wholesale gas market final report (DWGM Review).

To address the issues related to the trading and allocation of pipeline capacity rights, the following changes were proposed in order to improve the existing AMDQ regime:

1. introduce separate, tradable entry AMDQ rights and exit AMDQ rights
2. introduce an exchange to improve secondary trading of AMDQ rights (permanent transfer) and benefits (temporary transfer)
3. make AMDQ available for a range of different tenures.

Legacy arrangements

The changes do not affect current holders of AMDQ cc as the majority of these expire before the commencement of the new regime.²

The final rule does not convert any legacy holdings of authorised MDQ into capacity certificates under the new regime.

The Commission has decided not to grant entry or exit capacity certificates under the new regime to current holders of authorised MDQ, including tariff D customers, for several reasons:

- Authorised MDQ is a bundle of rights that was conferred on customers in order to facilitate the working of the regulated DWGM market mechanism, and therefore has always been susceptible to modification or extinguishment by amendment of the NGR.

² Except for 30 TJ of AMDQ cc at Culcairn has been allocated until 30 June 2023 and as a result, a transitional rule of the final rule converts this allocation into an equivalent capacity certificate, being an entry capacity certificate at the relevant zone to be determined by AEMO, for this additional period.

- Current holders of authorised MDQ have benefited from these holdings for over 20 years, and by the time the new capacity certificates regime commences in 2023, they would have benefited for 24 years, which is a considerably long transition period.
- Analysis showed that the current allocations of authorised MDQ to tariff D customers are inefficient (where some tariff D customers hold authorised MDQ far in excess of their withdrawals on peak days, while others are not able to obtain it easily) and therefore should not be the starting point for the new regime.

Key changes between the draft and the final rule

A number of changes were made between the draft and final rule, with key changes outlined below.

- The draft rule proposed the concept of uncontrollable exit capacity certificates to provide congestion uplift hedge protection in replacement of authorised MDQ that is currently owned by tariff D gas consumers and held on behalf of tariff V gas consumers by AEMO. The final rule does not include the concept as under the *DWGM simpler wholesale price* rule change the Commission has decided to remove the link between authorised maximum daily quantity (AMDQ) or capacity certificates and uplift payments, such that a congestion uplift category is no longer required.
- The final rule removes the link between capacity certificates and curtailment protection as the Commission believes that it is more appropriate for the curtailment requirements to be determined under the National Gas (Victoria) Act 2008, which requires broader consideration of economic and social needs, than to be based on holding capacity certificate under the National Gas Rules.
- The draft rule proposed that capacity certificates would be allocated through auctions of products with different tenures, with at least one long term product having a duration of at least three years, at least one annual product, and at least one seasonal product. The auctions were to have many of the same characteristics of the current auctions of AMDQ cc. Following further analysis and stakeholder consultation the final rule has moved to a partial combinatorial auction design that is based on products with a monthly tenure that can be bid for as single months or for multiple months through linked bids. Refinement of the auction design has resulted in several changes between the draft and final rule.

Commencement

The new regime will commence on 1 January 2023, which is consistent with the start of the next DTS access arrangement period. To allow market participants time to prepare, the first auction of the new certificates must be conducted prior to this date. Prior to the first auction, AEMO is required to amend existing procedures and make new procedures required by the final rule and to conduct the first system capability modeling.

The listing service for buying and selling capacity certificates will also commence from 1 January 2023.

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