



# INFORMATION

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## DWGM distribution connected facilities

The Australian Energy Market Commission (AEMC) has made a more preferable final rule that amends the National Gas Rules (NGR) to enable distribution connected facilities to participate in the Victorian declared wholesale gas market. The new framework will commence on 1 May 2024.

### Overview of the final rule

From 1 May 2024, distribution connected facilities will be able to register and directly participate in the Victorian declared wholesale gas market (DWGM), being treated on an equivalent basis to the existing transmission connected facilities.

The final rule incorporates these facilities transparently into the market, with minimal impact on existing market participants and maintains the existing DWGM market design. The key features of the final rule are summarised below:

- **Registration categories:** A new facility registration category will be available for distribution connected facilities and a new market participant category will be available for blend processing operators who buy and sell gas in the DWGM. Other types of distribution connected facilities, such as producer, storage provider and retailer, will be able to use the existing market participant categories.
- **Requirement to submit bids and scheduling:** Distribution connected facilities will bid and be scheduled through the market, and will be treated on an equivalent basis to transmission connected facilities for scheduling purposes.
- **Net bidding facilities:** Blend processing facilities and other facilities that withdraw and almost immediately reinject gas back into the network will be classified as net bidding facilities. These facilities will bid and be scheduled for their 'net' quantity of gas, which will represent the quantity of gas that is supplied from the facility. This arrangement removes the risk of inaccurate demand forecasts, and subsequent scheduling outcomes, from blend processing facilities. A new procedure will outline the classification process and potential alternate metering arrangements.
- **Storage facilities:** Distribution connected storage facilities will be treated on an equivalent basis to transmission connected facilities and will be able to bid for both injections and withdrawals.
- **Constraints:** Distributors will be responsible for assessing facility constraints on their networks and developing a methodology for managing these. AEMO will then take this methodology and apply it transparently through the market schedules, with the flexibility to decide how these constraints are applied through the schedules. It also protects against distributors favouring any facility over another through their constraint methodologies and by requiring distributors to publish their methodologies.
- **Capacity certificates:** Distribution injection points will be allocated to entry capacity certificate zones and market withdrawal points will be allocated to exit capacity certificate zones. All market participants will be allowed to participate in the auctions and secure capacity certificates that can be used to manage scheduling risk during periods of pipeline congestion.
- **Title and custody of gas:** A new rule will manage the transfer of title for injections into a declared distribution system and its associated interactions with the settlement process.
- **Connections:** The connection framework for distribution connected facilities will rely on the *Pipeline interconnection principles*, which will provide a consistent framework for all pipelines while providing flexibility to distributors as the industry develops.

- The existing rules that govern the participant compensation fund, gas allocations and determination of fees payable to AEMO, default notices and market suspension, and threats and interventions will be extended to capture distribution connected facilities.
- **Maintenance planning:** Distribution connected facilities will provide maintenance information to AEMO for coordination and planning purposes. This information requirement will be less onerous than that which applies to DTS facilities, reflecting the likely size and overall contribution to supply from distribution connected facilities.
- **Metering:** The metering framework will be extended to distribution injection points and metering installations between distribution systems and will also allow AEMO to approve metering installation configurations for net bidding facilities. The final rule will also strengthen the compliance and enforcement framework for metering installations and enhance the transparency of market settlement outcomes.
- **Gas quality:** The gas quality requirements will be extended and provide for the application of similar requirements to those applying to the DTS, with distributors responsible for managing gas quality in their networks. The gas quality monitoring approvals and compliance framework will be restructured and strengthened with new data sharing provisions introduced.

The final rule has made various changes to the gas quality framework. However, there may be technical matters governed by Victorian legislative and regulatory arrangements that are beyond the scope of this rule change and the AEMC's rule making power, that still need to be considered by other bodies to safely incorporate injections into distribution networks. For example, issues surrounding gas specification and quality standards, as well as others, have strong interactions with these instruments.

The Commission recommends stakeholders collaborate with Energy Safe Victoria, the Victorian Department of Energy, Land, Water and Planning, and any other relevant regulatory bodies to progress any further work required to enable distribution connected facilities to operate in a safe and efficient manner.

### Benefits of the more preferable rule

The more preferable final rule is broadly consistent with the intent of the rule change request. Through extensive consultation with stakeholders and further analysis, other areas that were not identified in the original request have also been addressed to ensure the final rule package is fit for purpose.

The Commission is satisfied that the final rule will contribute to the achievement of the national gas objective (NGO) for the following reasons, because it:

- maintains the fundamentals of the current market design, promotes the existing efficiency of the market, provides targeted and proportionate change and minimises implementation complexity
- promotes stability, transparency and clarity of roles and responsibilities
- is flexible and adaptable to technological innovation and a changing market and regulatory environment
- promotes safety, reliability and security of supply.

### Context and rule change request

On 8 September 2021, the AEMC received a rule change request from the Victorian Minister for Energy, Environment and Climate Action (the proponent) seeking to amend the NGR to facilitate the participation of distribution connected production and storage facilities in the Victorian DWGM. The proponent considered that enabling the participation of distribution connected facilities in the DWGM would promote the transparent and effective trade of gas within Victoria.

While the rule change request does not explicitly target the integration of hydrogen and renewable gas blends, its focus on allowing distribution connected facilities to participate in the DWGM has implications for enabling hydrogen and renewable gas to be injected into gas distribution networks in Victoria.

The DWGM rule change is being undertaken concurrently with the AEMC's *Review into extending the regulatory frameworks to hydrogen and renewable gases*. The review was tasked with developing initial rules to extend the regulatory frameworks to low-level hydrogen-natural gas blends and renewable gases.

On 8 September, the AEMC published its recommended initial draft rules, these recommendations cover broad areas of the gas markets, including economic regulation, transparency and consumer protections. The review's recommendations for transparency, ring-fencing, and associate contract provisions interact with the Commission's final rule, which also includes transparency measures for non-standard gas specifications and reduces the risk of discriminatory curtailment from distributors.

### Commencement

Under the final rule, the new framework will commence on 1 May 2024.

AEMO will be required to update its procedures and systems to enable the inclusion of distribution connected facilities into the DWGM. Existing and new procedures should be updated or prepared no later than three months before the commencement date.

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8 September 2022