Anne Pearson
Australian Energy Market Commission
PO Box A2449
Sydney South NSW, 1235
By online lodgement: www.aemc.gov.au

Friday 11 April 2014

Dear Anne,

National Gas Amendment (Portfolio Rights Trading) Rule 2014 (Project Reference GRC0021)

GDF Suez Australian Energy (GDFSAE) owns and operates 3,540 MW (gross) of renewable, gas-fired and brown coal-fired generating plants in Victoria, South Australia and Western Australia, and owns the Simply Energy second tier retail business with more than 340,000 customers across the National Electricity Market. The business is part of the Energy International business line of the GDF SUEZ group which has a strong presence in its markets with 78 GW gross (41.9 GW net) capacity in operation and a significant programme of 5.5 GW gross (3.5 GW net) capacity of projects under construction as at 30 June 2013.

GDFSAE appreciates the opportunity to comment on the AEMC's Rule change as proposed by Australian Energy Market Operator (AEMO). The proposed Rule change enhances the Declared Wholesale Gas Market (DWGM) in Victoria by increasing the tradability of both Authorised MDQ and AMDQ Credits, particularly for market participants who use these important hedging instruments for injection prioritisation and insurance against constrained uplift charges. The difficulties experienced in exchanging or trading AMDQ Credits and the illiquidity of Authorised MDQ is the reason why GDFSAE supports this proposed rule change.

The National Gas Amendment (Portfolio Rights Trading) Rule 2014 proposes a platform to capture the exchange of these instruments and secondly, ensuring that the assigned rights for injection and uplift are transferred accordingly. This proposed rule change has been extensively debated by AEMO's gas industry meetings and forums, and GDFSAE believes that the proposed Rule change represents the collective thinking of those engagements. The first step would be for market participants to commercially negotiate AMDQ exchange then subsequently inform the DWGM of that arrangement through a web based system.

The impact on gas prices should be insignificant in the majority of trading intervals due to the AMDQ's providing a tie break methodology at injection supply points that are subject to a constraint, and should maintain the price approximately as scheduled. The other scenario is 'out of merit' gas ordered and supplied that generates an ancillary payment that is subsequently recovered through the DWGM uplift process. This doesn't impact the gas price per say, but can lead to significant amounts of cash moving between participants via the uplift charge allocation. This was the main outcome in July 2007 when many millions of dollars was charged to market participants who had no appropriate uplift cover. One contributing factor to this event was the difficult in trading AMDQ Credits leading to high uplift charges. GDFSAE has participated in the primary tendering process undertaken by the pipeline owner and form time to time both purchased and sold AMDQ Credits.

The Authorised MDQ is a legacy arrangement that was designed for the market when Longford was the sole gas supplier to the DWGM when it commenced in 1999. Since then, the DWGM has evolved with multiple

GDF SUEZ Australian Energy
Level 33, Rialto South Tower, 525 Collins Street
Melbourne, Victoria 3000, Australia
Tel. +61 3 9617 8400 Fax +61 3 9617 8301
www.gdfsuezau.com
INTERNATIONAL POWER (AUSTRALIA) PTY LTD
ABN 59 092 560 793

gas supply points and interconnection pipelines with adjacent states. Hence the approach and role of the Authorised MDQ's has changed while the original allocation methodology has not. AMDQ Credits were a later development that provide market participants with a firm injection right at other DWGM points. Ultimately the Authorised MDQ and AMDQ Credits become 'one in the same' and this proposed rule contributes to that outcome.

GDFSAE is supportive of AEMO proposed Portfolio Rights Trading Rule 2014 and of the AEMC progressing this rule in its current form.

Please do not hesitate to contact me on 03 9617 8410 if you wish to discuss any aspect of this submission.

Yours sincerely,

Michael Downey
Gas Regulatory Specialist