

3 April 2014

Mr John Pierce  
Australian Energy Market Commission  
PO Box A2449  
Sydney South NSW 1235



Lodged online: <http://www.aemc.gov.au>

Project reference: **GRC0021**

### **National Gas Amendment (Portfolio Rights Trading) Rule 2014**

Dear Mr Pierce

AGL submits the following in relation to the above rule change proposed by the Australian Energy Market Operator (**AEMO**). This rule change represents the culmination of review work undertaken by a sub-committee to the Gas Wholesale Consultative Forum (**GWCF**) tasked with reviewing and reporting back on options to bring in more of the financial and operational certainty associated with capacity rights that characterises contract carriage regimes.

The review work by the Transmission Capacity Working Group was to be undertaken within the context of the market carriage model that applies to the Declared Transmission System (**DTS**), including the existing rights in the form of AMDQ and AMDQ CC. A further expectation around the recommendations was that they would be incremental rather than radical in nature. In 2011, Victoria was still assessing the impact of the gas market reforms implemented in 2007 whereby we transitioned from a day-ahead ex post market to an ex ante market with five intervals for submitting revised demand forecasts and injection offers. The general sense was that the new market was performing in line with expectations and that no major overhaul was warranted.

AGL is fully supportive of the rule and procedure change package advanced by AEMO as it represents faithfully the outcomes and resolutions of meetings given over to this issue, starting with the Transmission Capacity Working Group in 2011. We believe that the facility to trade potentially up to about 90TJ in AMDQ will bring about sufficient benefits to warrant not only the rule change but the costs AEMO would need to incur to modify their systems that serve the wholesale gas market in Victoria. Freeing up underutilised rights and creating an opportunity for the buying and selling of such portfolio rights must be seen as enhancing economic efficiency and thereby contributing positively to the National Gas Objective.

AGL would suggest that this rule change is timely given the oft-stated need that is cited in recent gas market reviews to make secondary transportation capacity available on a voluntary basis. There is a lot of effort being expended by the SCER through AEMO to facilitate secondary capacity trading through a number of approaches. APA, the nation's largest pipeliner, is introducing an operational MDQ transfer mechanism that would apply on the pipes they own and manage. This package should be seen within that context.

Whilst Portfolio Rights Trading is not secondary capacity trading as such owing to the market carriage framework that applies in Victoria, the benefits that accrue to the buyer of Portfolio Rights can be seen to be similar to the benefits that accrue to purchasers of secondary pipeline capacity, i.e. priority in scheduling when there is a constraint. Portfolio Rights in the form of "assigned" AMDQ also confer benefits to the buyer that are unique to the Victorian gas market, protection from the need to make congestion uplift payments (to pay for out-of-price merit order gas dispatched when the lower linepack limits look to be breached) provided the buyer injects sufficient gas at the Close Proximity Point.

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Yours sincerely,



George Foley

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