



DWGM-AMDQ Allocation

Stakeholder submissions invited on draft rule determination

The Australian Energy Market Commission (AEMC) has made a draft rule addressing the classification and allocation of market benefit instruments in the Victorian Declared Wholesale Gas Market (Victorian DWGM).

The Commission's decision

The Commission's draft rule determination, which includes a draft more preferable rule, is intended to support efficient market operations in the Victorian DWGM and address the issues identified by the Australian Energy Market Operator as part of its rule change request. The key features of the draft rule are as follows:

- clarify the type of capacity instrument created by providing that:
 - authorised MDQ relates only to historic capacity on the Longford to Melbourne pipeline at the time of commencement of the Victorian DWGM;
 - AMDQcc is created in relation to all extensions or expansions where new capacity instruments are created.
- clarify the party responsible for undertaking the allocation process by providing that:
 - AEMO is the party responsible for undertaking the allocation process for all authorised MDQ;
 - AEMO is the party responsible for undertaking the allocation process for AMDQcc when the costs associated with the extension or expansion are included in the declared transmission system service provider's capital base or approved capital expenditures during an access arrangement period;
 - The declared transmission system service provider is responsible for undertaking the allocation process for AMDQcc when the costs associated with the extension or expansion are not included in its capital base or approved capital expenditures during an access arrangement period.
- provide that AEMO must use the proceeds from its allocation process to offset the operating costs of the Victorian DWGM; and
- provide that AEMO must provide twenty business days' notice prior to undertaking its allocation process for authorised MDQ or AMDQcc.

Why has the Commission made the draft rule?

The Commission considers that the draft rule, a more preferable rule, will, or is likely to, contribute to the achievement of the National Gas Objective by promoting regulatory certainty, increasing timely provision of information and promoting an efficient allocation process. As a result, the draft more preferable rule is expected to benefit consumers in the long term through the efficient use of and investment in the Victorian declared transmission system.

Regulatory certainty is promoted by clarifying the type of capacity instruments created and the party responsible for undertaking the allocation process for authorised MDQ and AMDQcc.

The draft more preferable rule will increase timely provision of information by providing that AEMO must provide a minimum of twenty business days' notice prior to undertaking the allocation process. This provides market participants an opportunity to make informed decisions about their participation in the allocation process.

An efficient allocation process is promoted by tying the term of AMDQcc with the DTS SP's access arrangement period thereby providing timely signals to the market regarding possible need for investment in the system. Further, ensuring that AEMO undertakes the allocation of AMDQcc ensures that the sale of market benefit instruments is unbundled from the pre-payment of the reference tariff on transportation services. This ensures that market participants only pay for those services they actually use. In addition, the prices paid for, and therefore the signals provided, by AMDQcc better reflects the market benefits participants perceive from holding AMDQcc as they do not have to take into account their willingness to pre-pay for transportation services.

However, the Commission has made a number of recommendations in the draft report in the Review of the Victorian Declared Wholesale Gas Market that would, if implemented may negate the need for the draft rule. Therefore, the implementation and administration costs associated with the allocation process aspect of the draft rule may outweigh the short-term benefits, if the Commission's recommendations in the review are adopted. The draft rule determination seeks further stakeholder views on this issue.

Background

The Victorian DWGM operates as a market carriage pipeline system. Under market carriage in the Victorian DWGM, the system operator (AEMO) allocates pipeline capacity through a pool approach where gas is injected and withdrawn at various locations.

In the Victorian DWGM, the declared transmission system service provider (APA Gas Net) makes the transmission pipeline available to AEMO under contract. AEMO manages the receipt, transportation and delivery of gas. The transportation of gas is provided as a reference service pursuant to APA's access arrangement.

Although users cannot reserve firm capacity on a pipeline in the Victorian DWGM, they may hold pipeline capacity instruments which provide certain limited physical benefits and certain market rights and benefits for holders. The financial and market benefits include priority in scheduled injections (injection tie-breaking rights) and reduced uplift payments (uplift hedge protection). There are two pipeline capacity instruments authorised MDQ and AMDQcc which differ only in their location and time validity.

Submissions

The AEMC invites submissions on its draft rule determination, including the draft more preferable rule, by 28 January 2016.

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