



Hedging Instruments in the Declared Wholesale Gas Market

Final rule determination 25 August 2011

The key purpose of this rule is to enable Victoria's Declared Wholesale Gas Market to operate more efficiently by improving the management of financial risks related to the buying and selling of wholesale natural gas.

The AEMC's final rule determination

On 25 August 2011, the Australian Energy Market Commission (AEMC) published its final rule determination and the final rule for this rule change request. The rule will:

- improve opportunities for DWGM participants to sell gas into the DWGM if a physical supply problem appears at one of a group of supply points;
- promote competition among DWGM participants to sell gas into the DWGM; and
- improve the ability of gas retailers and large consumers who sell gas into the DWGM to manage the costs of additional uplift charges.

The rule commences on 17 April 2012. Its commencement aligns with the date for the implementation of system changes to support the rule.

Efficiency improvements proposed by this rule

Participants compete to sell natural gas into the Declared Wholesale Gas Market at supply points on transmission pipelines. After being sold into the DWGM, gas is transported along these pipelines to gas retailers and large consumers. A hedging instrument used in this market is the Authorised Maximum Daily Quantity (AMDQ). It is a tool that can enable its owner to sell gas at a supply point in preference to other parties. This draft rule applies to how AMDQ can be used. Participants can improve their chances to compete to sell gas at particular supply points by nominating AMDQ to those points.

While the cheapest gas is usually sold into the DWGM, more expensive gas may need to be sold to maintain the safe operation of the pipeline system. The cost of this more expensive gas is borne by gas retailers and large gas consumers through uplift charges. Gas retailers and large consumers may be able to avoid some of these uplift charges by allocating AMDQ to a supply point and selling gas at that point. This creates an Authorised Maximum Interval Quantity (AMIQ) hedge which can be sold to other DWGM participants.

Retailers and large consumers can minimise their uplift charges by apportioning out their AMIQ hedge across the day to match their profile of gas purchases. Participants may be subject to uplift charges if their gas purchases are greater than their AMIQ hedge during the day.

The rule allows participants to move AMDQ from one supply point to nearby supply points during the day. It also allows them to reapportion their AMIQ hedges during the day. Currently, they can only allocate AMDQ to supply points and apportion out their AMIQ hedge once each day before 5:00am.

This rule will allow businesses in Victoria's Declared Wholesale Gas Market to operate more efficiently by being better able to manage the financial risks of buying and selling wholesale natural gas.

Background to the Declared Wholesale Gas Market

Gas producers and others compete to sell gas into the Victorian DWGM while gas retailers and large consumers (including electricity generators) compete to buy gas from the DWGM.

The DWGM is interconnected with the gas networks in New South Wales, South Australia and Tasmania.

The Australian Energy Market Operator (AEMO) operates the DWGM.

Five times each day, AEMO determines which DWGM participants can sell gas into, and buy gas from, the DWGM. Retailers buy gas from the DWGM on behalf of residential, commercial, and industrial consumers while some large consumers may buy gas directly from the DWGM. AEMO seeks to meet the total forecast demand for gas at least cost while keeping the gas system safe.

The operation of the DWGM by AEMO is governed by the National Gas Rules (NGR). Changes to the NGR affecting the DWGM can be proposed by AEMO, the Victorian Minister for Energy, or the service provider for the DWGM transmission pipeline system.

The AEMC assesses proposed changes to the NGR against the National Gas Objective, which is an economic test focussed on the long term interests of consumers of natural gas.

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