

12 January 2017

Mr John Pierce
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Dear Mr Pierce

Australian Energy Market Commission Draft Rule Determination – Gas Day Harmonisation

AEMO welcomes the opportunity to comment on the Australian Energy Market Commission's (AEMC) Gas Day Harmonisation draft rule determination.

AEMO supports the recommended gas day start time of 6:00 AM if the gas day is to be harmonised. As identified by the Commission, if the gas day start time was moved to 8:00 AM then this change would have detrimental operational and market impacts for the Declared Wholesale Gas Market (DWGM), the largest facilitated gas market on the East Coast. In the DWGM a 6:00 AM gas day start time is preferable because it:

- Supports efficient linepack management especially during winter given Victoria's high retail demand load. Linepack is required to manage the differential between injections into and withdrawals from the system and Victoria has very limited usable system linepack due to its physical characteristics. System linepack lags the diurnal swing of customer demand by about 1-2 hours. A start time of 6:00 AM is optimal as it allows system linepack to be built up to its maximum level just prior to the commencement of the morning peak.
- Supports efficient spot market pricing in the DWGM as the 6:00 AM – 10:00 AM scheduling interval captures the entire morning peak where conditions may be rapidly changing. This results in a clear delineation between on-peak and off-peak scheduling and pricing periods, assisting participants in managing balancing and deviation risks.
- Allows participants, who typically make daily nominations, to capture the entire morning peak within a single gas day and scheduling interval. As nominations are typically made day ahead for a gas day, this supports participants in making nominations based on the best and most recent information available at the time. Under an 8:00 AM gas day participants will have to split the morning peak over two gas days and two scheduling intervals. The initial nomination for the 6:00 – 8:00 AM component of the morning peak would be made a day prior to the nomination for the 8:00 AM – 10:00 AM component of the morning peak. Conditions may change rapidly between the time of each nomination potentially leading to a mismatch and a need to renominate (which may add to participant costs) if the participant has the flexibility to do so. AEMO also understands a number of participants may have limited intraday flexibility under their supply contracts.
 - The interaction between nominations and scheduling cut-off times need to be considered. Under an 8:00 AM gas day the final opportunity to adjust bids or demand forecasts for the period 6:00 AM to 8:00 AM would occur at the Fifth Schedule's cut off time on the preceding day. This timing would be 7 hours

earlier than at present where this period is included in the first schedule of the gas day. This timing may not align with contractual nomination windows. If participants do not have the flexibility to renominate and/or they get their position wrong at the fifth schedule for the following morning's peak (which is likely given the time lag), then the participant may be exposed to market deviations or uplift costs. Inaccurate nominations (and therefore market bids and demand forecasts) for the morning peak that are not based on the most relevant and recent information may have negative implications for system security.

There would be costs for AEMO in changing its systems (that would ultimately be passed through to market participants) if a change from 6:00 AM to 8:00 AM gas day start time was required. There are a number of AEMO market and operational systems that are required to run the DWGM and that have been designed for a 6:00 AM gas day. AEMO estimates its costs to change these systems to an 8:00 AM gas day would be approximately one million dollars. This involves system based changes, testing and any modification to demand forecasting and scheduling processes. The estimate also assumes that the only change to the systems is that the gas day is moved to 8:00 AM. If the scheduling intervals need to change (in number or duration), and this may be necessary given the market operational impacts of changing the gas day, then this would substantially increase the cost. The additional cost would be as a result of the likely extensive changes required to the market and in particular settlement systems to accommodate different scheduling intervals.

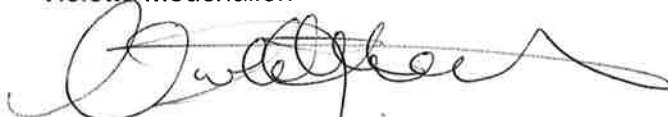
As in our submission to the discussion paper, AEMO wishes to highlight the importance of the gas day being harmonised across the gas supply chain. Given the change is only being applied to the gas markets, AEMO considers that additional risks would be introduced if pipelines, production and storage facilities and markets in the same jurisdiction are all operating on different gas day start times. This could make nomination and allocation processes more complex, creating additional risks for participants in managing their physical positions thus deterring trade within the facilitated markets.

In the case of the Gas Supply Hub, a difference in gas day start times could see participants take trades off-market in order to minimise the risks created by the GSH operating on a different time from gas transportation and supply agreements. This would be clearly worse than the status quo and would undo a lot of the proposed benefits of the change to a harmonised gas day start time. As proposed, the Draft Rule could still potentially result in this undesirable outcome and broader law changes or a more expansive rule change may be required to make sure the single gas day is applied end to end and reflected in supply and transportation contracts. We acknowledge that a law change (or broader rule change) may be outside of the AEMC's scope for this rule change. AEMO considers that the Gas Market Reform Group (GMRG) would be an appropriate body to consider this matter further as part of its broader reform package.

If you would like to discuss the contents of this submission further, please do not hesitate to contact myself on 03 9609 8504.

Yours sincerely,

Violette Mouchaileh



Acting Executive General Manager, Markets