



Portfolio rights trading in the Victorian gas market

Publication of final rule determination

The Australian Energy Market Commission has determined not to make a rule to facilitate the trading of the financial benefits of authorised MDQ and AMDQ credit certificates between market participants in the Victorian declared wholesale gas market.

Final rule determination

In the draft rule determination for this rule change request, the Commission considered that there were potential benefits associated with implementing the proposed rule submitted by the Australian Energy Market Operator (AEMO).

However, a number of matters have arisen since making the draft rule determination. In October 2014, AEMO announced revised costs and a new timeframe for its proposed implementation of a new portfolio rights trading (PRT) mechanism for the Victorian declared wholesale gas market.

As a result, the Commission was unable to conclude with certainty that the potential benefits of making AEMO's proposed rule will outweigh the potential costs of doing so. As a result, the Commission has determined not to make a final rule.

This conclusion has been driven by the following factors:

- *AEMO's revised cost of implementing PRT.* AEMO has advised that the cost of implementing PRT has increased by 37 per cent;
- *AEMO's revised timing for implementing PRT.* Following the publication of the draft rule determination, AEMO advised that the earliest possible date for the IT implementation of the proposed PRT mechanism would be April 2016. With this substantially different timeframe, it is difficult to determine with any certainty whether sufficient quantities of AMDQ and AMDQ cc will be traded (that is, made available and demanded) to render the cost of implementing PRT worthwhile; and
- *Victorian gas market review.* The forthcoming Victorian gas market review that has been initiated by the Victorian Government has created uncertainty for market participants. The outcomes of this AEMC review may also impact on the operation of the proposed PRT mechanism. These factors have impacted the potential take-up of the proposed PRT mechanism and, consequently, on the Commission's assessment of costs and benefits.

Taking these factors together, the Commission is not satisfied that the proposed rule will, or is likely to, contribute to the achievement of the national gas objective.

The Commission has therefore determined not to make the proposed rule.

Background

The Victorian declared transmission system (DTS) is the only pipeline operating under a market carriage model in Australia. Under this model, market participants utilising the DTS cannot reserve firm capacity on the pipeline. However, they may hold authorised MDQ (AMDQ) or AMDQ credit certificates (AMDQ cc) which provide certain financial and market benefits, and some limited physical benefits. The financial and market benefits include priority in scheduled injections (injection tie-breaking rights) and reduced uplift payments (uplift hedge protection).

**The Commission's
final rule
determination is to
not make the rule
proposed by
AEMO.**

AEMO identified a number of barriers which it considered limited the ability of market participants to acquire AMDQ and AMDQ cc to meet their injection tie-breaking and uplift hedge needs.

To address this problem, AEMO proposed a number of amendments to Part 19 of the National Gas Rules to introduce PRT in the Victorian declared wholesale gas market. The proposed PRT mechanism was intended to enable market participants to more readily carry out short term trades of the market benefits attached to AMDQ and AMDQ cc.

To support PRT, trades would need to be given effect in AEMO's scheduling and settlement process. This would require changes to AEMO's market systems. Implementation of PRT would therefore have required a new IT interface for registering and confirming bilateral trades between market participants. However, neither the PRT mechanism nor the IT interface would include contract terms and payments. The terms and conditions, including the financial transactions, related to PRT would be set out in bilateral contracts between the trading parties.

For information contact:
AEMC Senior Director, **Anne Pearson** (02) 8296 7800
AEMC Senior Advisor, **Claire Rozyn** (02) 8296 7800

Media:
Communication Manager, Prudence Anderson 0404 821 935 or (02) 8296 7817

27 November 2014