



EnergyAustralia

8 October 2015

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Dear Commissioners

Lodged electronically: www.aemc.gov.au (GRC0029)

AEMC 2015, DWGM-AMDQ Allocation, consultation Paper, 10 September 2015

We are one of Australia's largest energy companies with over 2.5 million electricity and gas accounts in NSW, Victoria, Queensland, South Australia, and the Australian Capital Territory. We also own and operate a multi-billion dollar portfolio of energy generation and storage facilities across Australia, including coal, gas, and wind assets with control of over 4,500MW of generation in the National Electricity Market

The distinction between AMDQ and AMDQcc is unnecessary and they should be fused into a single idea as part of the AEMC's facilitated gas market review. This rule change aims to clarify the role and procedures of each and is a first step towards this goal. Ultimately, the removal of duplicate processes and unnecessary distinctions that exist with regard to AMDQ should be pursued.

The consultation paper also discusses changes to how revenue from the sale of AMDQ is collected and hypothecated by APA and AEMO. We believe a more preferable rule is warranted which would enable AEMO to auction AMDQ or AMDQcc for capacity that is included in the regulated asset base. This would remove the possibility of over-recovery when APA allocates AMDQcc and should not affect investment.

One failing of AMDQ is that it cannot be applied to controlled withdrawals from the South West Pipeline. Participants need confidence of firm withdrawal rights to match storage injections to aid investment in storage and system augmentation.

A more detailed response to specific questions is attached below.

If you any have further questions please contact me on (03) 8628 4518 or at Ben.Hayward@EnergyAustralia.com.au.

Regards

Ben Hayward

Industry Regulations

Appendix A

Question 5 Allocation process

- (a) Is the process and design of the allocation mechanism used by AEMO to allocate authorised MDQ efficient? If not, what improvements are necessary?**
- (b) Is the process and design of the allocation mechanism used by APA to allocate AMDQcc efficient? If not, what improvements are necessary?**

AEMO's pay-as-bid auction may result in participants paying different amounts for the same product which may put less sophisticated users at a disadvantage. A clearing price auction is preferable.

Where APA is selling AMDQcc which relates to capacity outside the regulated asset base, APA should have choice around how the price is set. An Auction method such as AEMO's is preferable for assets included in the regulated asset base.

Question 6 Regulated revenue

- (a) Is the AEMC's understanding of the linkage between the inclusion of costs into the capital base and the opportunity to earn only the regulated revenue amount correct? If not, why not?**
- (b) Is the inclusion of the costs associated with an extension or expansion in the capital base an appropriate factor to determine who undertakes the allocation process? Why or why not?**
- (c) Is the regulated revenue amount received by APA pursuant to its access arrangement a sufficient investment incentive to ensure efficient investment in the DTS? Why or why not?**
- (d) Do stakeholders have a view on the materiality of the issue related to the 'volume effect' and 'price effect' going forward? What is this view based on?**
- (e) If stakeholders are of the view that neither the 'volume effect' or 'price effect' are material at this time, are there specific market developments that may impact the market resulting in the 'volume effect' or 'price effect' becoming material?**
- (f) If so, what are these market developments?**
- (g) If the party who undertakes the allocation process was determined based on the inclusion or exclusion of costs in the capital base in comparison to the current practice of AEMO undertaking the allocation process for authorised MDQ and APA undertaking the allocation process for AMDQcc:**
- what, if any, impact would this have on parties participation in the market?**
 - what parties are likely to be affected either positively or negatively?**
 - how would these parties be affected?**
 - will market participants' behaviour be affected? If so, how?**
 - if so, what are the consequences or outcomes of these behavioural changes on efficiency in the market and/or the long-term interests of consumers?**

We agree with the AEMC's understanding of the interaction between AMDQ revenue and regulated revenue. Additional revenue above regulated revenue from the sale of AMDQcc can be used to help fund expansions of the DTS but if the cost of the expansion is included in the capital base then it is over-recovery of costs. The suggested method in (g) solves the issue of over-recovery and should be pursued as part of this rule change.

Question 7 Investment signals

- (a) Are the allocation processes currently used in the Victorian DWGM efficient mechanisms to provide investment signals in the market? If no, why not?**
- (b) Does AEMO's auction process for authorised MDQ provide any investment signals to the market? If no, why not? If yes, how?**

- (c) Does APA's tender process for AMDQcc provide investment signals to the market? If no, why not? If yes, how?**
- (d) Are there other mechanisms, under the current market design, that provide investment signals in the Victorian DWGM? What are these other mechanisms?**
- (e) If there are other market mechanisms, how do they interact with the price determination and allocation processes currently used by AEMO or APA?**
- (f) Would the same investment signals exist if AEMO undertook the allocation process for AMDQcc? If no, why not?**

We suggest allowing AMDQcc to be applied to controlled withdrawals as well as uncontrolled withdrawals. A mechanism is required to ensure participants with a storage service have confidence that they can match withdrawals from South West Pipeline with their storage injection rights. This will give more confidence for investment in storage and system augmentation as recent modelling by AEMO has indicated the possibility of constraints.

Question 8 Information provision

- (a) Has the current practice of allowing AEMO or APA to determine the notice period associated with their respective allocation process impacted market participants' ability to fully participate in the allocation process? If so, how?**
- (b) Would the inclusion of a mandatory minimum notice period prior to the allocation process occurring allow parties to make more informed decisions?**
- (c) What may be the benefits for the market of market participants making more informed decisions in relation to the allocation process?**
- (d) Would inclusion of a mandatory minimum notice provision alter the way parties participate in the market? If so, how?**
- (e) Is twenty business days' notice the appropriate minimum notice period? If not, what is and why?**
- (f) Is there a need for a maximum notice period? If so, what should it be?**

We have not had any issues with the notice period given for either AEMO's or APA's allocation processes.

Question 9 Regulatory certainty

- (a) Do the provisions of the NGR at issue in this rule change request result in a perception of regulatory uncertainty in the market? Why or why not?**
- (b) Does the proposed rule address any regulatory uncertainty in the current provisions? If no, why not?**
- (c) Are there other appropriate ways to address any regulatory uncertainty present in the market as a result of the operation of the NGR provisions? If so, what are they?**
- (d) In your view, is your alternate approach more appropriate than (a) the current provisions as set out in the NGR; and (b) AEMO's proposed rule? Why?**
- (e) If the current provisions are considered to result in regulatory uncertainty:**
 - **what, if any, impacts does this have on efficient investment in the Victorian DTS and by whom?**
 - **what, if any, impacts does it have on market participants in relation to their participation in the market?**

Clarity and simplicity in the rules helps participants to understand their obligations and the obligations on others. Currently the regulations in the NER relating to AMDQ and AMDQcc are not clear.