

A few
words.

5 November 2014

Mr John Pierce
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Project reference: **GRC0021**

**Request for submissions on a specific issue
National Gas Amendment (Portfolio Rights Trading) Rule 2014**

Dear Mr Pierce

AGL refers to the request from AEMC dated 23 October 2014 seeking written submissions on a specific issue raised by AEMO in relation to the rule change request for implementing portfolio rights trading in the Declared Wholesale Gas Market.

AGL supported this rule when it first emerged as a recommendation from the Transmission Capacity Working Group to the Gas wholesale Consultative Forum (GWCF) in late 2011 and again on 3 April this year in response to the consultation run by the AEMC.

A number of perspectives since have caused us to rethink the timing and the appropriateness of this proposal.

- AGL is now unsure if the anticipated benefits are as high as when we first considered this proposal some 3 years ago, owing to changing dynamics in the Victorian and east coast gas markets.
- The need to augment the Longford-to-Dandenong Pipeline, which was a requirement that could have been deferred through PRT and was hence a potential benefit, now seems remote as a prospect.
- Our feeling is that, industry-wide, the likely volume of trade is in the order of 5 – 10TJ per annum. A perspective relevant to this outlook is the fact that C&I demand now has a declining growth outlook. One implication of this is that there might be Tariff D AMDQ being made available via secondary trades as some sites shut down or take their production overseas. This availability of Tariff D AMDQ will have a diluting effect on any liquidity in the PRT market.

The net benefit of the project was always going to be marginal at best. It was less of a concern when the costs were below the \$0.5 million mark. We now have a firmer assessment of implementation and testing costs which take it well beyond \$0.5 million. With a 37% increase in projected implementation costs and with no corresponding uplift in potential benefits, it is fair to conclude that the net economic outlook has not improved.

In addition to the cost increase signalled by AEMO and the delayed implementation date of March/April 2016, Victoria's Energy Statement document released in October 2014 states that the Victorian Government will be requesting the AEMC to review aspects of the Victorian wholesale gas market with a view to improving capacity signalling and risk management. This review will touch on Authorised MDQ and AMDQ Credit Certificates and their role in the gas market. Given that this is the same ground that the PRT rule change will impact, we would find it difficult to justify the proposed expenditure when a major review is about to get underway.

Any question in relation to this submission can be referred to George Foley (03) 8633 6239 or at gfoley@agl.com.au.

Yours sincerely,



Duncan MacKinnon

Manager Wholesale Markets Regulation