



EnergyAustralia

28 January 2016

Mr John Pierce
Mr Neville Henderson
Dr Brian Spalding
Australian Energy Market Commission

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Dear Commissioners

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DWGM-AMDQ Allocation, Rule Determination, 10 December 2015

EnergyAustralia is 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 energy generation portfolio across Australia, including coal, gas, and wind assets with control of over 4,500MW of generation in the National Electricity Market.

The proposed changes will separate the sale of AMDQ credit certificates from peak-day injection charge offsets. Currently AMDQcc is sold bundled with a rebate of this reference tariff. The current bundling arrangement resembles contract carriage pipelines selling a firm service which provides guaranteed revenue to pipelines owners by committing shippers to flow a volume of gas. APA GasNet currently utilises these firm volume commitments to justify capital expenditure under rule 79 of the National Gas Rules (NGR).

Retailers may commit to firm capacity representing their expected load. In cases where retailers are unwilling to accept demand forecast risks from customers for the access arrangement period, we can expect under-investment in the system. Improved collaboration between AEMO, APA GasNet, market participants, and customers to forecast usage accurately and identify constraints (such as we are facing on the South West Pipeline) early will ensure capacity is expanded in an efficient and timely manner.

We believe the draft rule promotes the National Gas Objective (NGO), irrespective of changes that may arise from the AEMC Review of the Victorian Declared Wholesale Gas Market (DWGM). Whether the draft rule should be made, given that any changes may be transitory, will ultimately depend on costs regarding system and process implementation by AEMO. At this stage, we do not foresee material costs for market participants. From the evidence presented we favour implementation of the draft rule.

The draft recommendations from the Review of the DWGM outline a transition to an Entry-Exit model for the Declared Transmission System (DTS). The rights are likely to be allocated by AEMO via an auction process. The final rule - and related procedures - should consider the alignment with these recommendations. We support a more transparent gas market. An open and transparent auction for the allocation of both Authorised MDQ and AMDQcc will provide information to the market and support the transition to the proposed Entry-Exit model. Currently AEMO utilises a pay-as-bid auction design for AMDQ allocation. However, a clearing auction is preferable to ensure shippers pay an equal amount for the same product.

If you any have further questions please contact me on (03) 8628 4518.

Regards

A handwritten signature in black ink, appearing to read 'Ben Hayward', with a stylized, cursive script.

Ben Hayward

Industry Regulation Analyst