



## Portfolio rights trading in the Victorian gas market

### Publication of draft rule determination and draft rule

**The Australian Energy Market Commission (Commission) has made a draft 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.**

#### Draft rule

The Commission has made this draft rule determination to promote more efficient utilisation of transmission pipeline capacity and thereby defer the need for new pipeline investment in the Victorian declared transmission system (DTS). This is in response to the portfolio rights trading rule change request submitted by the Australian Energy Market Operator (AEMO) on 13 November 2013.

Portfolio rights trading (PRT) will enable market participants to transfer all or part of their portfolio of financial benefits associated with holding authorised MDQ (AMDQ) and AMDQ credit certificates (AMDQ cc) to other market participants operating in the Victorian declared wholesale gas market (DWGM). The financial and market benefits include priority in scheduled injections (injection tie-breaking rights (ITR)) and reduced uplift payments (uplift hedge protection).

Ownership of AMDQ and AMDQ cc and any associated curtailment rights would remain unchanged by PRT.

The draft rule, if implemented, would require AEMO to:

- transfer the entitlement to the benefits associated with AMDQ and AMDQ cc between market participants;
- adjust trading market participants' AMDQ and AMDQ cc allocations in line with information submitted from PRT (the adjusted figures must then be used to calculate ITR); and
- develop and publish PRT procedures to implement the PRT mechanism.

#### Commission reasons

The Commission is satisfied that the draft rule will, or is likely to, contribute to the achievement of the national gas objective (NGO) by promoting more efficient use of, and investment in, natural gas pipelines in the long term interests of gas consumers. Specifically, it considers that the draft rule, if implemented, would:

- *Promote competition:* by facilitating access to unused pipeline capacity, the PRT mechanism may increase competition between market participants. This could occur by broadening the tools available for portfolio management, lowering barriers to entry for new market participants (including new retailers) and enhancing participation by end users in the DWGM. Increasing competitive pressure could ultimately result in lower prices to gas consumers.
- *Promote flexibility:* by introducing well-functioning and flexible pipeline trading arrangements, the PRT mechanism may lower transaction costs for market participants seeking access to short-term pipeline services. In addition, by generating interest between buyers and sellers, the PRT mechanism may improve pipeline capacity trading liquidity.
- *Encourage efficient use of gas transmission capacity:* by encouraging the reallocation of unused pipeline capacity between market participants, the PRT mechanism should encourage more efficient use of existing infrastructure, and should contribute to the pipeline being expanded only when it is efficient to do so.

Submissions to the draft rule determination are due by 31 July 2014.

## Background

The Victorian 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 AMDQ or 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).

AEMO has identified a number of barriers which it considers currently limit 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 NGR to introduce PRT in the DWGM. The proposed PRT mechanism is 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 must be given effect in AEMO's scheduling and settlement process. This requires changes to AEMO's market systems. Implementation of PRT therefore includes a new IT interface for registering and confirming bilateral trades between market participants. However, the PRT mechanism nor the IT interface include contract terms and payments. The terms and conditions, including the financial transactions, related to PRT will be set out in bilateral contracts between the trading parties.

## Submissions

The AEMC invites submissions on its draft rule determination, including draft rule, by **31 July 2014**.

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