



INFORMATION

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DWGM simpler wholesale price

The Australian Energy Market Commission (AEMC) has made a rule that amends the National Gas Rules to simplify risk management for market participants and improve wholesale gas prices in the Victorian Declared Wholesale Gas Market (DWGM).

Overview of the final rule

The AEMC has made a rule that amends the National Gas Rules (NGR) to simplify wholesale pricing in the DWGM by:

- requiring that when AEMO produces pricing schedules, which determine market prices, it takes into account transmission constraints that affect withdrawals of gas at system withdrawal points at which withdrawal bids may be made
- removing the link between authorised maximum daily quantity (AMDQ) or capacity certificates and uplift payments, such that a congestion uplift category is no longer required.

The rule retains the current principle that uplift payments are to be allocated so far as practicable to market participants that caused the need for ancillary payments, however, it removes rules that require AEMO to take into account the extent to which a market participant's use of gas is in excess of a baseline derived from AMDQ or capacity certificates. The AEMC considers that such a baseline-based congestion uplift mechanism does not appropriately allocate 'cost to cause' and would involve unwarranted complexity and cost. The principle of allocating cost to cause so far as practicable can be achieved through the other categories of uplift set out in AEMO's uplift payment procedures.

The rule, which is a more preferable rule, was made in relation to a consolidated rule change request from the Victorian Minister for Energy, Environment and Climate Change and the Australian Energy Market Operator (AEMO).

In deciding to make this rule, the AEMC has taken into account interactions with the rule for the separate rule change on *National Gas Amendment (DWGM improvements to AMDQ regime) Rule 2020*.

Benefits of the final rule

Having regard to the issues raised in the rule change request and during consultation, the AEMC is satisfied the rule will, or is likely to, contribute to the achievement of the National Gas Objective for the following reasons:

- **Improved risk management in the DWGM** — in situations where there is a physical withdrawal constraint in the DTS, the rule reduces uncertainty and scheduling risk for market participants around whether their injection bids may be constrained off despite being below the market price. The rule also removes the need for market participants to manage the risk of incurring congestion uplift payments.
- **Improved signals and incentives for efficient operation and use of pipeline capacity** — compared to the current arrangements, the rule results in a more efficient scheduling process and utilisation of pipeline capacity. Currently, physically infeasible withdrawal bids may result in a higher price and lower quantity of gas traded.
- **Promotion of competition in downstream markets** — the rule removes the need for market participants to protect against the risk of incurring congestion uplift payments, which may encourage new entrants to the Victorian retail gas market.
- **Lower regulatory and administrative burden** — the benefits of implementing the rule are

expected to outweigh the costs. Removing the need to manage the risk of congestion uplift will reduce the administrative burden.

Key changes between the draft and final rule

The AEMC has made changes from the draft rule so that the NGR no longer requires a congestion uplift category as, following further stakeholder consultation, it considers such a baseline-based mechanism does not appropriately allocate cost to cause and is not practicable.

The current congestion uplift framework is complex, does not effectively allocate cost to causers, does not provide meaningful short-term signals to avoid causing constraints or long-term investment signals and it can be difficult for market participants to manage the risk of congestion uplift payments. It is not practical to develop a congestion uplift mechanism that would appropriately address the issues with the current arrangements. It is therefore more preferable to remove the congestion uplift category.

Context and rule change request

On 5 November 2018, the AEMC received three rule change requests from the Victorian Minister for Energy, Environment and Climate Change to amend the National Gas Rules (NGR). The rule change requests propose the following changes:

- introduce a simpler wholesale gas price for the DWGM in Victoria (*DWGM simpler wholesale price*)
- establish a forward trading exchange (*DWGM forward trading market*).
- improve the allocation and trading of pipeline capacity rights (*DWGM improvement to AMDQ regime*).

These requests were based on recommendations made by the AEMC in June 2017, as part of the Review of the Victorian DWGM final report (DWGM Review).

The *DWGM simpler wholesale price* rule change request sought to change the National Gas Rules to spread congestion uplift across market participants, instead of the current approach that aims to recover congestion uplift payments from those parties that caused the constraint.

On 24 November 2016, the AEMC received a rule change request from the Australian Energy Market Operator (AEMO), on behalf of EnergyAustralia, that sought to amend the NGR. The rule change request sought to allow AEMO to include physical constraints that limit scheduled withdrawals in the determination of the pricing schedule for the Victorian DWGM.

As the rule change request from the Victorian Minister on DWGM simpler wholesale price and the rule change request from AEMO relate to a common subject matter and are seeking to address similar issues, the AEMC has consolidated them.

Implementation

The rule sets out the following timing for commencement of the rule:

- the amendments relating to accounting for transmission constraints that affect withdrawals of gas at system withdrawal points in the pricing schedule are to commence on 31 March 2020
- the amendments relating to the congestion uplift framework are to commence on 1 January 2023, immediately after the *National Gas Amendment (DWGM improvements to AMDQ regime) Rule 2020* commences
- amendments for transitional arrangements are to commence on 19 March 2020.

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