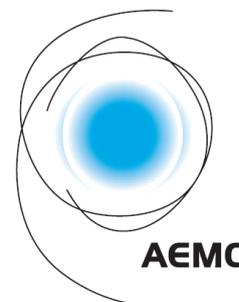


## Minutes of technical workshop on DWGM simpler wholesale price and DWGM improvement to AMDQ regime 9 December 2019

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The technical workshop was held in Melbourne on 9 December 2019. The attendees of the meeting are listed below.

Name	Organisation
Roger Shaw	AEMO
Nicholas Pope	AEMO
Luke Garland	AEMO
Kieran O'Leary	AGL
Andrew Godfrey	Alinta Energy
Melissa Perrow	Brickworks Limited
Lino Fusco	CQ Energy
Raif Sarcich	Victorian Department of Energy, Land, Water and Planning
Ishara De Silva	EnergyAustralia
Sarah Kok	ERM Power
David Headberry	Major Energy Users (MEU)
Justin Mulder	Meridian
Louise Colbran	Origin

The AEMC staff that attended the workshop are listed below.

Name	Organisation
David Feeney	Executive General Manager – Retail & Wholesale Markets
Owen Pascoe	Director – Retail & Wholesale Markets
Andrew Pirie	Senior Adviser – Retail & Wholesale Markets
Daniela Moraes	Senior Adviser – Retail & Wholesale Markets
Ryan Esplin	Economist
Jess Scranton	Lawyer
Anna Klappas	Team Administrator – Retail & Wholesale Markets

The AEMC organised this technical workshop to discuss implementation issues and interactions between the rule changes on DWGM simpler wholesale price (GRC0049) and DWGM improvement to AMDQ regime (GRC0051).

At the start of the technical workshop the 'competition health warning' from the AEMC's competition protocol for the working group was read out, and copies of the protocol (attached) were given to each member of the technical workshop. Copies were also emailed prior to the workshop.

David Feeney opened the workshop and provided an overview of the rule change processes and the intended approach for this technical workshop.

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### DWGM simpler wholesale price rule change (GRC0049)

#### *Application of constraints in the DTS*

- The AEMC gave an overview of this element of the draft rule and stakeholder submissions and sought feedback on the AEMC's recommended final determination policy position to internalise withdrawal constraints in the pricing schedule.
- MEU questioned if the rule change to internalise withdrawal constraints was necessary and noted that end users are finding alternatives to high costs of gas.
- AEMO talked about recent and potential withdrawal constraints and the benefits of the rule change to internalise withdrawal constraints in the pricing schedule. AEMO also noted that constraints in the DTS are usually cyclical. If there is or is expected to be a constraint issue, the DTS SP typically seeks to invest in

increasing the capacity of the DTS to address the constraint issue and the problem reduces. Then, overtime, additional demand may lead to further constraints arising.

- MEU noted that retailer's hedging costs are often passed on to large end users. Brickworks noted that if a retailer can't hedge it will pass on costs directly to large consumers.
- Origin noted that internalising withdrawal constraints would improve hedging opportunities for market participants and did not have any objections to it.
- In relation to implementing the rule to internalise withdrawal constraints:
  - EnergyAustralia noted that a number of years had passed since it had submitted the rule change request and suggested that the rule change be implemented as soon as possible. In response, the AEMC noted that the rule change was delayed due to the DWGM review.
  - ERM Power argued that the rule change should be implemented as soon as possible.
  - No stakeholders supported delaying implementation until after winter 2020.
  - AEMO expected that it would be relatively simple for AEMO to implement the rule change to internalise withdrawal constraints in the pricing schedule. AEMO noted that it intended to run an industry consultation process in parallel with the final stage of the DWGM simpler wholesale price rule change.
  - AEMO asked the AEMC to confirm if a transitional rule could be included that would allow the rule change to commence operation on 31 March 2019. In response, the AEMC staff noted they intended to do so. AEMC will work with AEMO to finalise an implementation date in March or April 2020.

#### *Congestion uplift framework*

- The AEMC gave an overview of this element of the draft rule and stakeholder submissions and sought feedback on the AEMC's recommended final determination policy position to no longer require the congestion uplift category.
- Origin did not support removing the congestion uplift category because:
  - internalising withdrawal constraints would address the problem
  - the injection test should be retained with congestion uplift - participants that are injecting too little or too much should be liable to pay for constraints caused. If not, the accuracy of cost to cause could diminish
  - it questioned whether removing congestion uplift was better than the current arrangements
  - it questioned whether potential flow on effects (such as financial) had been considered.
- In response to Origin's comments above, the AEMC noted that removing the congestion uplift category was expected to be an improvement on the current arrangements. It would remove complexity and the current arrangements do not appear to provide meaningful signals that participants could foresee and respond to in a way to avoid causing constraints. Retaining congestion uplift was not practical and could lead to costs to participants through participation in auctions.
- EnergyAustralia asked how Longford production falling over may interact with the uplift framework.
- AEMO noted that injection-side failing over was the key cause of congestion, rather than demand side problems. AEMO suggested that, if the congestion uplift category is removed, injection side congestion may still occur in the DTS, and this could be managed by internalising injection constraints in the determination of the Pricing Schedule (PS). AEMO's preferred approach is therefore to:
  - remove the congestion uplift category, and
  - internalise constraints on withdrawals in the PS, and
  - internalise constraints on injections in the PS.
 AEMO argued that it would be preferable to make all of these changes to rules and procedures at the same time.
- Alinta Energy expressed a preference to avoid doubling up on work by making changes to internalise constraints on withdrawals and then having a separate process shortly after to internalise injection constraints in the determination of the PS.

- The AEMC noted its preliminary view that it was out of scope to internalise injection constraints in the PS as the rule change request was explicitly on withdrawal constraints only. The AEMC noted that a separate rule change request could be submitted to address constraints on injections in the determination of the PS.
- AEMO noted that, if the congestion uplift category were removed:
  - it would also need to revisit the cost allocation mechanism for all remaining uplift categories
  - it may be more difficult to allocate uplift payments to congestion DTS SP
- AEMO suggested that the definition of transmission constraint in Part 19 of the National Gas Rules was broad and that references to 'transmission constraints' in relation to uplift payments were no longer relevant and should be removed. ERM supported AEMO's point. In response, the AEMC noted its preliminary legal view that removing such references to 'transmission constraint' may not be possible in rule clauses that have a broader application than only congestion uplift. For example, some clauses may apply to congestion uplift and congestion DTS SP uplift and therefore such a change may not be appropriate. The AEMC will further consider this matter and discuss with stakeholders.

### **DWGM improvements to AMDQ regime (GRC0051)**

- The AEMC gave an overview of the draft rule, stakeholder submissions on the draft rule and sought feedback on the AEMC's recommended final determination policy positions.

#### *Curtailement protection*

- The AEMC gave an overview of its recommended final determination policy position to delink curtailment protection from capacity certificates under the new regime, with the effect that AEMO would remove Table 0 from the existing Gas Load Curtailment and Gas Rationing and Recovery Guidelines.
- MEU suggested a demand response mechanism for gas, rather than curtailing large end users. MEU suggested that the Contingency gas approach in the STTM worked well and should be considered for the DWGM. In response, the AEMC noted that such a change would require a separate rule change.
- Brickworks questioned how the proposed changes would work, as curtailment is a large process.
- AEMO noted:
  - Table 0 currently has a large number of tariff D customers
  - The curtailment tables are currently being revisited through other processes by the Gas Emergency Management Consultative Forum and the Victorian Government, that will consider economic and social needs. The new approach is considering voluntary curtailment of tariff V customers, by sending SMS to residential customers and requesting a reduction in usage.
  - There was confusion about the difference between rationing and curtailment. Rationing occurs if it is an ongoing problem that can be forecast (i.e. shortage of supply), and there are separate guidelines/procedures to address that. Curtailment is always an emergency event that was not expected.
- Stakeholders noted that curtailment was an important issue for large users, but generally agreed that it was not appropriately dealt with by linking curtailment protection and capacity certificates.

#### *Separate entry and exit capacity certificates*

- Origin was not necessarily supportive of having separate entry and exit capacity certificates as unsure of the implications of this change in the AMDQ regime. Origin wants lowest cost outcome, onus on participants to inject and noted if you don't have that requirement, there could be a risk for supply and security.
- Origin suggested that moving to nodal pricing could solve a number of issues. In response, the AEMC noted that nodal pricing was considered during the DWGM Review and there was little stakeholder desire for it and that it was not an option under this rule change request.
- Feedback on application of zones:
  - Origin suggested that zones should apply to all controllable points.

- AEMO noted that recent Culcairn auction demonstrated there is value for zonal tie-breaking. AEMO noted that injection and withdrawal tie-breaking can occur on a local basis as well as on a global basis.
- Stakeholders agreed there is value for tie-breaking certificates to be retained for the DWGM.
- AEMO noted that it could be possible to move to a day-ahead type auction where excess capacity is auctioned but there is a question of whether the costs are worth it.
- AEMO noted that the zones would be defined in a procedure and they will consult with stakeholders on the development of this procedure.

#### *System capability modelling*

- AEMO argued that it would be preferable if system capability modelling could be aligned between the VGPR and the new AMDQ regime. This would avoid the need for AEMO to operate two separate (but similar) processes for VGPR and the new capacity certificates regime. AEMO suggested that the wording of the rules be amended to increase the scope of the next VGPR to include system capability modelling for certificates. The AEMC will investigate if this would be within scope for this rule change request or if a separate one would need to be submitted.
- MEU argued that historic system forecasts by AEMO have often been inaccurate and that AEMO would likely undersell capacity by being too conservative. MEU asked if fewer certificates may be sold than the capacity of the DTS, which may lead to higher prices for certificates.
- AEMO confirmed that the operation of the DTS is optimised. The operational capacity will determine what constraints are applied on a particular day. The capacity certificates will necessarily be less than that amount.

#### *Secondary trading*

- Most participants were of the view that the costs of implementing secondary trading may outweigh the benefits.
- Origin suggested that there is a need to consider whether it's worthwhile as it may be expensive and have low demand.
- EnergyAustralia did not think there would be a large demand for secondary trading, so shouldn't spend money developing a platform that was unlikely to be used. EnergyAustralia suggested there would be value in having a listing service facility.
- Alinta asked how easy it would be to record bilateral transactions, leveraging existing systems AEMO has in the STTM. AEMO replied that it should be relatively straight forward, using a similar approach to the Agency Injection Hedge Nomination (AIHN) screen on WebExchanger.
- AEMO noted that it may be too early to setup secondary trading. AEMO suggested that the rules be flexible and allow for bilateral trades.
- CQ Partners suggested there is value in settling bilateral trades through AEMO's platform.
- Stakeholders noted that if the primary auction is designed well (e.g. with short tenure monthly products) then secondary trading may not be necessary.

#### *Auction of capacity certificates and participant eligibility criteria*

- MEU asked if auction would be similar to those currently run for AMDQ cc. The AEMC in response noted that the proposed auction would largely run in a similar manner, noting that key differences from the AMDQ cc auction may include the system capability modelling requirement and definition of zones.

- The AEMC noted that the auction rules are high level and asked what is appropriate to include in the rules versus the procedures. AEMO in response stated that they would prefer if the rules and procedures do not state the capacity quantities as this will depend on the outcome of system capability modelling.
- Brickworks suggested that auctioning should not be restricted to market participants as this would disadvantage new entrants that are not market participants.
- AEMO noted that, under the draft rule, market participants need to remain eligible to retain certificates, otherwise they would be relinquished for the next auction.
- AEMO noted that if you are an intending participant you could participate in the auction but may not receive the certificates until you become a market participant (may depend on whether you can access AEMO's systems). AEMO suggested that the rules accommodate intending participants, not just current registered market participants.
- Further to Brickworks point, AEMO noted the differences between a flat load customer who wanted to become a new entrant market customer and a new entrant retailer. A load will know its entry/exit volumes and want to cover their full requirements from day one of being a market participant, while a retailer will start with little or no load from day one and have greater uncertainty over its future customer base/load and therefore the amount of certificates it may want for tie-breaking.

#### *Determination of products*

- AGL asked what if the capacity increases after the system capability modelling? In response, AEMO noted that additional capacity may be able to be sold in shorter term tenure products. AEMO noted that tenure product design could reflect the SRA design in the NEM.
- MEU and Brickworks suggested that different tenures appears to be a complex solution for a tie-breaking problem that doesn't occur very often.
- AGL asked if you would be able to sell one month if you bought an entire year of certificates.
- Origin suggested there should be set tenures. There should be no limit on the dates that can be transferred. Origin suggested it seemed complex to have multiple products with different financial outcomes for every month.
- There was discussion around whether the allocation should be on the basis of a percentage or GJ amount. In response, AEMO noted similar discussions in the design of the SRA in the NEM and the decision to apply a percentage in the SRA. AEMO noted that if this approach was applied in the DWGM, it is likely that some market participants may require a different percentage during different times of the year.

#### *Capacity hoarding and anti-competitive behaviour*

- MEU and Brickworks argued that firms will try to maximise their position wherever they can and there is potential for capacity hoarding to be a problem. The AEMC asked MEU if different tenures for certificates would address the potential for capacity hoarding and the MEU did not think this would address the issue.
- Origin did not consider that capacity hoarding was an issue in the DWGM.
- Meridian noted that there could be anti-competitive behaviour from bigger participants by trying to drive the prices of capacity certificates up in order to prevent smaller participants from acquiring certificates through the auction.
- AEMO noted that participants are able to access the DTS through the DWGM's market carriage design based on their bids and that capacity certificates are not necessarily required.
- AGL noted that there could be unintended consequences in other gas markets. Potentially conflict between transport arrangements on the periphery and the rights that AMDQ gives you to access the DTS. AEMC will follow up.

#### *Legacy arrangements*

- MEU and Brickworks noted that grandfathering of AMDQ was not discussed in this workshop on 9 December 2019 and should be discussed in another workshop.

# Australian Energy Market Commission

## Working group protocol

### Context and purpose

The AEMC is establishing a working group with energy industry members to discuss two DWGM rule changes (GRC0049 and GRC0051) currently being considered by the Commission.

The Working Group is committed to complying with all applicable laws, including the *Competition and Consumer Act 2010 (CCA)*, during these discussions. Breach of the CCA can lead to serious penalties for members and for individuals involved in any breach (including large financial penalties and potentially also imprisonment for key individuals involved).

**This Protocol governs the way in which Working Group discussions will proceed, and the Working Group agrees to adhere to this protocol in order to ensure compliance with the CCA.**

### Key principles

The purpose of this Working Group is solely to discuss potential issues for the Commission's further consideration.

Each member **must make an independent and unilateral decision** about their commercial positions and approach in relation to the matters under discussion in the Working Group.

This Working Group **must not discuss, or reach or give effect to any agreement or understanding\*** which relates to:

- **pricing** for the products and/or services that any member supplies or will supply, or the terms on which those products and/or services will be supplied (including discounts, rebates, price methodologies etc).
- **targeting (or not targeting) customers** of a particular kind, or in particular areas.
- **tender processes** and whether (or how) they will participate
- any decision by members:
  - about the purchase or supply of any products or services that other members also buy or sell
  - to not engage with persons or the terms upon which they will engage with such persons (i.e. boycotting); or
  - to deny any persons access to any products, services or inputs they require.
- **sharing competitively sensitive information** such as non-publicly available pricing or strategic information including details of customers, suppliers (or the terms on which they do business), volumes, future capacity etc
- **breaching confidentiality obligations** that each member owes to third parties.

\* An "understanding" does not have to be formal; a "nod and a wink" is enough if one party commits to act in a particular way.

### Communication & meeting guidelines

Members must ensure that **all communications** (including emails and verbal discussions) adhere to the Key Principles. All meeting between Working Group members should be conducted in accordance with the following rules:

- Agree and circulate an agenda in advance of each meeting. The content of each agenda should not include anything that could contravene the Key Principles set out in this Protocol, and try to avoid "any other business" agenda items.
- Ensure all members understand ahead of the meeting that any competitively sensitive matters must be subject to legal review before any commitment/agreement can be given.
- The below 'competition health warning' is read and minuted at any meetings or conference calls:
  - Attendees at this meeting must not enter into any discussion, activity or conduct that may infringe, on their part or on the part of other members, any applicable competition laws. For example, members must not discuss, communicate or exchange any commercially sensitive information, including information relating to prices, marketing and advertising strategy, costs and revenues, terms and conditions with third parties, terms of supply or access.*
  - For any new attendees – please note that participating in these discussions is subject to you having read and understood the Protocol including the Key Principles. If you have not yet done so, please do so now.*
- Accurate minutes are kept of all meetings, including details of attendees.
- If something comes up during a meeting that could risk contravening any Competition Laws, attendees should:
  - Object immediately, and ask for the discussion to be stopped.
  - Ensure the minutes record that the discussion was objected to and stopped.
  - Raise concerns about anything that occurred in the meeting with their respective legal counsel immediately afterwards.
- Any decision about whether, and on what terms, to engage with customers and suppliers is an independent and unilateral decision of each member.