



## DWGM-AMDQ Allocation

### Commission published final rule

**The Australian Energy Market Commission (AEMC) has made a final rule addressing the classification and allocation of market benefit instruments in the Victorian Declared Wholesale Gas Market (Victorian DWGM).**

#### The Commission's decision

The Commission's final rule determination, which includes a final more preferable rule, is intended to support efficient market operations in the Victorian DWGM and address the issues identified by the Australian Energy Market Operator as part of its rule change request. The final rule:

- clarifies the type of market benefit instrument created in respect of extensions or expansions of the Victorian declared transmission system by providing that:
  - authorised MDQ will relate only to historic capacity on the Longford to Melbourne pipeline at the time of commencement of the Victorian DWGM;
  - AMDQcc will be created in relation to all extensions or expansions where new market benefit instruments are created.
- provides that AEMO will be required to use the proceeds from its allocation process to offset the operating costs of the Victorian DWGM;
- provides that AEMO will provide a minimum of twenty business days' notice prior to undertaking the allocation process of either authorised MDQ or AMDQcc; and
- clarifies the party responsible for undertaking the allocation process by providing that:
  - AEMO is responsible for undertaking the allocation process for all authorised MDQ;
  - AEMO is the party responsible for undertaking the allocation process for AMDQcc where the costs of the extension or expansion that created or creates AMDQcc are included in the declared transmission system service provider's opening capital base for an access arrangement period or is included in its approved capital expenditures for an access arrangement period;
  - the declared transmission system service provider is the part responsible for undertaking the allocation process for AMDQcc where the costs of the extension or expansion that created or creates AMDQcc are not included in its opening capital base for an access arrangement period or in its approved capital expenditure for an access arrangement period.

#### Why has the Commission made the final rule?

The Commission considers that the final rule, a more preferable rule, will, or is likely to, contribute to the achievement of the National Gas Objective by promoting regulatory certainty, increasing timely provision of information and promoting an efficient allocation process. As a result, the final more preferable rule is expected to benefit consumers in the long term through the efficient use of and investment in the Victorian declared transmission system.

Regulatory certainty is promoted by clarifying the type of capacity instruments created and the party responsible for undertaking the allocation process for authorised MDQ and AMDQcc.

The final more preferable rule will increase timely provision of information by providing that AEMO must provide a minimum of twenty business days' notice prior to undertaking the allocation process. This provides market participants an opportunity to make informed decisions about their participation in the allocation process.

An efficient allocation process is promoted by tying the term of AMDQcc with the DTS SP's access arrangement period thereby providing timely signals to the market regarding possible need for investment in the system. Further, ensuring that AEMO undertakes the allocation of AMDQcc has the effect of unbundling the market benefit instruments with a take or pay contract for transportation services. This ensures that market participants only pay for those services they actually use given that the bundled contracts provide no firm capacity rights. In addition, the prices paid for, and therefore the signals provided, by AMDQcc better reflects the market benefits participants perceive from holding AMDQcc as they do not have to take into account their willingness to enter into a take or pay contract.

The Commission is of the view that the implementation and administration costs associated with the allocation process aspect of the final rule do not outweigh the short-or long-term benefits.

## Background

The Victorian DWGM operates as a market carriage pipeline system. Under market carriage in the Victorian DWGM, the system operator (AEMO) allocates pipeline capacity through a pool approach where gas is injected and withdrawn at various locations.

In the Victorian DWGM, the declared transmission system service provider (APA Gas Net) makes the transmission pipeline available to AEMO under contract. AEMO manages the receipt, transportation and delivery of gas. The transportation of gas is provided as a reference service pursuant to APA's access arrangement.

Although users cannot reserve firm capacity on a pipeline in the Victorian DWGM, they may hold market benefit instruments which provide certain limited physical benefits and certain market rights and benefits for holders. The financial and market benefits include priority in scheduled injections (injection tie-breaking rights) and reduced uplift payments (uplift hedge protection). There are two pipeline capacity instruments authorised MDQ and AMDQcc which differ only in their location and time validity.

## Commencement of the final rule

The final rule will come into effect on 24 March 2016; however, to provide AEMO time to develop the necessary procedures some of the provisions of the final rule will not be in place until 25 October 2016.

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