



EnergyAustralia

LIGHT THE WAY

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Dear Commissioners,

AEMC 2019, Declared Wholesale Gas Market Rule changes, consultation papers

We welcome the opportunity to comment on the AEMC's consultation papers on the Victorian Governments and AEMO's proposed rule changes to the Victorian Declared Wholesale Gas Market (DWGM).

EnergyAustralia is one of Australia's largest energy companies with around 2.6 million electricity and gas accounts in NSW, Victoria, Queensland, South Australia, and the Australian Capital Territory. We also own, operate and contract an energy generation portfolio across Australia, including coal, gas, battery storage, demand response, solar and wind assets with control of over 4,500MW of generation in the National Electricity Market (NEM).

There are a number of changes that have recently been or are being implemented across the Eastern Australian gas markets including; the Gas Supply Hubs (GSH) at Wallumbilla and Moomba, the Capacity Trading Platform (CTP) and Day Ahead Auction (DAA), Gas Day Harmonisation (GDH) and significant changes to the Gas Bulletin Board (GGB). Changes to the operation of gas markets have also come at a time when there is increasing focus on gas affordability and supply in the future. These are complicated and challenging reforms for the industry and it will take time for the full benefits of these changes and any future changes to be realised across the markets.

EnergyAustralia has been a major participant in the Victorian wholesale gas market for more than two decades and we look forward to working closely with the AEMC on these changes going forward. We are supportive of the AEMO rule change proposal that will improve the application of constraints in the DWGM, with benefits able to be realised immediately. We are tentatively supportive of the other proposed changes from the Victorian Government at a high level but note that there is significant details and challenges that will need to be worked through to ensure that any changes are able to deliver the anticipated benefits.

We have consolidated more detailed comments on all consultation papers below.

Simpler Wholesale Price

Application of constraints in the Declared Transmission System

EnergyAustralia remains supportive of the changes proposed in the AEMO rule change to improve the application of constraints in the Declared Transmission System (DTS). As correctly identified by the AEMC the current arrangements result in:

- market outcomes that are unpredictable and do not reflect the supply/demand balance;
- higher market prices and reduced gas trading than would occur if these constraints were represented in the pricing schedule;
- uncertainty and risk that reduced market participant's ability to hedge effectively; and
- no incentive for market participants to limit their bids due to an expected constraint, because the costs are not allocated to the causers.

The solution to internalise withdrawal constraints in the pricing schedule (as proposed in the rule change) will address the above identified issues. The proposed rule would mean that the gas price will reflect actual demand (a more appropriate value of gas) and remove the random element to participants having access to withdrawals without an associated increase in injections. Finally, it will allow participants to better manage their gas portfolio by reducing the risk that their injection offers below market price are not scheduled but withdrawals are exposed to the market price.

Without these changes the Pricing Schedule (PS) can often be based on a demand 10-20% higher than what is technically feasible¹ and there is also the ongoing risk of an \$800/GJ price occurring that participants will be unable to effectively hedge using injections. Internalising withdrawal constraints in the pricing schedule should improve participants confidence in the PS and Operating Schedule (OS).

Market participants updated trading strategies when the scheduling procedures were changed in May 2015². The proposal is largely a reversion to how the market operated before this date and as such there should not be significant impact to the industry to adjust to the change. It is also our understanding that this change would only result in minimal impacts to AEMO.

EnergyAustralia does not consider that this change would result in any loss of congestion signals by aligning the PS and OS for specific circumstances as constrained on withdrawals and associated ancillary payments occur rarely.

¹ AEMO rule change proposal, based on summer 15/16, <https://www.aemc.gov.au/sites/default/files/2019-03/Application%20of%20constraints%20in%20teh%20declared%20transmission%20systems%20Rule%20change%20request.pdf>

² The Wholesale Market Gas Scheduling Procedures were updated on the 4th May 2015, for more information see the AEMO rule change proposal, <https://www.aemc.gov.au/sites/default/files/2019-03/Application%20of%20constraints%20in%20teh%20declared%20transmission%20systems%20Rule%20change%20request.pdf>

Changes to congestion uplift

The congestion uplift methodology is challenging to understand and at times may not allocate cost to the causers of the congestion. We agree with the AEMC³ that ancillary payments (and out of merit gas) are more frequently occurring due to issues outside of the DTS, for example, due to production issues with the Longford Gas Plant. Uplift in this case would appear to be more reflective of surprise uplift. Allocating these costs as congestion uplift appears contrary to the intent of congestion uplift which was designed to be charged to market participants that are scheduled to withdraw or inject in excess of their allocated portion of the physical capacity of the system, as defined by their Allowable Maximum Daily Quantity (AMDQ) and Allowable Maximum Interval Quantity (AMIQ).

There is potential for the minimisation of market impacts from these events by improving information flow between production plant operators, AEMO and participants so that participants have more time to adjust injections at others points into the DTS, therefore minimising the cost of out of merit gas being injected. Minimising ancillary payments in this manner should not be detrimental to the long-term investment signals in the market as the congestion is not being driven by pipeline capacity, but rather by external forces outside of the DWGM. We would encourage the AEMC to investigate further the asymmetry of information in the market that often occurs during unplanned outages.

While less likely than historically there is still the potential for congestion to occur on DTS pipelines and therefore any changes to the congestion uplift methodology should ensure that the signals remain (as best as possible) to participants to minimise congestion being created. EnergyAustralia tentatively supports changes to the recovery of congestion uplift provided this is considered. Further, we are open to further work being completed by the AEMC to understand potential alternative options to develop more cost reflective uplift payments relating to congestion uplift. One option might be the inclusion of some portion of congestion uplift into the surprise uplift recovery.

Participants need to continue to be incentivised to forecast their demand accurately. For this reason, we do not support changes to the surprise uplift mechanism unless these incentives remain.

Directional Flow Point Constraint Pricing

EnergyAustralia understands that the Directional Flow Point Constraint Pricing (DFPC) proposal would operate in a similar fashion to how a DFPC operates in the Short-Term Trading Market (STTM)⁴. While we appreciate the economic rationale for a change like this to be considered we have concerns that in practice utilising DFPC in the DWGM may result in some significant unintended outcomes. The operation of the STTM is significantly different to that of the DWGM. The STTM is an ex-ante market where participants submit a single set of bids and offers with the market clearing only once D-1, in this way the STTM avoids participants having to re price gas across the day.

³ AEMC DWGM Simpler Wholesale Price Consultation Paper, <https://www.aemc.gov.au/sites/default/files/2019-03/Consultation%20paper.PDF>

⁴ STTM Technical Guide, Page 76, <https://www.aemo.com.au/-/media/Files/Gas/STTM/Technical-Guide-to-the-STTM.pdf>

The AEMC should consider and provide some real-life outcomes of implementing DFPC constraints in the DWGM and work closely with current participants and AEMO before moving any further forward with DFPC. Particular focus should be paid to current participant bidding behaviour and practices and the nature of changing bids/offers across the 5 daily schedules in the DWGM. The implementation of the AEMO rule change proposal should improve the scheduling process and result in more efficient trading occurring and it is EnergyAustralia's view that this change should be given time to be implemented and its impact on the market analysed before making any further changes.

Given the aim of the Victorian Government's rule change is to simplify the wholesale price incorporating a DFPC at this time could in fact complicate the DWGM wholesale price.

Forward Trading Market

EnergyAustralia is supportive in principle of the development of a Forward Trading Market (FTM) provided that implementation costs (for AEMO to develop the platform & make any other required changes) do not out-weigh the benefits. We encourage the AEMC to ensure AEMO provide a realistic estimate of their expected costs & benefits in implementing this platform noting that this change also comes at a time of numerous other significant projects that AEMO is currently engaged in, for example 5-minute settlement.

As highlighted by the AEMC⁵ trading on ASX listed Victorian Gas Futures has increased since the conclusion of the AEMC review of the Victorian DWGM. The rule change proposal is to create a FTM similar to that of the GSH that would be operated by AEMO.

As highlighted in the AEMC consultation paper the present mechanism for forward trading in the DWGM is cumbersome and presents barriers to altering a position in the market. Currently, through the accreditation of controllable quantities process, at Longford (for example) both the buyer and seller must commit to giving up and receiving the Maximum Daily Quantity (MDQ) via a letter which is executed by both parties and confirmed by AEMO. The buyer and seller also have to submit an application to change controllable injection and withdrawal quantities and only one sub-allocation is possible per participant ID⁶. All these factors prohibit efficient forward trading.

The FTM should allow (provided proper design) for the above challenges to be solved with participants being able to enter into secondary trades with counterparties utilising existing settlement and sub-allocation processes in a more streamlined fashion. Depending on future changes to the AMDQ arrangements in the DWGM the FTM should also allow for the validation of AMDQ when a counterparty is physically injecting to facilitate the trade to ensure any uplift hedge is realised.

One of the advantages of an FTM would be the ability for it to improve the secondary trading of physical gas simplifying the complex DWGM settlement and sub-allocation processes. To this end any design of an FTM needs to ensure that it is not a pure derivative market in nature (in our view it is not AEMO's role to operate markets such as this) and there should therefore be penalties for non-delivery of physical gas (similar to

⁵ FTM consultation paper, Page 5, <https://www.aemc.gov.au/sites/default/files/2019-03/FTM%20consultation%20paper.pdf>

⁶ Participants must then also ensure they adjust their AMDQ and AMIQ to realise the full benefit.

what occurs on the GSH). We note that in the rule change proposal variances between traded and scheduled amount for forward products would be settled at the 6am DWGM price. We consider that it would be more appropriate for variances (along with additional penalty for non-delivery) to be settled at the following schedule price where the impact of non-delivery would actually be realised by the market. This is similar to how deviation costs are currently calculated in the DWGM.

To minimise barriers to entry any AEMO FTM should share prudential requirements across all platforms and markets (capture all netting), for example GSH, CTP, DWGM, STTM and the Electricity Market. This ensure costs are not prohibitive to participants and should result in increased trading across these platforms, ultimately leading to better outcomes for customers.

Improvements to AMDQ Regime

While possible, the trading of AMDQ between DWGM participants is cumbersome and there are potential benefits of simplifying the process by allowing anonymous trade of AMDQ using a trading platform. We note that there are likely to be significant challenges and costs to AEMO to implement these changes and we would encourage the AEMC and AEMO to be fully transparent with estimates around these. Further, given that the long-term goal of the AEMC is to implement a Northern and Southern Hub, consideration should be given to the costs of making any changes that may only be in operation for a short period of time.

As highlighted in the AEMC consultation papers there has been an increase in short-term Gas Supply Agreement (GSA) as a number of long-term take or pay GSAs have ended. The ability to obtain and trade shorter term AMDQ would help align these with the increasing number of shorter-term GSA's and may also provide further benefit if a FTM is also developed. EnergyAustralia is supportive of the creation and allocation of different levels of AMDQ to reflect the varying ability of the DTS to support higher and lower levels of AMDQ depending on the time of year.

The AEMC should also consider some form of linking the volume of AMDQ allowed to be procured/purchased to reflect the amount of firm capacity that a participant holds on an interconnected facility. This would prevent the potential for market participants to hold more AMDQ than physically they can use. A trading platform would increase the ease in which this unused AMDQ can be readily traded away. This could be thought of as an extension of what currently occurs when nominating AMDQ to system withdrawal points where the market participant must provide satisfactory evidence to AEMO that it, or a counter party, holds a corresponding quantity of firm capacity rights on that interconnected facility.

Similar to how the DAA auction works AMDQ could be auctioned off if not utilised by the existing holder (as occurs in the DAA) with the primary holder still able to renominate to use their AMDQ if required. This would be a major change to the current operation of the DWGM and would need to be considered in significant more detail.

EnergyAustralia considers that there are potential benefits from converting existing AMDQ into entry/exit AMDQ. Again, this would be a significant change to the operation of the DWGM and there are likely to be several challenges to be further worked through before any decision can be made. We look forward to working with the AEMC on this.

As highlighted previously in our discussion about the FTM any prudential requirements under an AMDQ trading platform need to be combined with other AEMO prudential requirements across other platforms and markets to limit any barriers to entry⁷.

Conclusion

EnergyAustralia is supportive of the AEMO rule change proposal to improve the treatment of constraints in the DWGM. We also believe that there could be benefits in introducing a FTM and tradable AMDQ entry and exit rights provided that the costs to implement do not outweigh the likely benefits.

Any changes recommended to the east coast gas markets need to be allowed time for forecast benefits to be realised. With substantial work recently completed or in implementation any additional changes need to be fully considered as the gas markets are already complicated to operate in. Introducing additional changes in quick succession has the potential to create more complexities and increase barriers to entry.

We thank the AEMC for consulting widely with participants at this early stage of the rule change process and look forward to working further with the AEMC on these.

If you would like to discuss this submission, please contact Andrew Godfrey on 03 8628 1630 or Andrew.Godfrey@energyaustralia.com.au.

Regards

Sarah Ogilvie

Industry Regulation Leader

⁷ We note that while in theory these trading platforms aim to simplify and remove barriers to participating in the gas markets there is often significant upfront cost to even get access to the trading platforms. For example, to move gas from QLD to NSW/VIC in the CTP participants must enter a number of Operational Service Agreements (OSA's) with multiple pipelines, a considerable cost, without even transporting gas.