AGL Energy Limited
ABN: 74 115 061 375
Level 24, 200 George St
Sydney NSW 2000
Locked Bag 1837
St Leonards NSW 2065
t: 02 9921 2999
f: 02 9921 2552
agl.com.au

Ms Daniela Moraes

Australian Energy Market Commission

PO Box A2449

Sydney South NSW 1235

1 May 2019

GRC0051 DWGM Improvement to the AMDQ Regime

AGL Energy Limited (AGL) welcomes the opportunity to comment on the Australian Energy Market Commission (AEMC) consultation on the Declared Wholesale Gas Market (DWGM) Improvement to the AMDQ Regime rule change.

AGL is one of Australia's leading integrated energy companies and the largest ASX listed owner, operator and developer of renewable generation. AGL has a long history of involvement in Eastern Australian gas markets and aside from delivering gas to over 1.4 million customers, AGL also owns and operates gas power generation, is a gas shipper and owns gas facilities across the east coast.

This rule change is investigating improvements to the Authorised Maximum Daily Quantity (AMDQ) regime, which is currently used to manage price and access risk in the DWGM.

As discussed in our submission to GRC0049 – DWGM Simpler Wholesale Price, AGL considers that re-aligning the pricing schedule and operating schedules would assist with risk management by delivering more rational market outcomes. The market price would better represent the supply and demand balance.

With changes to align the pricing and operating schedules, and given the significant complexity of the AMDQ regime, AGL suggests that there may be merit in considering whether the AMDQ regime could be wound back. We anticipate winding back the AMDQ regime may have the following outcomes:

- *Congestion uplift hedge*

  Removing the congestion uplift hedge would result in participants that currently hold AMDQ (including AGL) being exposed to congestion uplift. We believe this would more closely represent a causer pays mechanism. If combined with an aligned pricing schedule and operating schedule, more frequent provisional pricing schedules and improved market notices (seeking market responses) (discussed in our submission to GRC0049 DWGM Simpler Wholesale Price), we believe the likelihood of congestion uplift would be lower. Should congestion occur, ancillary payments would still be made to constrained on injections, but participants would be able to adjust their offers in response to the improved market information. Congestion uplift charges would continue to be paid by those that "cause" the congestion (and not smeared).

- *Tie-breaking rights*

  There would still be circumstances where participants are constrained down (for example where there are supply and demand point constraints). These could be managed in a similar way to constraints in the National Electricity Market (NEM) – that is, participant access could be pro-rated down. However, by aligning the pricing and operating schedules, the DWGM schedules would now reflect the price at which participants are willing to buy or sell gas.

- *Investment signals*

  AGL does not consider investment signals would be affected by winding back the AMDQ regime. In its current form, AMDQ do not appear to encourage private investment in the DTS.

Alternatively, AEMC could implement changes to align the pricing and operating schedules as proposed in the DWGM Simpler Wholesale Price rule change request prior to considering whether further amendments to the AMDQ regime are required. Re-aligning these schedules could provide further clarity on the value of AMDQ rights and benefits. AGL notes that the value associated with AMDQ may be reduced by aligning the pricing and operating schedules. Injection tie-breaking would most likely take place with a market price at $0. Participants without tie-breaking rights may not have their gas scheduled, but they would be financially indifferent to the outcome.

Should the AMDQ regime be retained, AGL is supportive of improving the ability to trade AMDQ and making AMDQ available for different tenures. We are unclear of the full impacts of separating AMDQ into entry and exit AMDQ, and suggest the AEMC assess the benefits and impacts of this as well as considering whether there are alternative options.

The remainder of this submission provides further detail of AGL’s views on investment in the DTS, and on the proposals to improve the AMDQ regime, should it be retained.

Investment in the DTS

While private investment in the DTS is possible, this is not incentivised under the current AMDQ regime. A private investor would not have certainty about the AMDQ created by a private investment until after the investment is completed. In addition, the investor does not receive exclusive access to the capacity it has underwritten, only the ADMQ rights.

Instead, the pipeline operator makes decisions to invest in the DTS through the regulatory approval process. The presence or creation of AMDQ is not relevant as any revenue received from AMDQ is deducted from the regulated revenue.

As discussed in our submission to GRC0049 DWGM Simpler Wholesale Price, AGL considers inadequate investment in the DTS has contributed to the congestion uplift costs seen over the last few years. While re-aligning the pricing and operating schedules would help to avoid irrational market outcomes, AGL suggests that the requirements for investment in the DTS should be strengthened to minimise the risk of congestion uplift costs. A planning standard could be applied to the DTS that would require investment to meet certain performance criteria which include congestion.

In addition, (assuming realignment of the pricing and operating schedules) AEMO could continue to run both a pricing schedule that incorporates constraints (to schedule the market) and a pricing schedule without constraints. This would indicate the cost of constraints and could indicate the need for investment over the long term. This information could be provided to the pipeline operator to support investment decisions under the (voluntary) regulatory approval process, or as evidence to form part of a required investment process.

Entry and Exit AMDQ

Should the AMDQ regime be retained, AGL suggests the AEMC closely consider the benefits and impacts of introducing separate entry and exit AMDQ and whether there are other options that may help to support rational bidding behaviour and market outcomes.

For example, we note that instead of introducing exit AMDQ with withdrawal tie-breaking rights, AEMC could consider options to incentivise participants to bid at the price they are willing to pay (instead of at the market price cap). If Directional Flow Point Constraint pricing was applied, participants may be incentivised to make more rational bids for gas, as there would be a greater chance of being scheduled at their bid price. This may also help to indicate who is willing to pay the most for gas and who should be scheduled during congestion.

Trading of AMDQ rights and benefits

Trading of AMDQ rights is currently difficult and time consuming. Should the AMDQ regime be retained, AGL is supportive of improving the ability to trade the associated rights and benefits.

We also consider it important that participants are able to transfer AMDQ rights and benefits to other locations within the DTS, where possible, within physical or technical parameters. Participants may be reluctant to purchase AMDQ unless there is certainty that it can be transferred to their preferred location. However, AGL can foresee issues if participants are able to move AMDQ to alternative locations without AEMO having to consider whether the physical limitations of the new point can support the AMDQ (for example, moving all the Longford AMDQ to Dandenong LNG should not be allowed). We consider this will become more important in the future, should the primary supply locations change across the DTS.

We also note that the decision to introduce an AMDQ trading platform is not reliant on the decision in GRC0050 DWGM Forward Trading Market. Access to the DTS is open and managed through the DWGM scheduling process. Participants do not need to hold AMDQ to be scheduled in the DWGM. Should the AEMC decide to introduce both a forward trading market and an AMDQ trading market each on their own merits, it would be prudent for them to be run through the same platform. However, the decision to proceed with one does not improve the merits of the other.

AMDQ for different tenures

Should the AMDQ regime be retained, AGL is supportive of making AMDQ available for a range of different tenures.

We would not expect that introducing AMDQ for a range of tenures would improve investment signals in the DTS. However, we consider it appropriate to maximise the amount of AMDQ that can be supported by the DTS, and to give participants a greater ability to purchase AMDQ that suits their individual needs.

AGL would support an amendment to the current auction mechanism whereby smaller volumes of AMDQ are auctioned at regular intervals, rather than the full quantity being auctioned in one go.

We note that that a shipper must currently have an arrangement with the facility operator to hold the auctioned AMDQ. As the industry moves towards gas transportation agreements (GTAs) with shorter tenures, the auctioning of AMDQ for timeframes beyond the length of the GTAs may be limited.

However, having access to longer tenure AMDQ may still be useful for those participants that are using AMDQ to make longer term business decisions. Therefore, we consider a mix of tenures to be appropriate.

If you have any queries about this submission, please contact Jenessa Rabone on (02) 9921 2323 or JRabone@agl.com.au.

Yours sincerely,

Meng Goh

Senior Manager Regulatory Strategy