INFORMATION

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DWGM improvement to AMDQ regime

Stakeholder submissions are invited on draft determination and draft rule

The Australian Energy Market Commission has made a more preferable draft rule that amends the National Gas Rules to improve the current AMDQ regime in the Victorian declared wholesale gas market. Submissions close on 24 October 2019.

Overview of the draft rule

The AEMC invites stakeholder submissions on a draft determination and draft rule made to reduce the complexity of the authorised maximum daily quantity (AMDQ) regime and make it easier for participants to secure and trade capacity certificates in the Victorian declared wholesale gas market (DWGM).

The new capacity certificates primarily help participants manage scheduling risk by providing tie-breaking benefits when bids to buy gas or offers to sell gas are tied at the same price. They also protect the holder from congestion uplift payments when their withdrawals are less than their exit capacity certificate holdings.

From the commencement of the next Declared Transmission System (DTS) access arrangement period in January 2023, the draft rule retires the current instruments of authorised MDQ and AMDQ credit certificates (AMDQ cc), and replaces these with:

1. entry capacity certificates that provide injection tie-breaking benefits
2. exit capacity certificates that provide withdrawal tie-breaking benefits and congestion uplift protection
3. uncontrollable exit capacity certificates that provide congestion uplift protection and limited curtailment protection.

AEMO will be required to conduct system capability modelling at least annually to determine the maximum amount of capacity available for allocation of capacity certificates, with the first allocation of capacity certificates in respect of existing and new capacity to occur via a primary auction.

The primary auction will be operated by AEMO and managed by similar requirements as for the current auctions of AMDQ cc.

The draft rule also requires AEMO to take the initial steps to create a secondary trading platform for capacity certificates. AEMO is required to propose an amendment to the exchange agreement by 1 January 2022 to facilitate secondary trading of capacity certificates through the gas trading exchange. Bilateral trades outside the platform will still be allowed, however, these trades will be required to be registered with AEMO.

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 proposed the following changes:

- introduce a simple wholesale gas price for the DWGM in Victoria (*DWGM Simpler wholesale price*)
- establish a forward trading exchange which will make it easier for buyers and sellers to trade gas and lock in a future price in the Victorian gas market (*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 declared wholesale gas market final report (DWGM Review).[1]

To address the issues related to the trading and allocation of pipeline capacity rights, the following changes were proposed in order to improve the existing AMDQ regime:

1. introduce separate, tradable entry AMDQ rights and exit AMDQ rights
2. introduce an exchange to improve secondary trading of AMDQ rights (permanent transfer) and benefits (temporary transfer)
3. make AMDQ available for a range of different tenures.

Benefits of the more preferable draft rule

Having regard to the issues raised in the rule change request, the Commission is satisfied that the more preferable draft rule is likely to better contribute to the achievement of the National Gas Objective by affording a number of benefits. The draft rule:

- improves the ability of market participants to obtain certificates to manage scheduling risk through tie-breaking, as well as financial risks through congestion uplift protection
- encourages more efficient use of pipeline capacity by allowing market participants to buy a set of entry and exit certificates, through auctions, that gives greater price and volume certainty to their preferred transportation pathways
- requires steps towards a secondary trading platform, which will reduce the search and transaction costs associated with trading certificates in the DWGM
- improves and simplifies current arrangements, which may encourage new entrants and promote competition in upstream and downstream markets.

Legacy arrangements

The changes do not affect current holders of AMDQ cc as these expire before the commencement of the new regime.[2]

The draft rule does not convert any legacy holdings of authorised MDQ into capacity certificates under the new regime.

Authorised MDQ has been defined as a withdrawal right. However, in 2007 an injection test at Longford was introduced in order to align the treatment of authorised MDQ and AMDQ cc. In practice, this means that, currently, authorised MDQ holders enjoy both entry and exit benefits. An important element of the new regime is to separate entry and exit benefits and to enable allocation to their highest value use. Therefore, the allocation of entry benefits should not be based on the withdrawals of a market participant or customer.

The Commission has decided not to grant entry or exit capacity certificates under the new regime to current holders of authorised MDQ, including tariff D customers, for a number of reasons:

- Authorised MDQ is a statutory bundle of rights that was conferred on customers in order to facilitate the working of the regulated DWGM market mechanism, and therefore, has always been susceptible to modification or extinguishment by amendment of the NGR.
- Current holders of authorised MDQ have benefited from these holdings for over 20 years, and by the time the new capacity certificates regime commences in 2023, they would have benefited for 24 years, which is a considerably long transition period.
- Analysis showed that the current allocations of authorised MDQ to tariff D customers are inefficient (where some tariff D customers hold authorised MDQ far in excess of their

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1 AEMC, *Review of the Victorian declared wholesale gas market*, final report, 30 June 2017.

2 Except for 30 TJ of AMDQ cc at Culcairn, which has been allocated until 30 June 2023 and as a result, a transitional rule of the draft rule converts this allocation into an equivalent capacity certificate, being an entry capacity certificate at Culcairn, for this additional period.

withdrawals on peak days, while others are not able to obtain it easily) and therefore should not be the starting point for the new regime.

Authorised MDQ relating to tariff V customers has always been held by AEMO and dynamically allocated to retailers. Therefore, there are no ownership rights that are held by consumers. For this reason, there is no need to grant uncontrollable exit capacity certificates to consumers.

Implementation

The new regime will commence on 1 January 2023, which is consistent with the start of the next DTS access arrangement period.

To allow market participants time to prepare, the first auction of the new certificates must be conducted prior to this date. Prior to the first auction, AEMO is required to amend existing procedures and make new procedures required by the draft rule and to conduct the first system capability modelling.

AEMO is also required to propose an amendment to the exchange agreement by 1 January 2022 to facilitate secondary trading of capacity certificates through the gas trading exchange.

Consultation

The Commission is seeking stakeholder feedback on the draft determination and the more preferable draft rule by **24 October 2019.**

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