



INFORMATION

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DWGM simpler wholesale price

Stakeholder submissions invited on draft rule determination

The Australian Energy Market Commission (AEMC) has published a draft rule determination on proposed changes from the Victorian Minister for Energy, Environment and Climate Change and the Australian Energy Market Operator (AEMO) to the Victorian Declared Wholesale Gas Market (DWGM). The draft rule simplifies risk management for market participants and improves wholesale gas prices in the DWGM.

Context

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 propose the following changes:

- introduce a simpler wholesale gas price for the DWGM in Victoria (*DWGM simpler wholesale price*)
- establish a forward trading exchange (*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 DWGM final report (DWGM Review).

The *DWGM simpler wholesale price* rule change request sought to change the National Gas Rules to:

- spread congestion uplift across market participants, instead of the current approach that aims to recover congestion uplift payments from those parties that caused the constraint
- decouple congestion uplift costs from the authorised maximum daily quantity (AMDQ) regime.

Consolidated rule change request

On 24 November 2016, the Commission received a rule change request from the Australian Energy Market Operator (AEMO), on behalf of EnergyAustralia, that sought to amend the NGR. The rule change request sought to allow AEMO to include physical constraints that limit scheduled withdrawals in the determination of the pricing schedule for the Victorian DWGM.

As the rule change request from the Victorian Minister on DWGM simpler wholesale price and the rule change request from AEMO relate to a common subject matter and are seeking to address similar issues, the Commission has consolidated them. The consolidated rule change request is referred to as the *DWGM simpler wholesale price*.

Features of the draft rule

The draft rule amends the requirements on AEMO in using an optimisation program to produce pricing schedules, which determine market prices. The draft rule replaces the requirement for AEMO to not consider transmission constraints in the pricing schedule with a requirement to take into account any constraints affecting withdrawals of gas.

The draft rule also simplifies the mechanism that market participants can use to protect against the risk of incurring congestion uplift payments, by:

- removing the need for market participants to inject gas to be eligible for protection against

congestion uplift payments

- removing the concept of congestion uplift hedge and the need for market participants to submit injection hedge nominations
- implementing a new congestion mechanism based on market participant's daily withdrawals of gas exceeding their allocation of exit capacity certificates.

In making this draft rule, the AEMC has taken into account interactions with the draft rule for the separate rule change on *DWGM improvements to AMDQ regime*, also published on 5 September 2019.

The draft rule does not spread congestion uplift payments across all market participants, as proposed by the rule change proponent, but instead retains the current approach in which congestion uplift payments are allocated as far as practicable to the market participants that cause a constraint.

Benefits of the draft rule

The benefits of the draft rule include the following:

- **Improved risk management in the DWGM** - in situations where there is a physical withdrawal constraint in the DTS, the draft rule reduces uncertainty and scheduling risk for market participants. The draft rule also makes it simpler for market participants to manage the risk of congestion uplift payments as it removes the need to inject gas or submit hedge nominations.
- **Improved signals and incentives for efficient operation and use of pipeline capacity** - compared to the current arrangements, the draft rule results in a more efficient scheduling process, which may put downwards pressure on market prices and increase the quantity of gas traded.
- **Lower regulatory and administrative burden** - the draft rule simplifies the mechanism that market participants can use to protect against the risk of congestion uplift payments and overall the benefits of implementing the draft rule are expected to outweigh the costs.

Implementation

The draft rule sets out the following timing for commencement of the rule:

- The amendments relating to internalising withdrawal constraints in the pricing schedule are to commence on 31 March 2020.
- The amendments relating to the removal of the injection test for the congestion uplift framework are to commence on 1 January 2023.
- Transitional arrangements are to commence on 12 December 2019.

Consultation process

We invite stakeholders to provide written submissions on the draft determination and draft rule by **Thursday 24 October 2019**.

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