



EXECUTIVE OFFICE

Our ref: 62172
Your ref: GRC0051
Contact officer: Nicole Ross
Contact phone: 03 9290 1957

Level 20, 175 Pitt Street
Sydney NSW 2000
GPO Box 3648
Sydney NSW 2001
tel: (02) 9230 9133
www.accc.gov.au

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Mr John Pierce
Chairman
Australian Energy Market Commission
201 Elizabeth Street
SYDNEY NSW 2000

Dear Mr Pierce

DWGM improvement to AMDQ regime

We are writing in relation to the AEMC's draft rule to amend the National Gas Rules to improve the current authorised maximum daily quantity (AMDQ) regime in the Victorian declared wholesale gas market (DWGM).

The ACCC welcomes the opportunity to provide comments on this significant area of work that will have a long term impact on the operation of the DWGM.

We consider it vitally important to ensure the amendment provides appropriate market signals that will operate over a longer term horizon, as the opportunity to review and further amend the rules pertaining to AMDQ may not arise again for some time.

The ACCC supports the proposed rule change in principle, but would like to draw to your attention the following observations, which the ACCC considers are relevant to your consideration of the issues around the AMDQ regime.

Firstly, we note that the AEMC's review of this regime is within the broader context of the Council of Australian Governments (COAG's) vision of a liquid wholesale gas market which promotes trade between markets. To date, the east coast market has been seen as not delivering this liquidity under existing arrangements. It is clear the proposed rule change will assist in giving effect to this objective.

The ACCC considers that liquidity on its own is not enough to maximise market outcomes. In addition to promoting liquidity, the ACCC is of the view that market reforms should also advance competition and affordability outcomes.

The ACCC recommends that the AEMC explicitly consider the impact of the proposed rule on affordability for end-users, including the likely impact of the proposed rule change on competition in gas markets (both the DWGM and connected wholesale and retail gas markets) and consequently the flow on effects for smaller gas suppliers and end-users.

For example, the ACCC notes that the capacity certificates that are proposed to replace the existing AMDQ regime will be allocated via an auction process, as opposed to the previous mix of legacy and auction mechanisms associated with the AMDQ regime. While the ACCC supports the operational intent of this arrangement the new auction-based approach has the potential to entrench the market positions of larger players who have greater financial capacity to successfully bid for certificates.

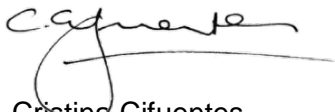
This approach, combined with the proposal to continue to allocate congestion uplift charges to the party/parties who has/have caused the congestion, could result in smaller retailers – who may lack the financial capacity to successfully bid for exit and uncontrollable exit capacity certificates to minimise their potential congestion liabilities – disproportionately bearing the costs of congestion.

While congestion costs may have been limited to date, this could become a greater issue in the future.

The ACCC therefore recommends that the AEMC consider developing guiding principles for the design of the capacity certificate auction that explicitly recognise competition and affordability outcomes. The ACCC considers that these guiding principles should provide sufficient certainty for investors while also ensuring there is sufficient scope for new entrants to enter and compete in wholesale and retail gas markets.

Thank you for the opportunity to comment on the draft rule.

Yours sincerely

A handwritten signature in black ink, appearing to read 'C. Cifuentes', with a long horizontal flourish extending to the right.

Cristina Cifuentes
Commissioner