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Daniela Moraes and Andrew Pirie
Australian Energy Market Commission
Level 6, 201 Elizabeth Street
Sydney NSW 2000
Submitted by email to daniela.moraes@aemc.gov.au and andrew.pirie@aemc.gov.au

Dear Daniela and Andrew

Re: DWGM rule changes - DWGM Simpler Wholesale Price (GRC0049) and Improvement to AMDQ Regime (GRC0051)

Thank you for the opportunity to provide comments on the AEMC's draft rule determinations.

About ERM Power

ERM Power (ERM) is an Australian energy company operating electricity sales, generation and energy solutions businesses. ERM has grown to become the second largest electricity provider to commercial businesses and industrials in Australia by load[1]. A growing range of energy solutions products and services are being delivered, including lighting and energy efficiency software and data analytics, to the company's existing and new customer base. The company operates 662 megawatts of low emission, gas-fired peaking power stations in Western Australia and Queensland. ERM operates across the east coast gas market in the states of Victoria, NSW and Queensland and is a market participant in the Victoria DWGM, the Sydney and Brisbane STTMs, the Gas Supply Hubs and the recently introduced capacity trading markets.

1. DWGM Simpler Wholesale Price (GRC0049)

Application of withdrawal constraints in the pricing schedule

ERM Power supports the AEMC's draft determination to implement a rule to require AEMO to incorporate withdrawal constraints in the pricing schedule. We believe this will enhance the ability of participants to manage risks, and reduce uncertainty and unpredictability of scheduling outcomes that can arise under the current arrangements.

Simplifying the Congestion Uplift Framework

ERM's preferred position is as outlined in our earlier submission[2], which is to remove the concept of congestion uplift and recover total uplift costs by the surprise and common mechanisms. We believe this would be a simpler and more transparent approach. Our view is that the surprise uplift and deviation pricing mechanisms under the current arrangements provide incentives to participants to minimise deviations and forecast accurately, and therefore go some way to allocate costs (including system congestion costs) to their cause. In terms of providing a signal that investment may be needed to address constraints, our view is that it is the total amount of uplift costs that is the appropriate indicator, rather than the portion that is allocated as congestion uplift.

[1] Based on ERM Power analysis of latest published financial information.
[2] ERM Power submission dated 24 April 2019, in response to the DWGM Rule Change Proposals GRC 0049, GRC 0050 and GRC 0051.

We do not agree that the AEMC's proposed congestion arrangements will allocate costs to their cause or provide incentives for the efficient operation of the market.

The purchase of capacity certificates (with funds going to AEMO to offset the costs of operating the system) will not impact investment in the system, given that investment occurs primarily through the AER regulatory process rather than being market-led. The purchase of capacity certificates therefore will not impact or reduce the frequency of uplift events caused by transmission constraints or the magnitude of total uplift costs.

Given the above it is difficult to see why a participant should be deemed to be causing constraints simply because it does not have the required amount of capacity certificates.

We also expect that there will be difficulties faced by some participants in securing an amount of capacity certificates that will precisely match their withdrawals (even with the trading mechanisms proposed by the AEMC), due to forecasting issues, unexpected changes in load growth and the fact that participants who have secured certificates are likely to face incentives to hold on to them (discussed further below in this submission).

We are concerned that the proposed arrangements will give rise to complexity and cost, without providing any real benefits to market participants or gas consumers.

Notwithstanding our comments above, if the AEMC's rule change is progressed, we would support the removal of the requirement to inject physical gas in order to receive protection against congestion uplift payments. This should create a more level playing field by ensuring that the design does not disadvantage those who are using financial instruments to hedge their position or those who are purchasing gas from the wholesale market.

2. Improvement to AMDQ Regime (GRC0051)

ERM is not convinced that the arrangements proposed by the AEMC will result in material benefits relative to the status quo. We believe that implementation costs need to be understood before deciding whether to proceed with the rule change (particularly given that significant changes will need to be made to systems, rules, procedures and processes).

As outlined in our earlier submission on the initial rule change proposal, ERM believes that consideration should be given to phasing out the AMDQ regime at the end of 2022, after the conclusion of the current 5-year access arrangement period. Our view is that any attempt to impose a system of capacity rights over a market carriage regime will result in complexities and inefficiencies, potential hoarding risks, and is unlikely to lead to any real benefits to consumers.

If the AMDQ regime were to be unwound (and not replaced with any capacity rights regime such as that being proposed by the AEMC), the existing functions of AMDQ could be dealt with by other mechanisms, for instance, tied bids could be dealt with via a pro-rata allocation, and uplift costs could be recovered via the surprise and common mechanisms. We believe that this approach would simplify the arrangements and minimise barriers to entry. Enhancements to the Victorian Transmission System would continue to be undertaken via the existing regulatory process, where the AER approves expansions and expenditure and costs are recovered from users of the system via the APA Gas Net tariffs.

We believe there is a risk that under the proposed regime, there will be limited trading of capacity rights. This could be for several reasons, for instance, a strategy by participants to retain rights for optionality, to support business growth (e.g. retail load growth) or to manage uncertainties associated with peak demand of a portfolio. We are concerned that there is a risk that the AEMC's proposed capacity rights regime may in fact lead to increased costs to market participants and ultimately gas consumers.

Notwithstanding our above comments, if the AEMC's proposed rule change is progressed, ERM believes it is important to ensure that the design provides all market participants with an equal ability to purchase capacity certificates. In particular, we would not support any proposal to require entry

capacity rights to be linked to a requirement to have a firm service on an interconnecting facility. In our view, the market design should be flexible and accommodating of the evolving needs of the market and recognise different types of trading activity and optimisation that involve the use of different forms of capacity (whether firm or as-available, or long or short term).[3]

Similarly, the market design should support the entry of new participants, who should have the ability to purchase entry or exit capacity rights at different locations of their choice, to support business growth into the future.

Thank you for considering our comments. Please do not hesitate to contact me for a further discussion.

Yours sincerely

Sarah Kok
Commercial Manager - Gas

[3] For instance, participants with a large long term load (e.g. a mass market retailer or commercial and industrial customer) are likely to be using firm capacity. Secondary firm or non-firm capacity may be used for shaping purposes, or may be used by other participants to meet shorter term needs. The market design should also recognise the establishment of trade points, such as the notional trade point at Culcairn, at which participants may be purchasing or receiving gas (paying another participant for firm transportation to that point) prior to moving the gas into the market on a service deemed to be non-firm.