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Dear Commissioners,

AEMC 2019, Declared Wholesale Gas Market Rule changes, Simpler Wholesale Price and Improvement to AMDQ regime, Draft Determinations

We welcome the opportunity to comment on the AEMC's Draft Determination's on the Victorian Governments and AEMO's proposed rule changes to the Victorian Declared Wholesale Gas Market (DWGM).

EnergyAustralia is one of Australia's largest energy companies with around 2.6 million electricity and gas accounts in NSW, Victoria, Queensland, South Australia, and the Australian Capital Territory. We also own, operate and contract an energy generation portfolio across Australia, including coal, gas, battery storage, demand response, solar and wind assets with control of over 4,500MW of generation capacity in the National Electricity Market (NEM) and have been a major participant in the Victorian DWGM for more than two decades.

We agree with the AEMC's draft determination on the AEMO rule change proposal[1] that if made, will improve the application of withdrawal constraints in the DWGM and therefore improve market outcomes. We also note that this rule change has significant support from industry[2]. EnergyAustralia also supports the AEMC's proposed changes to remove the requirement to inject physical gas to validate Authorised Maximum Daily Quantity (AMDQ) and AMDQ credit certificates (AMDQ cc) to receive the associated uplift hedge.

EnergyAustralia remains in principle supportive of changes to the current AMDQ arrangements in the DWGM to create separate entry and exit certificates (deemed capacity certificates) provided the AEMC is satisfied that the expected benefits outweigh the likely significant costs to AEMO and market participants that this change will require. As we highlighted in our submission to the DWGM consultation papers[3] there are a number of changes that have recently been or are being implemented across the Eastern Australian gas markets including; the Gas Supply Hubs (GSH) at Wallumbilla and Moomba, the Capacity Trading Platform (CTP) and Day Ahead Auction (DAA), Gas Day Harmonisation (GDH) and significant changes to the Gas Bulletin Board (GBB). Changes to the operation of gas markets have also come at a time when there is increasing focus on

[1] Initially proposed by EnergyAustralia.
[2] Based on submissions to the AEMC consultation paper.
[3] https://www.aemc.gov.au/sites/default/files/2019-05/EnergyAustralia.pdf

gas affordability and supply in the future. These are complicated and challenging reforms for the industry and it will take time for the full benefits of these changes and any future changes to be realised across the markets.

We have consolidated more detailed comments on both Draft Determinations below.

Simpler Wholesale Price

Application of constraints in the Declared Transmission System

EnergyAustralia is supportive of the AEMC's draft rule to internalise withdrawal constraints in the pricing schedule. These changes would mean that the DWGM gas price across schedules will reflect actual demand (preventing the potential for prices to be based on infeasible demands) and remove the random element to participants having access to withdrawals without an associated increase in injections. Finally, internalising withdrawal constraints in the pricing schedule should improve participants confidence in the DWGM Pricing Schedule (PS) and Operating Schedule (OS). These proposed changes have widespread support from industry.

Market participants updated trading strategies when the AEMO scheduling procedures were changed in May 2015. The Draft Determination is largely a reversion to how the market operated before this date and as such there should not be significant impact to the industry to adjust to the change. The AEMC proposes that these changes would commence on 31st of March 2020. EnergyAustralia understands that time will be required for AEMO to update scheduling procedures, likely requiring a short consultation with industry, but encourages the AEMC to ensure that this relatively minor procedural change be implemented as soon as practicable.

Changes to congestion uplift

EnergyAustralia agrees with the rule proponent that the current DWGM congestion uplift methodology is challenging to understand and at times may not allocate cost to the causers of the congestion. We support the AEMC's proposed changes to the operation of the congestion uplift framework in the DWGM. Allowing participants to hedge their exposure to uplift payments by simply holding sufficient exit capacity certificates[4] without physical injections simplifies the process and removes barriers to entry. The proposal by the Victorian Government to simply socialise congestion across all participants risks removing any signals to minimise congestion being created. For this reason, we do not support this approach.

The proposal in the draft determination by the AEMC simply requires participants to hold enough exit capacity certificates to cover their actual total daily withdrawals. EnergyAustralia understands that while the draft determination does not explicitly discuss it, there will be some requirement for an Authorised Maximum Interval Quantity (AMIQ), or equivalent mechanism, to remain incorporated in the congestion uplift changes to ensure participants are incentivised to manage their withdrawals across the day. Consideration should be given to the number of loads that can materially impact hourly withdrawals and whether the mechanism can be vastly simplified. For example, the load shape of residential customers is generally well understood and non-controllable by

[4] EnergyAustralia understands that the intent of the draft rule was that participants would have to hold sufficient capacity certificates that covered the specific zone where withdrawals were occurring.

participants. The greater challenge for the DWGM is the ability for much larger Commercial and Industrial (C&I) loads and Gas Power Generation (GPG) to withdraw significant volumes of gas in a short period of time. As the penetration of intermittent generation increases the NEM will increasingly be reliant on dispatchable and flexible generation and therefore the final design of this component should, where possible, ensure simplicity and flexibility while still meeting the security requirements of the limited linepack available in the Declared Transmission System (DTS).

As we highlighted in our submission to the consultation paper[5] it is EnergyAustralia's view that ancillary payments (and out of merit gas) are more frequently occurring due to issues outside of the DTS, for example, due to production issues with the Longford Gas Plant. Uplift in this case would appear to be more reflective of surprise uplift. We note that there is potential for the minimisation of market impacts from these events by improving information flow between production plant operators, AEMO and participants so that participants have more time to adjust injections at others points into the DTS, therefore minimising the cost of out of merit gas being injected. Minimising ancillary payments in this manner should not be detrimental to the long-term investment signals in the market as the congestion is not being driven by pipeline capacity, but rather by external forces outside of the DWGM. We would encourage the AEMC to support further dialog going forward between AEMO, industry participant and production operators.

Participants need to continue to be incentivised to forecast their demand accurately. For this reason, we continue to not support changes to the surprise uplift mechanism unless these incentives remain.

Changes to the AMDQ regime

EnergyAustralia is in principle supportive of changes to the current AMDQ and AMDQ cc arrangements to create separate entry and exit capacity rights, but we reiterate that these are substantial changes which are likely to involve significant implementation costs to both AEMO and all DWGM participants. It remains unclear whether a Northern and Southern hub[6] is the long-term goal of the AEMC and given that the rule is not expected to commence until the next DTS access period[7] whether any benefits of the proposed changes will be realised.

That being said, we do see potential value in the creation of entry and exit capacity rights, particularly to support withdrawals from the DTS to replace the current arrangements of nominating existing AMDQ to Close Proximity Points (CPP). Purchasing these new rights (both entry and exit) should be linked to the purchasers holding of firm capacity to the DTS. This would prevent the potential for market participants to hold more AMDQ (or capacity certificates) than physically they can use, an issue similar to what the AEMC identified around the allocation of AMDQ to Tariff D customers[8]. This could be thought of as an extension of what currently occurs when nominating AMDQ to system withdrawal points where the market participant must provide satisfactory evidence to AEMO that it, or

[5] Page 3, https://www.aemc.gov.au/sites/default/files/2019-05/EnergyAustralia.pdf

[6] As was proposed in the AEMC's 2016 East Coast Gas Review, https://www.aemc.gov.au/markets-reviews-advice/east-coast-wholesale-gas-market-and-pipeline-frame

[7] Current DTS access period ends on 31st December 2022.

[8] Page 34-37 of AMDQ draft determination https://www.aemc.gov.au/sites/default/files/2019-09/GRC0051%20DWGM%20Improvement%20to%20AMDQ%20regime%20-%20draft%20determination.pdf

a counter party, holds a corresponding quantity of firm capacity rights on that interconnected facility.

The AEMC should also consider APA's current proposed changes to the Culcairn allocation methodology[9] which if were to go ahead could have serious impacts on the operation of the current (and the AEMC's proposed) AMDQ regime going forward. EnergyAustralia is happy to discuss these concerns in more detail with the AEMC.

In their draft determination the AEMC has indicated their preference to not grant uncontrollable exit rights (capacity certificates) to current holders of AMDQ, including tariff D customers but rather all requirements of capacity certificates would need to be purchased in an auction which AEMO would facilitate. While we appreciate the reasons provided by the AEMC for this decision we have concerns whether this will in fact increase barriers to participation in the DWMG by adding an additional cost item to retailers and large loads. We note that the funds AEMO receives from the auction of the newly created capacity certificate will be used to offset the costs of AEMO running the DWGM, but it is likely that these may be absorbed by the increased costs of establishing and operating the new auction arrangements.

Under the current arrangement retailers are dynamically allocated a portion of AMDQ based on their customer numbers. Under the proposed changes, the AEMC should be cautious that the design of the auction does not create challenges for new entrant retailers to obtain capacity rights. Current metering arrangements mean retailers often do not get a clear view of their actual customer load until approximately 6 months after and therefore are likely to be hesitant to release *'unused'* capacity certificates back into the auction ahead of time.

Regardless of the AEMC's decision around converting AMDQ to entry and exit rights EnergyAustralia supports the release of AMDQ (or capacity certificates) in tranches, both longer and shorter tenures. This should assist participants in managing risks particularly given the increasing number of shorter-term Gas Supply Agreements (GSA's). By releasing different tenure products, the need for a fully-fledged secondary market should be minimised (hence reducing costs). We also support a more granular release of AMDQ (or capacity certificates) to reflect the varying ability of the DTS to support higher and lower levels of AMDQ depending on the time of the year.

To minimise costs, any prudential requirements for participation in either the auction or secondary trading platform (depending on outcome of final rule) should be combined with other prudential requirements across other AEMO platforms[10].

Next steps and further consultation

To inform the final decision, particularly if major changes are recommended, we would encourage the AEMC to consider the current regulatory work program that AEMO and participants are already facing. This includes but is not limited to 5-Minute Settlement implementation, Global Settlements, Co-ordination of Generation and Transmission (if rule

[9] As tabled at the 19th September Gas Wholesale Consultative Forum (GWCF)

[10] We note that while in theory these trading platforms aim to simplify and remove barriers to participating in the gas markets there is often significant upfront cost to even get access to the trading platforms. For example, to move gas from QLD to NSW/VIC in the CTP participants must enter a number of Operational Service Agreements (OSA's) with multiple pipelines, a considerable cost, without even transporting gas.

made), likely changes to Transmission Loss factors and changes to incorporate Demand Response Service Providers.

Given the likely scale of the proposed change and the limited working detail that has been provided by the AEMC we suggest that there could be value in the AEMC allowing additional time before making a final rule decision to establish technical working groups consisting of AEMO, AEMC and key industry participants to work out further design details. This will ensure that any final rule sufficiently considers any knock-on impacts or risks that have not yet been identified and would also allow more time for AEMO to understand the potential size and costs of changes.

If you would like to discuss this submission, please contact Georgina Snelling on 03 9976 8482, Georgina.Snelling@energyaustralia.com.au or Andrew Godfrey on 03 8628 1630, Andrew.Godfrey@energyaustralia.com.au.

Regards

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