



Department of Environment, Land, Water and Planning

PO Box 500, East Melbourne,
Victoria 8002 Australia
delwp.vic.gov.au

Mr John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

Ref: MBR040555



Dear Mr Pierce

RESPONSE TO AEMC DRAFT DETERMINATION - VICTORIAN DWGM RULE CHANGES

Thank you for the opportunity to make a submission to the Australian Energy Market Commission (AEMC)'s Declared Wholesale Gas Market (DWGM) Simpler Wholesale Price draft rule determination (GRC049) and Improvement to Authorised Daily Maximum Quantity (AMDQ) regime draft rule determination (GRC051). The Department of Environment, Land, Water and Planning (DELWP) is pleased to provide the following feedback on behalf of the Victorian Government.

The Victorian Government welcomes the AEMC's continuing work on the reform of the Victorian DWGM. These rule changes, and the related rule change request, *DWGM forward trading market*, are part of the ongoing work following the AEMC *Review of the Victorian Declared Wholesale Gas Market* which was completed in June 2017.

Simpler Wholesale Prices – Draft Determination

The Victorian Government is broadly supportive of the first part of the rule change which proposes including physical withdrawal constraints in the determination of the pricing schedule for the Victorian DWGM. We are pleased to see that the draft rule is, in the opinion of the AEMC, likely to lower gas prices and be cost effective for Australian Energy Market Operator to implement.

The second part of the draft rule proposes to simplify the mechanism that market participants can use to protect against the risk of incurring congestion uplift payments. The Victorian Government's original rule change request asked the AEMC to consider spreading the recovery of congestion uplift costs across all market participants to improve risk management for market participants. The proposed draft rule retains the current approach in which congestion uplift payments are allocated, and instead simplifies the mechanism for protection against incurring congestion uplift payments.

The Victorian Government is supportive of the simplification approach taken by the AEMC in allocating congestion uplift based on a market participant's daily withdrawals of gas in comparison to their allocation of exit capacity certificates. However, we note that the simplification can only be achieved through linked changes in the Victorian DWGM improvement to AMDQ regime rule change being implemented. This also means that the simplification cannot take effect until 1 January 2023.

Improvement to AMDQ Regime

The Victorian Government's original rule change request asked the AEMC to address the issues related to the trading and allocation of pipeline capacity rights by considering the following changes:

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

The Victorian Government is supportive of the AEMC's more preferable draft rule which appears to meet the policy objective of the requested reforms in an effective, clear and coherent way. This rule

proposes retiring the current instruments of AMDQ and AMDQ CC, and replacing these with capacity certificates for entry, exit and uncontrollable exit. The existing AMDQ regime is complex and the Victorian Government acknowledges the preferable design which improves the ability of market participants to obtain pipeline capacity rights and encourages more efficient use of pipeline capacity.

It is important that the AEMC ensures that these instruments are sensitive to the contexts in which they are used, particularly by domestic customers in the Victorian gas retail market, who would mainly be served by 'uncontrolled exit' points within the Victorian DWGM. The retail markets dynamically allocate capacity within gas distribution pipelines to the relevant gas retailers/shippers. The AEMC has proposed auctioning 'uncontrolled exit' rights to achieve economically efficient allocation of these rights, but it may be more efficient to allocate these dynamically – to those retailers/shippers that are utilising them – in a similar manner. The AEMC should be particularly sensitive to the possibility that needing to participate in an auction for uncontrolled exit rights will pose an additional barrier to entry within the retail market.

As the AEMC continues to consider the design of its proposed pipeline capacity rights throughout the rule change process, the Victorian Government would encourage the AEMC to maintain a focus on opportunities to ensure cost-efficient allocation and, where possible, secondary trading and reallocation of capacity certificates to ensure flexibility and utilisation of these rights by the parties that value them the most.

The Victorian Government is committed to protecting Victorian consumers and making energy more affordable for households and small businesses. Removing barriers that prevent new entrants from procuring short-term capacity will ensure the market takes advantage of the capacity fluctuations available at different periods of the year. The Victorian Government supports the range of tenures the AEMC has proposed for the capacity certificate auctions.

I trust this submission is of assistance. If you have any questions about the points raised here please contact me by email at paul.murfitt@delwp.vic.gov.au or on (03) 9637 8235.

Yours sincerely



Paul Murfitt
Executive Director, Energy Sector Reform
Department of Environmental Land Water and Planning

31 110 12019