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Contact Officer: Emma Doherty
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24 October 2019

Mr John Pierce AO
Chair – Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

Dear Mr Pierce

Re: DWGM simpler wholesale price and DWGM improvement to AMDQ regime draft rule determinations

We welcome the opportunity to comment on the AEMC's draft rule determinations relating to a simpler wholesale price and improvements to the AMDQ regime for the Victorian Declared Wholesale Gas Market (DWGM).

As we noted in our submission to the initial consultation papers for these rule change processes, we support the intent of the proposed rule changes in making improvements to the operation of the DWGM in pursuit of the national gas objective (NGO) and as a further step towards the COAG Energy Council's Vision for Australia's future gas market.

The Victorian gas market is the largest source of residential demand in Australia and, with expectations of ongoing tightness in the demand-supply balance and demand for gas for use in electricity generation, it will be important that the market operates as efficiently as possible to deliver outcomes that are in the long-term interests of its end-users. Accordingly, we support initiatives to remove unnecessary complexity that may be serving as a disincentive to new entrants and/or hindering cross-border trade of gas; and to provide both new and potential market participants with improved ability to manage price and scheduling risk.

In its draft rule determinations the AEMC has made a more preferable rule in several instances. As such, market participants have not yet had an opportunity to comment on the specifics of the proposals.

When considering feedback from stakeholders on the draft rules, we support the AEMC taking a broader view of the costs and benefits of the proposed rules: encompassing not only wholesale market efficiency but also the expected effects of any final rules on the long-term interests of gas users.

In our view, a key question is the potential for anti-competitive conduct arising from the design of the auction and/or secondary market trading of capacity certificates. We encourage the Commission to consider whether there are risks around the conduct of participants in the proposed primary auction and secondary market trading of capacity certificates. For example, if market participants engaged in hoarding of capacity certificates this could work against the long-term interests of gas users by discouraging new entrants to the market.

The draft legislation leaves much of the detailed design of the proposed primary auction and secondary market trading procedures to AEMO to determine. It is therefore not possible to determine at this stage whether such risks will be addressed in AEMO's procedures.

We suggest that concerns about participant conduct in these proposed markets could be addressed in various ways. For example, the draft rules could incorporate obligations on market participants in relation to their conduct in these markets – either to stand alone or to reinforce any obligations in AEMO's procedures relating to participant conduct. In the latter case, the rules may also need to set out the obligation that AEMO's procedures include obligations relating to participant conduct.

Additionally, consideration could be given to market design options that would mitigate risks relating to participant conduct. This could include providing a set of principles that AEMO would be required to have regard to in the design of their procedures.

In our view, consideration of mechanisms to offset risks relating to participant conduct in the proposed new primary and secondary markets for trading of capacity certificates would likely help ensure that these new markets would operate in the best interests of the end-users.

We thank the AEMC for the opportunity to submit on this process and would be happy to discuss the above points in more detail. If you have any questions about our submission, please contact Emma Doherty (02 6243 3016).

Yours sincerely

A handwritten signature in black ink, appearing to be 'M Feather', written in a cursive style.

Mark Feather
General Manager, Policy and Performance
Australian Energy Regulator