Major Energy Users Inc.

## Australian Energy Markets Commission

# Review of the Victorian Declared Wholesale Gas Market

# Assessment of Alternative Market Designs

**Reference: GPR0002**

**Submission by**

**The Major Energy Users Inc**

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**The content and conclusions reached in this submission are entirely the work of the MEU and its consultants.**

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# 1. Introduction

Major Energy Users Inc (MEU) is pleased to respond to the AEMC's paper Assessment of Alternative Market Designs in reference to the Victorian Declared Wholesale Gas Market (DWGM) and its associated Declared Transmission System (DTS).

## 1.1 About the MEU

The Major Energy Users Inc (MEU) represents the interests of large energy consumers operating on the east coast gas markets and in other jurisdictions. The MEU comprises some 30 large energy using facilities in NSW, Victoria, SA, WA, NT, Tasmania and Queensland. MEU member companies – from the steel, cement, paper and pulp, automobile, tourism, mining and the mining explosives industries – are major manufacturers served by the east coast gas markets (and in other jurisdictions), are significant employers of labour and contractors, and are located in many regional centres, including Gladstone, Newcastle, Port Kembla, Albury, Western Port, Mount Gambier, Port Pirie, Kwinana and Darwin.

Analysis of the energy usage by the members of MEU shows that in aggregate they consume a significant proportion of the gas used domestically and electricity generated in Australia. As such, they are highly dependent on the competition that applies to the provision of gas and electricity, the retail functions needed to enable the competition to apply and to the transport networks to deliver efficiently the energy so essential to their operations.

Many of the members, being regionally based, are heavily dependent on local suppliers of hardware and services, and have an obligation to represent the views of these local suppliers. With this in mind, the members of the MEU require their views to not only represent the views of large energy users, but also those of smaller power and gas using facilities, and even at the residences used by their workforces that live in the regions where the members operate.

The companies represented by the MEU (and their suppliers) have identified that they have an interest in the **cost** of the energy as well as the associated network services as this comprises a large cost element in their electricity and gas bills.

A failure in the supply of electricity or gas effectively causes every business affected to cease production, and MEU members' experiences are no different. The loss of supply effectively prevents the operations deliver the high products the members make for their markets. Thus the **reliable supply** of electricity and gas is an essential element of each member's business operations.

With the introduction of highly sensitive equipment required to maintain operations at the highest level of productivity, the **quality** of energy supplies has become increasingly important with the focus on the performance of the energy transmission and distribution networks, because the transport systems control the quality of electricity and gas delivered. Variation of electricity voltage (especially voltage sags, momentary interruptions, and transients) and gas pressure, by even small amounts, now has the ability to shut down critical elements of many production processes. Thus member companies have become increasingly more dependent on the quality of electricity and gas services supplied.

Each of the businesses represented by MEU has invested considerable capital in establishing their operations and in order that they can recover the capital costs invested, long-term **sustainability** of energy supplies is required. If sustainable supplies of energy are not available into the future, these investments will have little value.

Accordingly, MEU members are keen to address the issues that impact on the **cost, reliability, quality** and the long term **sustainability** of their gas and electricity supplies.

The members of MEU have identified that in addition to the need for strong competition in the competitive parts of the energy supply chains, energy transport plays a pivotal role in the energy markets. This role encompasses the ability of consumers to identify the optimum location for their investment in their production facilities, and provides the facility for generators and gas producers to also locate where they can provide the lowest cost for energy supplies. Equally, consumers recognise that the cost of providing the transport systems are not an insignificant element of the total cost of delivered energy, and due consideration must be given to ensure there is a balance between the competing elements of price versus reliability, quality and long term security;

The MEU recognises there is tension between the four elements of cost, reliability, quality and long term security and therefore makes its comments in this submission in full knowledge of the need for managing this tension.

## 1.2 The MEU involvement in the assessment of the DWGM

Since early 2015, the MEU has made several submissions to the AEMC and ACCC on the reviews they have been undertaking in relation to the east coast gas markets about the very real threats manufacturing industries face due to higher gas prices, potential shortages in gas supply and the mechanisms intended to provide competition in the supply and transport of gas.

More recently, the MEU has been an active member of the working group assessing the detailed development of the new model for the Victorian gas market which the AEMC considers should replace the existing DWGM.

In its most recent submission to the AEMC, the MEU commented

> "The AEMC has drawn a conclusion that the DWGM is not fit for purpose and needs to be replaced with an entirely new market structure.
>
> What was not investigated by the AEMC is the extent to which the lack of upstream competition has prevented the DWGM from reaching its full potential and whether more modest changes to the DWGM could deliver the needed upside at a much lower cost and risk to consumers."

The MEU is pleased that the AEMC has issued a paper to assess options to enhance the DWGM rather than implement its wholesale replacement.

Subsequent to the draft final report on the DWGM, the AEMC was requested by the Victorian Government to implement[1]:

> "...further consultation with stakeholders [to]...allow for consideration of incremental reform opportunities and the merits of alternative reform options."

The AEMC response to this direction from the Victorian government was the release of an Assessment Paper which provides options to address some of the perceived shortcomings of the DWGM. However, in doing so, the AEMC introduces some options which do not reflect aspects of the DWGM which most stakeholders have already advised the AEMC are desirable features and which should be retained. These stakeholders (especially those that are active in the DWGM[2]) have consistently maintained that the current DWGM delivers a workable market structure that readily enables new entrants (retailers and producers) and only requires some enhancements to deliver a better outcome for consumers.

Because of this, most stakeholders were opposed to much of the change proposed by the AEMC in its draft final report on the DWGM. They identified that any change to the DWGM should reflect that:

1. There is a lack of competition at the production end of the supply chain and this is a primary cause of a number of apparent shortcomings of the

[1] Letter to AEMC from Victorian Minister for Energy, Environment and Climate Change dated 9 March 2017

[2] As distinct from those that have not and do not intend to be active in the DWGM and have philosophical views about how the DWGM could be improved rather than views which are derived from actually participating in it.

DWGM. This lack of competition also limits the ability to implement changes to trading which might improve the DWGM.

2. The DTS is not a point to point transport provider, has little line pack and reflects more a distribution network than a point to point pipeline
3. Bearing in mind the physical arrangements of the DTS (ie that it has more characteristic with a distribution network), there is strong support to retain the market carriage approach rather than implement contract carriage.
4. Centralised balancing by AEMO is considered an advantage
5. Increasing volatility increases risks and therefore costs
6. The Authorised Maximum Daily Quantity (AMDQ) operates adequately as a tie break facility so that causer pays applies to where over-runs cause congestion and uplift payments.

## 1.3 Process for assessment of the options for the DWGM

To provide guidance to the AEMC on aspects where change to the DWGM might be beneficial, a number of market participants experienced in operating in the DWGM requested Seed Advisory to prepare a document[3] in response to the AEMC draft final report. This document identifies a number of strengths and weaknesses in the DWGM and also of the proposed AEMC draft model. What is of interest is that some of these weaknesses could be readily addressed with minimal change to the DWGM, by:

- Providing a platform for forward commodity trading
- Better management of uplift payments and congestion
- More timely market data

Further, a number of the other identified shortcomings could be readily addressed through greater clarity on the process for getting needed investment in the DTS to reduce congestion.

What is concerning about the AEMC assessment paper is that it does not attempt to utilise such a clear statement of aspects of the DWGM requiring attention **and** which have general agreement of stakeholders.

After reviewing the AEMC draft final report on the DWGM, the Victorian government asked the AEMC to specifically address enhancements to the existing DWGM as part of its DWGM review[4]. Specifically, the AEMC was asked to review the existing DWGM by addressing:

[3] Seed Advisory Declared Wholesale Gas Market Review (a report for Victorian Gas Market Participants) 2 December 2016
[4] Letter dated 4 March 2015 to AEMC from Victorian government

- **Effective risk management**: the ability of market participants to manage price and volume risk in the DWGM, and options to increase the effectiveness of risk management activities.
- **Signals and incentives for efficient investment in and use of pipeline capacity**: whether market signals and incentives are providing for efficient use of, and efficient and timely investment in, pipeline capacity on the DTS.
- **Trading between the DWGM and interconnected pipelines**: To maximise the efficiency of trade in natural gas and facilitate competition in upstream and downstream markets, producers and shippers should be able to effectively operate across the different gas trading hubs on the east coast without incurring substantial transaction costs..
- **Promoting competition in upstream and downstream markets**: whether the DWGM arrangements continue to facilitate market entry and promote competition in upstream and downstream markets and how this could be improved.

In its previous submissions, the MEU has addressed each of these points as follows:

That members of the MEU and other large gas users:

- Have bought and sold gas in the DWGM as participants and they report that while there are some risks, generally the DWGM has enabled them to manage these risks although they do see that some enhancements could be beneficial.
- Have not seen there to be a lack of investment in the DTS which would have benefited the gas users within the DWGM. They have noted there has been some difficulty in getting investment to assist the export of gas from the DWGM via Culcairn, but they also note that they do not consider Victorian consumers should have been required to fund such an augmentation as Victorian consumers would not have received any benefit for the costs consumers would incur
- Recognise that most of the gas exported from the Victorian region never enters the DWGM (the Culcairn interconnect being the sole exception to date). On this basis, recognising that there is already export via Culcairn, they consider there is little need to change the DWGM just to improve export capability of export via Culcairn.
- Pointed out that the DWGM has permitted easy entry of new parties to the Victorian gas market both as retail entrants and producers. However, their over-riding concern is that at the production end of the supply chain, there is little competition and this single fact has caused significant challenges to a well performing market. They have observed that until this aspect is resolved, there will be little liquidity in any market structure.

The MEU members and other large gas users have expressed considerable concern that they might be liable for significant costs to implement changes to

the DWGM which are focused on making export through Culcairn easier for the benefit of consumers in other states through investment and the delivery of a "cleaner" price..

## 1.4 Summary

Over the course of the AEMC review of the DWGM, the MEU has identified that there are a number of overarching issues that dominate the domestic gas market operations in Victoria. These are:

- There is a major lack of competition at the upstream end of the supply chain and it is the one feature of the DWGM that has resulted in the view that it is not functioning as well as it otherwise might
- The DTS has more features of a distribution network than a conventional gas transmission system and this requires a unique approach to addressing improvements rather than trying to "shoe-horn" the DTS into traditional gas market arrangement.

Both of these issues were addressed when the current structure of the DWGM was developed in 1998 and led to its current structure. That little has changed in the intervening two decades supports the view that the current DWGM structure is probably appropriate for the needs.

In developing its view on an improved structure for the Victorian gas market, the MEU considers the AEMC did not sufficiently appreciate the unique features of the DTS and this led to an almost universal rejection of the AEMC proposal by those stakeholders actively operating in the DWGM. In contrast, there was widespread acceptance for enhancing the existing DWGM where possible.

Overall, the MEU considers that the AEMC has lost focus on what it was required to do by the Victorian government and should reassess its views to identifying those key enhancements. With this in mind, the MEU has addressed the options in the Assessment Paper with a focus of what the Victorian government initially sought from the AEMC and what market participants have been advising the AEMC throughout the previous 12-18 months of detailed analysis of the AEMC recommended option detailed in its draft final report on the DWGM.

What is important to note is that the DWGM as it exists now does provide a sound and workable mechanism for the trading of gas to Victorian consumers, although there are certain aspects where it could be improved.

The overarching concern that the MEU has is that the changes to it being considered are predominantly to enable easier interstate trade of gas yet the amount of gas that transits the DWGM for export is a small proportion of the total gas traded within the DWGM for Victorian consumer use. Equally, the

amount of gas that transits the DWGM to interstate consumers is a small proportion of the total gas that leaves Victoria for interstate consumers.

The MEU is very concerned that decisions and options for change to the DWGM do not reflect the realities of the gas trade within and from Victoria and the changes to the DWGM are driven by a view that the role of the DWGM in the gas export trade is much greater than it really is. In this regard, the AEMC has posited that the DWGM does not provide:

- A sufficiently "clean" price for gas that can be equated with a "pure" commodity price and this detracts from its use as the southern hub proposed by the AEMC for the east coast gas market, and
- Better market signals for investment in the DTS to enable greater export of gas which transits the DWGM are required.

The MEU is very concerned that these two aspects are the main drivers of the changes proposed for the DWGM rather than the fact that the DWGM is to provide a sound market structure for gas for the interests of Victorian consumers.

# 2. Consideration of the options

The Assessment of Alternative Market Designs paper (released for comment on 30 March 2017) seeks discussion on four separate aspects of the market

- Improving risk management options: financial derivatives market
- Improving risk management options: forward physical trading
- Improving AMDQ rights
- Increase the firmness of capacity rights

The Assessment Paper also includes discussion on other issues and options identified by stakeholders.

What is concerning about the various options provided for discussion in this paper is the AEMC has not reflected that, overall, stakeholders are supportive of the current structure with its desirable features which should be retained, including its:

- market carriage,
- centralised balancing of capacity and commodity,
- gross pool,
- causer pays mechanism
- intra-day bidding and pricing, and
- high level of transparency provided

Participants also point out that price volatility is an issue and a reduction in volatility from what is already seen would be beneficial.

Most importantly, the focus of the AEMC assessments must be whether the options provide a better outcome for Victorian consumers than what is currently available as it will be Victorian consumers that ultimately will pay for the costs of any change in the market.

The MEU considers that these desirable features should be applied as a filter to assess whether any option provides a net benefit to Victorian consumers and, if not, to eliminate that option from those provided by the AEMC for consideration.

## 2.1 Signalling investment in the DWGM

The MEU is very concerned that one of the key drivers for change in the DWGM is a perception that investment in the DTS is less driven by “market signals” than as a result of the regulatory process. The AEMC asserts that market signals are a much better basis for assessing investment and implies the regulatory process provides a poor second best outcome for consumers. The MEU finds this assumption to be less than convincing.

Firstly, it must be recognised that the electricity market specifically excludes market signals as a driver for investment and only sees congestion as the basis for assessing the need for augmentation. The MEU has consistently pointed out that regional price differentials (a result of congestion) are a clear market signal that investment in electricity transmission interconnection is needed, yet the test for assessing the benefit from investment in interconnection specifically excludes the benefit to consumers that such investment would deliver. It is bizarre that investment in the electricity market excludes market signals yet the AEMC considers that these are essential in the gas market.

Secondly, the AEMC has led a program – optional firm access (OFA) – to develop an approach where congestion (specifically where caused by generators competing for limited access to the shared network) in the electricity market might allow generators to have the ability to pay for augmentation of the network to secure firm access to the shared network. While implementation of this program has been deferred, it does provide a concept where an overlay to a market carriage model where investment is signalled through a generator prepared to pay for firm access. This program does result in a generator securing preferential access to the generator paying for the augmentation but which does not impose a cost on consumers. This program does not require a wholesale change in the transportation model (ie market carriage) yet the AEMC consistently has proposed the need for a change to the gas transport model (ie to contract carriage) for the DWGM as the preferred solution to signalling investment.

Thirdly, the MEU notes that it is only in gas transmission that the AEMC supports the use of market signals to guide whether new investment is needed. The rules for the gas distribution businesses are based on a regulatory assessment for investment in gas distribution businesses.

Further, the MEU notes that market signals are not essential to the DWGM as the regulatory process has continued to deliver consistently good outcomes for Victorian gas consumers. The MEU also highlights a point made during the AEMC workshops on the DWGM, that market carriage is more likely to deliver efficient investment in a network as there is potential for significant over investment if market signals alone are used to provide investment under a contract carriage model. Stakeholders made the observation that in order to secure access rights, multiple access seekers might each pay for augmentation that exceeds the needs of the actual volumes of gas that will be transported. This same point was made during the discussion during the development of the OFA.

The MEU points out that it is efficient investment that underpins the National Gas Objective and the requirements outlined in the Victorian government correspondence to the AEMC.

A consistent aspect of the apparent requirement posited by the AEMC for investment signals lies almost entirely with the need for augmentation of the DTS to provide increased capacity to export gas to other states. The MEU points out that the bulk of gas exported from Victoria does not transit the DTS (and therefore without impacting the DWGM) but is exported directly from the two main production points in Victoria – Longford and Port Campbell. While there is some gas exported through the DTS via Culcairn and potentially through Iona, this is a small part of the total gas transported on the DTS and traded through the DWGM. Victorian consumers have been adamant that they should not be required to fund augmentations to the DTS that does not benefit them and that the causer of the need (ie the importer from Victoria) for augmentation should be the party that pays for the augmentation.

If the signal is for investment to augment the DTS so that increased export can occur (such as occurred in 2012 when the DTS was to be augmented to increase export through Culcairn at Victorian consumer expense), unless there is a benefit to Victorian consumers, then an augmentation should only occur if the costs are transferred to the beneficiaries. In the case of the Culcairn augmentation, this augmentation did proceed and the beneficiaries (ie interstate consumers) are paying for the augmentation and not Victorian consumers.

One way of overcoming this apparent impasse, could be for the gas rules to be modified in such a way whereby gas being exported from the DWGM has to incur a cost similar to the Inter-Regional Transmission Use of System (IRTUoS) charge applied in the electricity market. Under such an arrangement, Victorian consumers might pay for such an augmentation but there would be a TUoS charge levied on gas exiting the DTS and this charge would be used to reduce TUoS costs of the DTS for Victorian consumers. Such a TUoS charge would reflect the cost of the augmentation.

The MEU considers that the almost over-riding drive to move away from the market carriage used in the DWGM towards contract carriage as the best solution to signal investment is short sighted and unnecessary as there are other tools that could be implemented to deliver efficient investment on the DTS without changing from the market carriage model.

## 2.2 Improving risk management options: financial derivatives market

The Assessment Paper posits that a liquid derivatives market has not developed and asserts that this is an outcome of:

- uplift payments, some of which are not able to be hedged
- multiple pricing schedules
- an incentive to take a physical position rather than a financial position

While the MEU accepts that these issues might contribute to illiquidity, the MEU contends, along with many other stakeholders, that the lack of upstream competition is the main driver of this illiquidity.

The MEU makes the following observations regarding the options proposed by the AEMC

2.2.1 Transmission constrained pricing

As the AEMC points out, transmission constrained pricing schedule would lead to increased volatility and higher risks, as well as potentially higher spot and contract prices and the potential for "gaming". While there may be some benefit arising from the option in terms of "cleaner" spot price, the MEU does not consider that the benefit of such a "cleaner" price offsets the downsides of the proposal. Further, while there has been little liquidity in the DWGM futures market, the MEU is still not convinced that this is a result of a "less than clean" price but more of a lack of competition in the upstream end of the supply chain.

While the option posits that it would provide stronger investment signals, the MEU considers that the existing approach already provides reasonable signals and this has been demonstrated over the years in that investment in the DTS has resulted when needed (just as it does in regulated distribution networks) to limit the amount of congestion occurring.

Overall, the MEU does not consider that transmission constrained pricing will provide a net benefit to consumers.

2.2.2 Simplified uplift payments

As the DTS has limited line pack, it is essential that there be clear signals to participants to manage, as closely as possible, their gas balance. An integral element of the market is that applying a "causer pays" approach to being out of balance (and thereby causing congestion) will provide an incentive to remain in balance as much as possible.

Removing the incentive to remain in balance and socialising the costs of congestion (especially congestion uplift and surprise uplift) detracts from incentives to be in balance as much as possible.

The more participants are out of balance and causing uplift paymennts, there is the potential that the socialised costs will increase and AEMO will have to source additional gas from a market which has very low competition at its upstream end. Effectively reducing incentives to be in balance could result in a transfer of wealth to the upstream end of the market due to the low competition.

As these socialised uplift costs will ultimately be paid by consumers, it would appear that this option will lead to higher costs for consumers and provide an avenue for increased benefits for providers of gas. Such an outcome is not acceptable to consumers.

2.2.3 Discrete intraday schedules

The MEU is aware that the current approach for the DWGM provides better utilisation of the available (but limited) linepack in the DTS and reflects the daily usage pattern of gas in the DWGM.

While the proposed approach has some positive features (and reflects more closely the electricity market), it also effectively introduces a requirement to essentially rebalance at the end of each period and allocate costs for being out of balance to each participant. This would increase the costs of balancing rather than allowing AEMO to optimise the linepack that is available in keeping with the expected usage of gas that occurs each day.

To manage the risk of being out of balance at the end of each period would increase complexity as each participant would need to increase its attention to balancing and be more active in trading of gas.

What is frequently overlooked, is that the DWGM is designed to provide the most effective solution at the lowest cost for participants delivering gas to consumers within the DTS. To modify the DWGM to better suit export of gas but thereby increase costs and risks for participants delivering gas to Victorian consumers is not in consumers' interests and the priority of the DWGM must remain to benefit Victorian consumers. In this regard, the MEU reiterates that most of the gas exported from Victoria never enters the DWGM and is traded outside of the DTS. The only gas that actually enters the DWGM and is then exported, is via one connection (at Culcairn) and the modify the DWGM to provide a marginal benefit at Culcairn but a significant detriment to Victorian consumers, should not be the focus of the DWGM.

On balance, the benefits from this option are more than offset by the detriments. Therefore the MEU does not support it.

2.2.4 Prohibit physical contracting outside the DWGM

While the MEU considers that there may be value for the DWGM in the option, it is quite apparent that the implementation of the option would introduce significant complexity as it would also impinge on the export of gas from Victoria which does not transit the DWGM and would have

considerable impact of current bilateral contracts with participants operating in the DWGM.

In the response to the AEMC review of the east coast gas market, the MEU did provide a view that the concept of a gas market that included all of SA, NSW and Victoria had merit (as is implied in the assessment paper), but the AEMC decided to recommend an alternative model to the CoAG Energy Council which is now being implemented.

The MEU also notes that the limited competition in the upstream market for gas used in the DWGM would also make a transition to this option quite challenging.

2.1.5 Conclusions

The MEU does not consider that any the proposed options will provide a net benefit to the DWGM, or to consumers.

## 2.3 Improving risk management options: forward physical trading

What is clear from the discussions the AEMC has had with market participants, is that forward trading of gas would provide a benefit to the DWGM.

Applying the filters as above to the AEMC proposals, only the trading of gas outside the market and integration of forward trading into the DWGM would comply with the general stakeholder views on the desirable features of the DWGM. The concept of forward physical trading does reflect the widespread support for the establishment of a forward trading market that has been consistently proposed by stakeholders as a desirable enhancement to the DWGM.

The MEU has not specifically addressed the other options where there is a transition to a net pool with AEMO having independently buy and sell gas from market participants to enable balancing as these aspects fall outside the features desired by market participants.

What the MEU is concerned about with this suite of options is that the preferred position of stakeholders is the introduction of a simple forward trading platform where participants can merely buy and sell gas in order to adjust their positions to reflect changes in market conditions. Such a trading platform would operate within the DWGM as an enhancement of the current structure. The MEU considers that such a trading platform would be relatively easy to establish and operate, and would provide a benefit to consumers.

The MEU makes the following observations regarding the options proposed by the AEMC

2.3.1 Trading of gas outside the market

Implementing trading outside the DWGM introduces the concept of "a market to serve a market", essentially a duplication of resources. Further, to implement such an approach means that either gas from other sources (such as BassGas, Culcairn, and Port Campbell) will either not be included in the new trading hub, or additional trading hubs would have to be established, further increasing costs.

The MEU sees the implementation of such an approach would be difficult as at each injection point, there would be a gas provider dominant at that trading hub[5] and therefore able to dictate how gas will be sold to shippers. Already these producers serve markets other than the DWGM such as Longford which serves the markets in Tasmania (via TPG) and Sydney and Canberra (via EGP) and the contracts on those pipelines would have to be normalised to reflect the needs of the DWGM gas trading requirements.

The AEMC comments that with trading outside the market option, a risk lies with Victorian consumers with regard to investment as the market signal generated by trading outside the market would require regulated investment. The MEU does not see this is a problem unless the investment is to allow increased export from the DTS.

The MEU does not consider that the additional costs and increased complexity warrants the implementation of such an arrangement and considers that a similar outcome could be achieved by implementing a shot term forward trading market within the DWGM as was proposed by stakeholders during the DWGM stakeholder forums.

2.3.2 Integrate forward trading in the DWGM

While the concept is as suggested by stakeholders, the MEU is concerned that this option is not what stakeholders have indicated would provide a benefit to the DWGM. The stakeholder version of this approach would seem to be that the current DWGM would operate as it currently does and there would be an additional voluntary platform provided which would allow stakeholders to make bilateral trades for gas in the future, based on their assessment of the market and potential changes that might influence their future position. While this simplified option still is exposed to potential constraints in the DTS, the MEU considers that with better (earlier) advice from AEMO about line pack (see option publication of linepack adjustments) and congestion (see options more timely market data and recentralised demand forecasts), participants would be better

[5] Esso at Longford, Origin at Port Campbell and Origin at BassGas

able to manage their gas positions and thereby potentially assist in reducing the congestion which leads to uplifts.

The discussions on the two sub-options of this approach detailed in the assessment paper for integration of forward trading into the DWG raises the concern about whether the price would be "cleaner" as the sub-options introduce penalties if there are constraints in the DTS; the MEU considers that this risk is just as significant as is currently experienced in the DTS as capacity in the DTS might not be available if there needs to be a change in destination for gas should a trade be required.

This is a concern raised by stakeholders and the AEMC with regard to uplifts and congestion charges seen in the DWGM currently and has the potential to make the price less "clean".

While the MEU recognises that introducing forward trading in the DWGM should provide a benefit to stakeholders to better manage their gas positions, it does not necessarily eliminate congestion and the uplifts that occur. However, the MEU does consider that this approach has the potential to assist in reducing congestion.

#### 2.3.3 Conclusions

Recognising that being able to trade gas within the DWGM for future gas demand would be an improvement to the DWGM, the MEU therefore supports the introduction of a voluntary gas trading platform within the DWGM would improve the DWGM operation and would have minimal, if any, downside.

## 2.4 Improving AMDQ rights and increasing the firmness of capacity rights

The concept of AMDQ was a key element in the DWGM when it was first developed. From a consumer point of view, AMDQ was allocated to existing end users to ensure that their downstream investments were protected by ensuring that capacity on the DTS would be allocated to them. While the concept of market carriage mitigated to some extent their concern about having sufficient capacity to transport the gas they need, existing consumers recognised that new entrant consumers could displace them as had occurred in other gas markets where the owners of the pipelines used contract carriage and so able to "bump off" existing users to the benefit of new entrant users.

That the AMDQ rights were allocated to consumers rather than retailers was also a key aspect, as this gave these existing end users the ability to change retailers without the retailers being able to use ownership of capacity to limit retail competition.

As detailed in the assessment paper, AMDQ has subsequently been used to avoid congestion uplift charges and allocate uplift charges on a causer pays basis. Increased capacity on the DTS has enabled the AMDQ concept to be further developed through the issue of AMDQcc.

Implicit in the discussion of the AMDQ improvement options, is that the AEMC considers there needs to be a **market based** signal to indicate a need for increased capacity, and that only by a counterparty entering into a firm contract for this capacity will a need for increased capacity be clearly shown. The MEU considers that trying to force the distribution network-like DTS into the traditional contract carriage envelop does not result in a better outcome for consumers. In fact, consumers have observed where a party underwrites an increase in capacity and holds this capacity as a firm right, then this outcome is often used as a tool to prevent competition.

The MEU has raised the concern of capacity hoarding (achieved through a shipper underwriting the capacity with a pipeline owner) with both the ACCC and the AEMC and both have recognised that capacity hoarding does not benefit consumers. With this in mind, the MEU is a strong supporter of market carriage and regulation providing a control over investments in capacity[6].

While increased capacity in the DTS to provide for the needs of Victorian consumers can be and is managed through the regulatory process, the MEU is aware that there may be a need to increase capacity in the DTS to allow increased flows on the Culcairn interconnector or to Iona. Where such increased capacity does not provide a benefit to Victorian consumers, the costs of the augmentation should not be levied on them. This means that there needs to be a mechanism for a party to underwrite increased capacity and have the rights to use that when they see a need. Essentially, this outcome becomes a contract carriage overlay of the market carriage on the DTS provided for Victorian consumers.

However, such an overlay becomes problematical when there is congestion in deciding who has prior rights – the Victorian consumers or the party underwriting the capacity expansion. The MEU points out that the DTS and the DWGM were initially provided for the benefit of Victorian gas consumers and Victorian consumers are the major users of the system[7]; to reduce the capacity rights of Victorian gas consumers is not in their interests and should not be contemplated in any of the options considered. The MEU can see a significant further problem with an overlay approach in that the additional capacity is provided by the owner of the DTS and if the owner makes an augmentation that

[6] The MEU notes that increases in capacity in electrical networks is regulated under a market carriage model and the MEU finds it difficult to equate why what is seen by the AEMC (and others) to be the correct approach for electricity networks delivers such a detrimental outcome in gas transmission.

[7] The volume of gas consumption within Victoria far outweighs the amount of gas that is exported through Culcairn or might be exported through Iona.

is effectively less than the sum of the market carriage requirements and the new firm capacity provided under a contract carriage approach, the structure could enable the owner to avoid responsibility if there is congestion which damages Victorian consumers or the party that underwrote the increased capacity.

The MEU refers to the observation made in section 2.1 above that the lack of a "market signal" for investment in the DTS does not result in a lesser outcome for consumers as AEMO and the AER both act together to ensure that the costs for relieving congestion are utilised in reaching outcomes that are in the long term interests of Victorian gas consumers.

The assumption that underlies the AEMC assessment that market signals are considered to be the preferred approach to ensure investment in the DTS is efficient, does not reflect the reality the DTS is a distribution network and not a conventional transmission system. In a conventional point to point transmission system, the need for investment can more readily identified and capacity allocated as a potential shipper/underwriter can identify its specific needs and the augmentation capacity made firm. Where there are multiple routes for gas to flow from one point to another, it is more difficult to ensure that the increase in capacity is both sufficient and not impacted by a legitimate change in usage on one element of the multiple routes the gas can take.

The MEU makes the following observations regarding the options proposed by the AEMC

2.4.1 Market signalling for AMDQcc

> The MEU notes that the current approach to augmentation of the DTS is working well to benefit Victorian consumers, so continuation of this approach would not create significant challenges to the Victorian market. The MEU notes that although there is not a formal process for signalling a need for an augmentation, the MEU is aware that between APA and AEMO there is a clear assessment made of future needs and these are communicated to the regulator at each revenue reset.
>
> The MEU does recognise that signalling the future needs of shippers prior to an augmentation could help inform as to the extent of a need. This would imply that some formality of seeking new capacity should be established as this would provide a better guide to all the parties involved in assessing the need for augmentation of the DTS and extent to which Victorian consumers should be liable for the costs of the augmentation.
>
> Despite recognising that better signalling might be useful, the MEU does not consider that there is a need for the introduction of the complexity inherent in the three alternative approaches proposed for signalling in the assessment paper (ie open season, integrated auction or hybrid) are warranted to provide the improved formality of the process, particularly

considering that there are very limited points of exit for export from the DTS (currently only Iona and Culcairn) that would give rise to a need for such complexity when the current arrangements have provided more than adequate coverage of needs of Victorian consumers.

The MEU considers that a process based on dialogue between the three involved parties – APA as the owner, AEMO as the operator and AER as the regulator – could better incorporate information from potential shippers and the prices they might be prepared to pay for increased capacity. Such an approach could well provide sufficient formality to deliver an appropriate outcome.

What the discussion on this option does introduce is that the current process only provides a guide to the augmentation needs at each revenue reset and does not introduce a process where augmentation needed between resets can be adequately addressed and for it to be implemented to suit the timings needs of the market. Under the current arrangements, if there is a new augmentation needed between resets which was not identified at the previous reset, either the augmentation does not proceed or it is carried out at a risk to APA[8] - APA actions in the past have been not to take the risk that the augmentation might not be rolled into the regulatory asset base and thus augmentation does not proceed before the next reset.

The MEU notes that this issue is addressed in relation to electricity transmission where the concept of "contingent projects" is used to flag possible augmentation needs which are dependent on possible changes in the market. If a cost benefit analysis demonstrates the need, these projects can be "rolled into" the allowed revenue when they are complete during a regulatory period and so do not impose a risk on the asset owner. The MEU considers that an approach similar to "contingent projects" could be implemented into the process for the DTS, although the MEU suggests that a simpler cost benefit analysis to the Regulatory Investment Test – Transmission (RIT-T) might be appropriate.

The MEU does not consider that there is a need for more complexity in the DWGM to signal the need for augmentation of the DTS as this already occurs when needed by Victorian consumers. Further, there are more simple options available for appropriate augmentation of the DTS to expand the ability to transit gas via Culcairn and Iona.

### 2.4.2 Establish an AMDQ trading platform

The establishment of a trading platform for AMDQ and AMDQcc is widely considered to be a relatively easy task to implement and would provide significant benefit to market participants.

[8] This issue is identified on page 60 of the assessment paper

Parties that have AMDQ rights and are not using them would be able to make these rights available to others, and the demand for AMDQ would signify a need for increased transport capacity.

This reform is supported by the MEU.

2.4.3 Providing AMDQcc withdrawal at locations other than Melbourne hub

This option would appear to run counter to the view that the DTS and DWGM is primarily designed to benefit Victorian consumers, and it is the interest of Victorian consumers that is the focus of the Victorian government requests to the AEMC

However, in principle, this option has merit but does present the potential for Victorian consumers to be disadvantaged if the withdrawal point is located such that there will be an increase in congestion. If the withdrawal right is considered to be firmer than the flow needed to provide gas to a Victorian consumer (ie that export capacity is considered to "out rank" the needs of a Victorian consumer) then the option would not be considered to be in the interests of Victorian consumers.

This means that for this option to be implemented, great care and analysis will be needed to ensure that the total capacity provided is sufficient for both needs. The MEU is concerned that there being two forms of capacity rights on an element of the DTS could introduce an ability for the owner of the DTS to not be liable for the insufficient capacity.

For example, supposing increased capacity was developed at the request of a shipper (over and above the capacity needed for Victorian consumers) that required a certain increase in compression to transport for both a new shippers and provide capacity for Victorian consumers. If the owner of the DTS either deliberately or inadvertently could not deliver that compression when needed to deliver both the needs of the new shipper and the existing Victorian consumers, how is the cost of congestion to be allocated? Unless there is clear delineation of responsibility between the parties involved, Victorian consumers will ultimately incur a congestion charge.

Another example could reflect that the existing pipelines might have some spare capacity. Is this spare capacity allocated to the new shipper who would then only have to pay for a lesser upgrade? If the spare capacity is used for the export of gas (ie to benefit other consumers who do not pay for the DTS) should there be a mechanism for Victorian

consumers to benefit as they notionally "own" the spare capacity as they underwrite the revenue that goes to the owner of the DTS[9]?

While supportive of the concept, the MEU considers more work is required to fully develop the change.

2.4.4 Improved scheduling priority

The basic principle of market carriage is that all shippers are able to access the network and on this premise, the lowest offer for gas will be dispatched ahead of a higher priced offer. Market carriage accepts that, in the event of congestion, out of merit order dispatch can occur to maintain supply to all consumers.

This option detracts from the market carriage concept by scheduling a higher priced offer in preference to a lower priced offer on the basis that the shipper with the higher price has firm rights to be dispatched. Effectively, this approach is a move towards contract carriage despite DWGM participants advising they have a strong preference for retention of the market carriage model.

The MEU also notes that in contract carriage models, members have observed shippers "hoarding" capacity which has the outcome of reducing competition in the market, often to just one provider.

The import of the proposal is that by giving priority to a shipper with firmer capacity rights this will encourage shippers to value AMDQcc more and so provide a "better" signal for increased capacity. As noted in section 2.4.1 this does not appear to be an issue in the DWGM as capacity for the needs of Victorian consumers has been provided with relatively few episodes of congestion since the introduction of intra-day trading.

The MEU notes that this option has some characteristics common with the Optional Firm Access (OFA) approach proposed for the electricity market (see section 2.1). Under the OFA, a lower priced generator gets dispatched ahead of the higher priced generator and only when there is congestion is the higher priced generator dispatched ahead of the lower priced generator. In practice, the OFA only applies when there is congestion and the generator with the firm capacity has priority for dispatch. In contrast, this option provides for the higher priced offer to be dispatched ahead of a lower priced offer at all times.

On balance, the MEU does not consider that this option will provide a benefit to consumers.

[9] See comments in section 2.1

2.4.5 Firmer financial capacity rights

This option is a move away from the concept of market carriage and the benefits that it provides. Further, the option is a move towards the potential for capacity hoarding which is a detriment to consumers.

The MEU can also see that there is the potential for greater complexity as outlined in section 2.4.3 above.

While the MEU can see that the option has the potential to encourage investment in the DTS and provide signals for investment, the MEU considers that the current regulatory approach and the enhanced approach discussed in section 2.4.1 are just as likely to deliver capacity augmentations which are required by Victorian consumers as the firmer financial capacity rights proposed by this option.

On balance, the MEU considers that this option will be detrimental to Victorian consumers.

2.4.6 Zonal pricing

It needs to be recognised that the DTS is not a large network such that it requires more than one zone. When compared to electricity market zones, each of these is based on an entire state network. The DTS is not even a state wide network, so this raises the question as to why there is a need for multiple zones. The MEU points out that increasing the number of zones and selling (auctioning) settlement rights could also lead to a reduction in competition at each zone – any reduction in competition is not in the interests of consumers.

The primary reason stated by the AEMC for proposing this option is to provide incentives for market led investment but in doing so it destroys the concept of a single hub price and introduces the potential for inter-zonal price separations and therefore risk. While the risk might be partly managed by settlement residue auctions (as used in the electricity market) this will not fully address the risks the change would introduce.

As the primary objective is to address investment, if a similar outcome can be achieved without losing other targeted outcomes (eg a single hub price) then this option loses value to Victorian consumers. As pointed out in section 2.4.1 above, the MEU considers that the current regulatory arrangements (or an enhancement of this approach) provide sufficient certainty for Victorian consumers for needed investment.

The MEU does not consider that the potential benefits of the option outweigh the detriments inherent when considering there are other

options for ensuing sufficient investment is provided as and when needed.

2.4.7 Entry-exit rights with market for capacity allocation

As noted in the assessment paper, this option is a move towards the widely opposed model proposed in the AEMC draft final report.

The option persists with a view that participants need to provide strong market based signals to provide adequate investment in the DTS. As noted in section 2.4.1 there are other (perhaps less market driven) approaches that have delivered acceptable outcomes for consumers using the DTS. The core question which this option has to address is whether the market based signals will deliver better outcomes for Victorian consumers and whether the increased complexity required to deliver the process for capacity trading needed under this option, is warranted.

Essentially, the introduction of this option would be effectively "at the margin" as the entry and exit rights currently held by end users (ie AMDQ rights) already cover the bulk of capacity of the DTS and so the net benefits of the introduction of this option would be significantly reduced.

Again, the primary benefit of this option is to allow for firm carriage of gas on the DTS to pipelines to other regions. As stated earlier, there are few points of interconnection with pipelines to other states, so two key questions need to be addressed:

1. With so few points of interconnection via the DTS, do the benefits of change outweigh the detriments?
2. If the primary purpose is for the export of gas, why should Victorian consumers incur costs which deliver no benefit and potentially a detriment?

The MEU considers the answer to both questions is "no" and therefore does not consider this option delivers a better outcome for Victorian consumers to offset the costs and complexity introduced.

2.4.8 Point to point contract carriage

This option (including the associated sub options) moves to a contract carriage market for the key elements of the DTS and incorporates many features of the strongly opposed model proposed by the AEMC in its draft final report.

Further, participants have consistently opposed a move away from market carriage for the DTS as the market carriage model is probably

more efficient in utilisation of capacity. On this basis alone, there would have to be very clear and considerable benefits for this option (and associated sub options) to offset the detriments (including costs) and to gain support from participants. Having stated that, the MEU also notes that there are strong similarities to the proposal put by APA at the DWGM forum.

As noted above, MEU members have reported that shippers have secured all the capacity on a number of major pipelines and laterals off major pipelines and, by doing so, have prevented competition in the delivery of gas to end users. For this option (and sub options) to demonstrate any benefit, there would have to be introduced a mechanism which prevents the hoarding of capacity. Such a mechanism would add to complexity and hence costs.

As noted in earlier sections, the concept inherent in this option is that market signals for increased investment are needed for the DTS and this can only be provided by participants actively prepared to underwrite increased capacity. This point is not conceded by the MEU (see section 2.4.1).

In its detail of the option, the assessment paper points out there will be a need to decide on who has the rights to the capacity on the DTS “CC” (contract carriage) pipelines, whereas presently all capacity is transferred to AEMO to allocate amongst all participants as needed to minimise congestion.

As the assessment paper highlights, this option introduces significant complexity, with different levels of complexity applying to the various sub options. Not only is complexity increased under all sub options, so too are the potential risks to shippers increased. Some of the sub options allow a degree of flexibility for some shippers by being able to access capacity through bilateral arrangements as well as DWGM scheduling which further increases complexity and capacity management and allocation.

To make this option work, not only does the option remove the effective open access to all participants via market carriage but it also increases operational costs for participants in managing their capacity exposure and having to participate in capacity trading.

From a consumer viewpoint, the transition to contract carriage and shippers “owning” capacity which they can then use to reduce competition through hoarding of this capacity does not deliver a benefit and potential a detriment. In particular, the MEU is concerned that under sub options 2 and 3, hoarding of capacity on laterals to the major pipeline

routes (ie Iona to Culcairn, Longford to Culcairn and Longford to Iona) becomes more feasible, leading to a reduction in competition

The change to contract carriage for this option is being driven by an ideological view that market signals are better than good regulation. This might be true but the history of the DTS is that, at best, there might be a marginal improvement in investments, predominantly to assist exports from Culcairn[10]. Against that, this option and sub-options will introduce more risk and cost to participants and hence to consumers. The MEU considers that this trade off is not in the best interests of Victorian consumers.

## 2.5 Other options identified by stakeholders

The MEU makes the following observations regarding the other options proposed by the AEMC arsing from stakeholder views made during the DWGM review process.

### 2.5.1 Bidding behaviour at times of constraint

The MEU recognises that the clearing engine only recognises bids and offers for gas and does not recognise when such bids are not possible due to congestion. This same issue confronts the electricity market and it has an ability to reflect constraints by scheduling offers out of merit order. The MEU asks why this same approach cannot be used for the DWGM.

The assessment paper posits that the issue could be more easily managed by introduction of negative price offers for gas. Again the electricity market does have this feature and the MEU asks why a similar approach cannot be used for the DWGM.

While the assessment paper also posits that the market price cap could be increased, the MEU points out that the current gas price cap was set at a level to equate to the electricity price cap. Increasing the market price cap in the DWGM would increase the differential between the DWGM price cap and that used in the SSTMs in Adelaide and Sydney. The MEU is concerned that increasing the DWGM market price cap will introduce the potential for increased arbitrage between the DWGM and the electricity market and the DWGM and the STTMs. Such an outcome would not be interests of Victorian consumers as it could result in security of supply issues.

[10] The MEU notes that the ability to deliver more gas to Iona from Longford will be increased by the proposed Western Outer Ring Main (WORM) which is being reviewed as part of the regulatory revenue reset process now underway. Both APA and AEMO consider that this investment is needed and initial views of the WORM seem to support a view that it will provide a benefit to Victorian consumers through increased security of supply.

The MEU considers that a reduction in the market floor price would be beneficial and would not be a detriment to consumers. However, the MEU considers increasing the market price cap is more likely to provide a detriment to consumers than not.

2.5.2 Review the market clearing engine

The MEU is not in a position to comment on assessing whether the clearing engine needs change. The MEU considers that AEMO should be consulted on this aspect.

However, the MEU is concerned that if there is to be changes to the clearing engine, a close assessment needs to be made as to whether the benefits of the changes warrant the cost of the change.

2.5.3 Publication of linepack adjustments

The MEU supports greater transparency, especially where increased information can allow participants to more efficiently respond to changes in the market.

2.5.4 More timely market data

The MEU recognises that data closer to real time provides better outcomes. Equally, providing the data sooner could introduce costs to enable its provision.

Without being more specific, the MEU supports earlier provision of data but also would expect that in assessing what data can be released earlier, the cost of implementing the change needs to be taken into consideration.

The MEU suggests that AEMO should be tasked with carrying out assessments of the value and cost of earlier data release.

2.5.5 Recentralise market demand forecasts

The DTS is more like a distribution network than a conventional transmission pipeline, and there are several entries into each of the four main distribution networks that make up the gas transport network in Victoria. As each shipper/retailer has customers in each of the distribution networks, and the number and type of customers contracted to each shipper/retailer vary over time, it can be difficult for each of the shipper/retailers to forecast their needs with any accuracy, especially as for volumes of gas used by the large proportion of customers are not known for months after the gas is used.

While each shipper/retailer should still be required to provide forecasts of demand, the MEU considers that recentralising the forecasting of the mass market demand has considerable merit.

2.5.6 Descheduled gas

This issue needs to be assessed in more depth before a conclusion can be reached.

The MEU considers that this issue would be best addressed by AEMO with its gas market consultative forum and AEMO's usual processes. If that review identifies that the issue is considered to be significant by market participants, AEMO could undertake a detailed analysis of the costs and benefits and potentially raise a rule change proposal.

# 3. Summary of conclusions

The MEU is very concerned that decisions and options for change to the DWGM do not reflect the realities of the gas trade within and from Victoria and the changes to the DWGM are driven by a view that the role of the DWGM in the gas export trade is much greater than it really is.

Despite this, the AEMC has posited that the DWGM does not provide:

- A sufficiently "clean" price for gas that can be equated with a "pure" commodity price and this detracts from its use as the southern hub proposed by the AEMC for the east coast gas market, and
- Better market signals for investment in the DTS are required to enable greater export of gas which transits the DWGM.

The MEU is very concerned that these two aspects are the main drivers of the changes proposed for the DWGM rather than the fact that the DWGM is to provide a sound market structure for gas trading to provide for the interests of Victorian consumers.

Overall, the AEMC has identified a number of options to change the DWGM but that many of these options move away from the features that have made the DWGM as valuable to Victorian consumers as it has been. Some of the options proposed by the AEMC should enhance the DWGM but the MEU considers that any benefits of others are more than outweighed by their detriments, especially to the Victorian consumers that will have to pay for the changes to the DWGM.

The MEU has utilised a series of requirements as a filter to assess the benefits and detriments of the various options proposed in the assessment paper. These filters are based on a general view amongst stakeholders that the DWGM could benefit from some enhancement but they do not see there is a need for major change. Stakeholders have identified features of the DWGM that are desirable and these include:

- market carriage,
- centralised balancing of capacity and commodity,
- a gross pool,
- causer pays mechanism
- intra-day bidding and pricing, and
- the high level of transparency provided

Participants also point out that volatility is an issue and a reduction in volatility from what is already seen would provide a benefit.

Most importantly, the focus of the AEMC assessments must be whether the options provide a better outcome for Victorian consumers than what is currently available from the DWGM as it will be Victorian consumers that ultimately will

pay for the costs of any change in the DTS and the DWGM. The MEU highlights that there are other options to market based signals for investment in the DTS and there are other ways of ensuring Victorian consumers do not pay for augmentations that do not provide them with a benefit.

Using the filters, the MEU provided the following assessments of the various options detailed

## Signalling investment in the DWGM

The MEU is very concerned that the desire expressed by the AEMC for having market signals to initiate investment in the DTS are overstated. The MEU considers that the issue regarding a need for market signals comes from the need to export gas through the DWGM without recognising that export from the DWGM is a minor proportion of the gas traded within the DWGM.

The MEU considers there are other less invasive approaches to ensure there is adequate capacity provided in the DTS and which do not impose the risk that Victorian consumers will have to augment the DTS to provide a benefit for consumers outside Victoria.

## Improving risk management options: financial derivatives market

- **Transmission constrained pricing**. The MEU does not consider that transmission constrained pricing will provide a net benefit to consumers
- **Simplified uplift payments**. As these socialised uplift costs will ultimately be paid by consumers, it would appear that this option could lead to higher costs for consumers and provide an avenue for increased benefits for providers of gas. Such an outcome is not acceptable to consumers.
- **Discrete intraday schedules**. On balance, the benefits of this option are more than offset by the detriments
- **Prohibit physical contracting outside the DWGM**. Implementation of the option would introduce significant complexity as it would impinge of export of gas from Victoria which does not transit the DWGM. Further, a transition to this option quite challenging due to the limited upstream competition.

## Improving risk management options: forward physical trading

- **Trading of gas outside the market.** The MEU considers that while this option might have some merit, it would introduce significant increase in complexity and additional costs.
- **Integrate forward trading in the DWGM**. While the MEU does not favour the options as outlined in the assessment paper, it does consider that the introduction of a voluntary trading platform within the DWGM would lead to improvements in the DWGM; this concept is supported.
- The MEU does not support either of the other two options (a voluntary net pool or the draft model) as both move away from the aspects of the DWGM that stakeholders consider are core benefits of the DWGM

## Improving AMDQ rights and increasing the firmness of capacity rights

- **Market signalling for AMDQcc**. The MEU does not consider that a complex arrangement is needed for augmenting the DTS as the current arrangements work well for addressing the needs of Victorian consumers. The MEU considers there are more simple options available to identify and implement augmentations for export through Culcairn and potentially Iona
- **Establish an AMDQ trading platform**. This is supported by the MEU
- **Providing AMDQcc withdrawal at locations other than Melbourne hub**. This approach is supported in principle but there is a concern that it has the potential to be used for "gaming" and there is a lack of clarity as to who has primary rights when congestion occurs
- **Improved scheduling priority**. On balance, the MEU considers that this option will be detrimental to Victorian consumers.
- **Zonal pricing.** The MEU does not consider that the potential benefits of the option outweigh the detriments inherent when considering there are other options for ensuing sufficient investment is provided as and when needed.
- **Entry-exit rights with market for capacity allocation.** The MEU does not consider this option delivers a better outcome for Victorian consumers to offset the costs and complexity introduced.
- **Point to point contract carriage**. The change to contract carriage for this option is being driven by an ideological view that market signals are better than good regulation. This might be true but the history of the DTS is that, at best, there might be a marginal improvement in investments,

predominantly to assist exports from Culcairn[11]. Against that, this option and sub-options will introduce more risk and cost. The MEU considers that this trade off is not in the best interests of Victorian consumers.

## Other options identified by stakeholders

- **Bidding behaviour at times of constraint.** The MEU considers that a reduction in the market floor price would be beneficial and would not be a detriment to consumers. However, the MEU considers increasing the market price cap is more likely to provide a detriment to consumers than not.
- **Review the market clearing engine.** The MEU is concerned that if there are to be changes to the clearing engine, a close assessment needs to be made as to whether the benefits of the changes warrant the cost of the change.
- **Publication of linepack adjustments**. The MEU supports greater transparency, especially where increased information can allow participants to more efficiently respond to changes in the market.
- **More timely market data.** The MEU suggests that AEMO should be tasked with carrying out assessments of the value and cost of earlier data release
- **Recentralise market demand forecasts**. The MEU considers that recentralising the forecasting of the mass market demand has considerable merit.
- **Descheduled gas.** The MEU considers this issue needs to be assessed in more depth before a conclusion can be reached.

[11] The MEU notes that the ability to deliver more gas to Iona from Longford will be increased by the proposed Western Outer Ring Main (WORM) which is being reviewed as part of the revenue reset process now underway.