

4 February 2016

Mr John Pierce
Chairman
Australian Energy Market Commission
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By online submission

Dear Mr Pierce

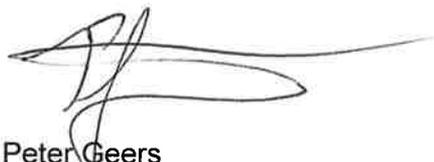
Draft National Gas Amendment (DWGM – AMDQ Allocation) Rule

AEMO appreciates the opportunity to respond to the AEMC's Draft Rule Determination on the National Gas Amendment (DWGM-AMDQ Allocation) Rule, published on 10 December 2015.

The attached submission raises some issues for consideration by the Commission relating to the practical implementation of some aspects of the draft rule, and the transition process.

If you need further information or wish to discuss our submission or any other matter relating to the implementation of the rule change, please contact Paddy Costigan on (03) 9609 8407 or paddy.costigan@aemo.com.au.

Yours sincerely,



Peter Geers
Executive General Manager, Markets

cc:

Attachments: AEMO Submission in response to AEMC Draft Rule Determination: National Gas Amendment (DWGM-AMDQ Allocation) Rule 2016

AEMO Submission in response to AEMC Draft Rule Determination: National Gas Amendment (DWGM-AMDQ Allocation) Rule 2016

1. Overview

In general AEMO supports the intent of the Commission's draft more preferable rule. However, there are some areas that AEMO considers require further clarification. These relate to:

- the period for which AEMO must allocate available AMDQ credit certificates;
- the requirement for AER determinations on the inclusion of the cost of expansions within the capital base, in particular the timing of communication of those determinations;
- the requirement for amendment of the service envelope agreement before allocation of AMDQ credit certificates can occur;
- allocation of AMDQ credit certificates by AEMO at the direction of the declared transmission system (DTS) service provider; and
- the transitional period for the implementation of the new rule.

We would be happy to work with Commission staff in relation to any drafting changes to reflect these matters.

2. Period for allocation of AMDQ credit certificates

2.1. Allocation by AEMO auction

AEMO understands the Commission's intention that AMDQ credit certificates that are auctioned by AEMO under rule 329G should be allocated for the duration of an access arrangement period only, and re-auctioned for the next period.

Draft rule 329A provides for AMDQ credit certificates to be allocated for a period ending on the revision commencement date specified in the DTS service provider's access arrangement. Although this would normally mark the commencement of the next access arrangement period, this may not always be the case - as indicated in the definition of access arrangement period under the Rules. In particular, where the access arrangement period is extended due to delays in the regulatory approvals or appeals process, there should be provision for the allocation to continue for a corresponding period.

2.2. Allocation at direction of DTS service provider

Where the DTS service provider is permitted to direct the allocation of certificates because the cost of a related extension or expansion is not (or will not be) included in the service provider's capital base, rule 329E states that the allocation is to be made for such period as the DTS service provider directs. Rule 329A covers certificates in this category, as well as those allocated by AEMO under the auction process. We note that rule 329A(4) appears to apply to both categories, and limits the period of allocation to the next revision commencement date. There may be some inconsistency between these provisions that should be resolved.

2.3. Additional comments on rule 329A

We make the following additional observations:

During the declared transmission system service provider's access arrangement period:

- In 329A(3)(a), an increase in capacity could also be determined under rule 329, if not agreed
- In 329A(3)(b), we note that individual certificates are not recorded in the register under rule 327A. Rather, the register records 'amounts' of certificates allocated or available for allocation.
- We are unsure why the term 'access arrangement period' is italicised in the draft rule.

3. AER determinations under rules 329B and 329C

The draft rule provides for essentially the same process in relation to:

- existing capacity for which the cost of a related extension or expansion is not included in the capital base (rule 329B); and
- new capacity for which the entire forecast cost is not conforming capital expenditure (rule 329C).

Both are dependent on a determination by the AER, but the rules are structured quite differently. We ask the Commission to consider whether the rules could be structured consistently (similar to rule 329B) to provide that AEMO must auction the relevant AMDQ credit certificates unless the AER makes a determination that all or part of the associated costs are not approved capex. If not, the intended differences should be clarified.

AEMO submits that the rules must specify the latest time for an AER determination prior to the start of an access arrangement period or commissioning of new capacity (as applicable). To ensure the correct number of certificates are allocated under the auction process by the target date, the outcome of the AER's determination would need to be known – as an absolute minimum - 10 weeks before the allocation date. This allows for a two-week preparation period, the mandatory 20 business days notice of the auction, two weeks for submission of bids and two weeks for AEMO to process and register the allocations.

If the DTS service provider has requested a determination but the AER is unable to make it within the required time, there appear to be two options:

- AEMO proceeds to allocate all AMDQ credit certificates under the rule 329G auction process, even if they are subsequently determined to be associated with capex that will not be included in the service provider's capital base.
- AEMO auctions only those AMDQ credit certificates that are not the subject of the DTS service provider's request for a determination, with the allocation of the remainder to be deferred in order to allow for the auction process to be undertaken. In this case further revisions to the proposed rule would be required.

4. Amendment of service envelope agreement

Rule 329D reflects the existing rule 329(7), and AEMO did not propose any material amendment in its original rule change request. On reflection, however, the requirement to amend the service envelope agreement to incorporate new capacity should effectively be a precondition to the obligation to allocate the associated AMDQ credit certificates. However, there is no express link that would make this clear.

5. Allocation at direction of DTS service provider

As a consistency issue, parts of rule 329E, particularly subrule (2), do not reflect the position that it is AEMO who allocates the relevant AMDQ credit certificates at the direction of the DTS service provider, rather than the DTS service provider allocating them itself.

6. Transitional

Currently AEMO does not anticipate any significant issues if the deadline for making new AMDQ procedures is at least 6 months after the final rule determination. However, AEMO has not undertaken an assessment of the market systems implications for the draft more preferable rule, and is also cognisant of the significant volume of changes under way in other areas. We therefore appreciate the opportunity for continued consultation with the Commission on the transitional period.

The intended operation of draft transitional clause 45 is unclear, as it is expressed to apply to directions given 'prior to the effective date' without limitation. We assume this is intended to apply only to directions given prior to the effective date but after the date the amending rule was made. Rather than the direction being of no force and effect, the Commission may wish to consider deeming the direction to have been for a period expiring on the next revision commencement date or any later end date of the current access arrangement period.