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29 November 2016

Mr John Pierce
Chairman
Australian Energy Market Commission
Level 6
201 Elizabeth Street
SYDNEY NSW 2000

Dear Mr Pierce

Draft Final Report on the Review of the Victorian Declared Wholesale Gas Market

The AER welcomes the opportunity to make this submission to the AEMC's draft final report and draft final technical report on the review of the Victorian Declared Wholesale Gas Market.¹

The five recommendations outlined in the Draft Final Report reflect a significant amount of considered work that has been undertaken by the AEMC. We recognise the merits of implementing the Southern Hub model to allow participants to voluntarily and continuously trade, with system security overseen by the Australian Energy Market Operator, and to create market signals to drive investment in the Victorian Declared Transmission System. The Southern Hub model has the potential to improve market liquidity and allow participants to better manage their gas portfolios and price risks. These outcomes, if realised, are likely to contribute to achieving the national gas objective.

As noted by the AEMC, a number of implementation issues will need to be addressed to realise the potential offered by the Southern Hub. Implementation issues include:

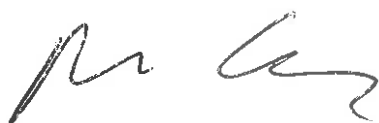
- how capacity rights are to be set at each exit and entry point;
- who is best placed to determine baseline capacity and on what basis;

¹ AEMC, *Draft Final Report, Review of the Victorian Declared Wholesale Gas Market*, 14 October 2016 (**Draft Final Report**); and AEMC, *Draft Final Technical Report, Review of the Victorian Declared Wholesale Gas Market*, 21 October 2016 (**Draft Final Technical Report**).

- how the preferred hybrid open-season integrated auction system will work in practice;
- how the recovery arrangements for an investment identified following the conclusion of an auction process will operate in light of the existing ex-ante regime in the National Gas Rules; and
- whether the Southern Hub model should be implemented in 2022 to align with the 2023–28 access arrangement review.

We look forward to working closely with the AEMC and the Gas Market Reform Group on these implementation issues in the coming year.

Sincerely,



Paula Conboy
Chair
Australian Energy Regulator

Sent by email on: 29.11.2016