

23 March 2016

The Commissioners
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Sent by: online lodgement

Dear Commissioners

**DWGM simpler wholesale price GRC 0049
DWGM forward trading market GRC 0050
DWGM improvement to AMDQ regime GRC 0051**

Major Energy Users Inc (MEU) is pleased to provide its thoughts on the three rule changes proposed by the Victorian Government for the Declared Wholesale Gas Market (DWGM) with one being also being supported by AEMO (GRC 0049).

The MEU was established by very large energy using firms to represent their interests in the energy markets. As most of the members are located regionally and are the largest employers in these regions, the MEU is required by its members to ensure that its views also accommodate the needs of their suppliers and employees in those regional areas. It is on this basis the MEU and its regional affiliates have been advocating in the interests of energy consumers for over 20 years and it has a high recognition as providing informed comment on energy issues from a consumer viewpoint with various regulators (GMRG, ACCC, AEMO, AEMC, AER and regional regulators) and with governments.

The MEU was a significant contributor to the AEMC review of the DWGM that the AEMC undertook in 2015 and 2016 at the behest of the Victorian Government. While the MEU did not support the changes proposed by the AEMC for the DWGM at that time, it did recognise that some improvements could and should be made. The MEU sees these three proposed rule changes lead to some of the incremental improvements that the MEU considered were needed for the DWGM.

The MEU has decided that it would respond to the three proposed rule changes in one response as there are elements of interaction between the three – we trust that this is acceptable to the AEMC.

The MEU stresses that the views expressed by the MEU in this response are based on looking at the issues from the perspective of consumers of gas but it has not attempted to provide significant analysis on how the proposed changes might impact other stakeholders, including AEMO, producers, generators, TNSPs and retailers.

Reflecting the above, the comments and observations included in this response are made from the viewpoint of end users of gas in Victoria. As some MEU members are active participants in the Victorian gas market, the MEU response is informed by their observations and the experiences they have had in operating in the DWGM.

As a general statement, the MEU supports the intention to improve the DWGM through

-) Simplifying the gas price by addressing uplift caused by congestion
-) Introducing a forward market
-) Clarifying and modifying aspects of AMDQ

While supportive in general of the proposed changes, the MEU has a number of fundamental observations that it considers need to be accommodated within the changes to the rules.

A “cleaner” gas price

The MEU notes that the proposed changes do not result in a “clean” gas price. It does however recognise that in order to provide a “cleaner” gas price, it would be pragmatic to socialise some of the uplift charges that otherwise would be allocated to some Market Participants on a causer pays basis.

However, the MEU is concerned on a number of fronts regarding the proposed solutions:

1. The MEU notes that not all uplift charges will be removed by the proposed solution, so the proposal merely results in a “cleaner” gas price rather than a “clean” gas price. The MEU accepts that there are some challenges with regard to providing this “cleaner” price for gas in the DWGM but that a “cleaner” gas price would be preferable to one that is even more distorted. That a “cleaner” gas price should be provided is taken as self evident in the AEMC discussion but the MEU points out that in the development of the DWGM and its subsequent refinements over the years, there has not been developed a solution that delivered an overall better outcome than what we have now.

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With this in mind, the MEU considers that a better explanation has to be provided as to whether the benefits of the “cleaner” gas price will exceed the detriments of the methods proposed for “cleaning” it. Specifically, in the documentation provided there has been no evidence provided that there is a net benefit to the majority of end users after assessing the benefits and detriments of the process to provide a “cleaner” gas price than applies under the current rules.

As there is no quantitative assessment provided or even an assessment of the costs that will be socialised, the MEU has difficulty in accepting the premise of an improved outcome for most end users.

2. Attempting to socialise some of the uplift charges will result in some end users getting a benefit they should not¹. There has been no assessment as to whether a significant proportion of the uplift charges that will be socialised derive from specific areas of the DTS. If this is the case, the uplift charges should be allocated to where the uplift is caused and so provide a price signal for needed investment to address the congestion. The MEU notes that in electricity market, the AEMC is considering “dynamic regional pricing” to address localised congestion costs. There is no contemplation that this might be an option for the DWGM.
3. In socialising some of the uplift charges, this will result in Victorian consumers being levied with the uplift charges associated with the export of gas to other regions. The MEU is firmly of the view that Victorian end users should not be obliged to pay for the socialising of uplift charges where the charges are a result of exporting gas through the DTS to other regions².

The MEU sees that further analysis is required about socialising some of the congestion costs to perhaps improve the “cleanliness” of the gas price. However, there are a number of aspects where introduction of socialisation of some congestion costs will cause harm to some end users with the result that there is no net benefit to all Victorian end users of gas.

A forward trading market

The MEU recognises that there are secondary trades of gas occurring now in the DWGM and that an open trading platform would be an advantage to all

¹ For example, a holder of sufficient AMDQ rights should not be exposed to the costs of congestion caused by another shipper who does not hold an AMDQ right. Yet socialising the uplift charges will increase costs to the AMDQ rights holder. The question then arises, does the allocation of the increased cost to the end user that has AMDQ rights, provide a better overall solution to other gas users in Victoria?

² This is recognised in the electricity market where an exporting region is paid for some of its transmission costs incurred within the exporting region through the IR-TUoS process

traders of gas in the DWGM. In turn, this should result in benefits flowing to consumers. The MEU is very supportive of such a trading platform being developed and that the trading platform should be consistent and compatible with those already in operation.

The MEU considers that as far as possible, the DWGM trading hub design should as closely as possible reflect the features of the existing trading hubs so there is a degree of compatibility between them. The MEU sees that such compatibility would increase the potential for trading between hubs to provide other services such as “swaps” which also occur now but are not transparent.

The MEU accepts that there will be establishment costs for the development of the new trading platform but by making the new platform as consistent as possible with platforms already established will minimise the costs. The MEU notes that the development of the GSHs already in operation have demonstrated net benefits to end users of gas so there is little doubt that the establishment of one for the DWGM should deliver similar benefits.

Tradeable AMDQ

The MEU notes that as a starting point owning AMDQ is critical for end users as this allows them to change retailers without any barriers but also retain rights to transport on the DTS the gas they need for their operations. It is essential that end users retain their AMDQ rights.

It is highlighted in the consultation paper that AMDQ does not really provide firm capacity rights and that this tends to restrict market led investment in the DTS, with most (if not all) investment being a result of the regulatory process. The proponent considers this is not efficient. The MEU disagrees.

In assessing investment efficiency as less than ideal, the DTS is likened to other gas transmission pipelines which provide point to point transport of gas. In fact the DTS is more like a gas distribution network or an electricity transmission network in that it has multiple entry and exit points and multiple transport paths within its boundaries. This means that solutions to problems identified for the DWGM should be drawn from energy transport systems to which the DTS is most similar. There is no widespread concern about the investment efficiency for the augmentation of electricity transmission and gas distribution networks through regulatory processes. As regulatory processes are sufficiently efficient for these other networks similar to the DTS, the MEU sees no less loss in efficiency would apply DTS augmentations under the regulatory process. The MEU also highlights that there are considerable concerns about the investment efficiency under contract carriage which applies to point to point gas transport!

In fact, the augmentation processes for the DTS shippers are allowed to directly invest in the DTS if they so desire, and they do; this is quite a distinct variation

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to what applies in the electricity market where a generator cannot invest in electricity transmission assets³ in order to ensure firmer access. While the MEU accepts that when a shipper does invest in the DTS, there is a risk (although small) that they will not have as firm access as might apply for a shipper on a point to point pipeline operating under the contract carriage model. However, the AMDQ rights they would get for such an investment is the same as those enjoyed by end users through their AMDQ allocation⁴ and which have proven to be acceptable to end users of the DTS..

The AEMC notes a concern that the current arrangements do not necessarily make trading through the Culcairn interconnector as firm as they would like. Equally, the MEU points out that the DTS was constructed for the use of Victorian gas consumers and they continue to pay for it. Already the AEMC has identified that trading across regions for the supply of electricity should not be a burden on the consumers which are exporting⁵ and this is consistent with the MEU view for the DWGM.

The MEU notes that the rule change proponent does not propose that there be a change *in the effect* of the current AMDQ rights as such, but to allow them or part thereof to be traded. The MEU considers that the proponent is correct in limiting the rule change it proposes to allowing these rights to be traded. The MEU does not agree with the consultation paper that widening the scope of the rule change on AMDQ beyond allowing trading of them is necessary or appropriate.

Although most AMDQ rights held by end users located in Victoria are for transport ex Longford (because there was only one entry point when the market started) the MEU accepts there are now a number of additional entry points and the most effective arrangement for accessing gas might require a different entry or multiple entry points. With this in mind, having tradeable rights (including being able to trade some or all of a right) is a sensible approach as it allows end users to acquire gas at different entry points if this is the best option for them.

Even though an end user is unlikely to move the location of its operations, the entry point location might move with changes in the source of gas. It is therefore sensible to separate the AMDQ into exit and entry rights and allow the entry point AMDQ to be tradeable to the new source of gas. With a new source of gas, the gas transport path might also vary even though the exit point does not change. This raises the question as to whether the ability to move to a new entry point needs to take into consideration the new gas transport path to the

³ The MEU notes that the AEMC is looking into this issue for the electricity market at the moment

⁴ As the DWGM is a market carriage arrangement (like a gas distribution network), the MEU accepts that AMDQ might not provide fully "firm" access rights, although AMDQ is not far off a firm access right

⁵ For example, the development of the IR-TUoS charging that occurs in the National Electricity Market

existing exit point such an investigation would avoid the potential of new or increased congestion due the changing physical capacity at locations within the DTS.

If there is to be the introduction of tradeable AMDQ entry rights, it would be appropriate to make the AMDQ exit rights also tradeable, although it is expected that trade in AMDQ exit rights is likely to be much less than for AMDQ entry rights.

A critical aspect of the proposed rule change from the view of consumers is that the ability to trade AMDQ must not result in end users with adequate AMDQ rights facing increased costs for expansion of the DTS (other than through the regulatory processes) or from increased congestion charges.

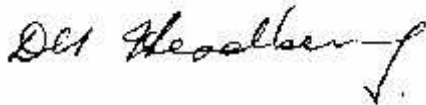
For end users that operate through a retailer for its gas supply, the retailer is allocated the end user's AMDQ to provide the gas supply. Under the proposed arrangement, the retailer holding the entry AMDQ should be able to trade the entry AMDQ rights but this ability must be limited to the period of time that the retailer has the supply contract and the entry AMDQ rights must be returnable to the end user at the conclusion of the supply contract.

If these negative aspects can be addressed within the design of tradeable AMDQ, the MEU supports the development of this feature for the DWGM.

The MEU considers that for the sake of consistency, the tradeable AMDQ rights should reflect the structure of the forward trading market to avoid inconsistencies between the trade of the commodity and the trade of the capacity rights.

The MEU is happy to discuss the issues further with you if needed or if you feel that any expansion on the above comments is necessary

Yours faithfully

A handwritten signature in black ink, appearing to read 'David Headberry', with a checkmark at the end.

David Headberry
Public Officer