RULE CHANGE

Australian Energy Market Commission

CONSULTATION PAPER

National Gas Amendment (Portfolio Rights Trading) Rule 2014

Rule Proponent

Australian Energy Market Operator

13 March 2014

For and on behalf of the Australian Energy Market Commission

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About the AEMC

The Council of Australian Governments (COAG), through its then Ministerial Council on Energy (MCE), established the Australian Energy Market Commission (AEMC) in July 2005. In June 2011, COAG established the Standing Council on Energy and Resources (SCER) to replace the MCE. The AEMC has two main functions. We make and amend the national electricity, gas and energy retail rules, and we conduct independent reviews of the energy markets for the SCER.

Contents

1 Introduction

On 14 November 2013, the Australian Energy Market Operator (AEMO or proponent) submitted a rule change request to the Australian Energy Market Commission (AEMC or Commission) in relation to the introduction of portfolio rights trading (PRT) in the Victorian declared wholesale gas market (DWGM). Under the proposal, PRT would be a market mechanism to facilitate the transfer of the market benefits associated with authorised MDQ (AMDQ) and AMDQ credit certificates (AMDQ cc) allocated to close proximity points (CPP) between market participants.

This consultation paper has been prepared to facilitate public consultation and assist stakeholders in providing submissions on the rule change request. This consultation paper should be read in conjunction with AEMO's rule change request which is available on the AEMC website.

This consultation paper:

- sets out the background to, and a summary of, the rule change request;
- identifies a number of questions to facilitate consultation on this rule change request; and
- outlines the process for making submissions.

Submissions to this consultation paper are due by 10 April 2014.

2 Background

This chapter provides background information on AMDQ and AMDQ cc. It also provides some context to the rule change request, including the origin of the PRT concept and the broader context in which this rule change request will be considered.

2.1 AMDQ and AMDQ cc

The Victorian declared transmission system (DTS) is the only network, and the only pipeline operating under a market carriage model in eastern Australia.[1]Under the market carriage model, market participants utilising the DTS cannot reserve firm capacity on a pipeline.[2] While users do not have firm capacity, they may hold AMDQ or AMDQ cc which affords the holder certain market rights and benefits and certain limited physical benefits.

AMDQ is a right recognised by the National Gas Rules (NGR) and is normally held by a customer. AMDQ cc is a right created by contract is normally held by a market participant (but can also be acquired directly by a customer).[3]

Broadly, there are two different types of right that are created by holding AMDQ and AMDQ cc:

- **Limited physical access rights**: The underlying AMDQ and the physical rights associated with AMDQ cc give a customer some protection against curtailment in the event of an emergency. These physical rights are owned by the customer.
- **Financial rights**: The market benefits associated with AMDQ and AMDQ cc are held by market participants and include:
  - *Priority in scheduled injections* (injection tie-breaking rights (ITR)): When there are equal-priced injection bids, those associated with AMDQ or AMDQ ccs are scheduled first;
  - *Reduced uplift payments* (uplift hedge (UH) protection): Market participants can use part or all of their AMDQ or AMDQ credits to hedge against congestion uplift charges up to their Authorised Maximum Interval Quantity (AMIQ).

1 The types of transportation contracts and services available to a shipper will depend on whether the pipeline operates under a market or a contract carriage capacity management model.

2 In contrast, transportation services provided by pipelines operating under a contract carriage model are supplied under bilateral contracts entered into between the pipeline owner and the shipper of gas. These contracts will specify a certain amount of firm capacity that will be provided to the shipper.

3 In this context, customer refers to an end-user and market participant refers to the person who is financially responsible to a customer. That is, a retailer.

The entitlements to the 'portfolio' of financial rights (that is, to the market benefits associated with AMDQ and AMDQ cc) held by a market participant are the 'rights' that are proposed to be traded under PRT. The underlying AMDQ and AMDQ cc and the curtailment rights associated with it would remain with the customer or market participant who owns them.

AMDQ

The rules dealing with allocation of AMDQ were originally set out in section 5.3 of the Victorian Gas Industry Market and System Operations Rules (MSO Rules).[4] The initial allocation of AMDQ occurred in 1998 prior to the commencement of the wholesale market and when Longford was the only source of gas supply for the DTS.[5] The total AMDQ was set equal to the peak capacity of the pipeline from Longford to Melbourne of 990TJ/day. The AMDQ was allocated to the existing and committed new loads (at that time):

- Tariff D large customer sites, typically with demand exceeding 10TJ per year. The AMDQ allocated to each site was set equal to their contract MDQ with revisions approved by an independent panel.
- The New South Wales Interconnect, Wimmera pipeline, and Murray Valley towns.
- The balance of the 990TJ was assigned as a block to Tariff V customers—that is, all residential and small-to-medium sized commercial and industrial customers.

Most large industrial and commercial customers (including gas fired power stations) hold AMDQ allocated to their sites. Allocation of AMDQ is only valid for the withdrawal of gas made at the delivery point at which it was first allocated.

A customer holds a right to AMDQ based on the original allocation by VENCorp under the MSO Rules. The NGR provides that if a customer changes market participant, that customer's AMDQ remains assigned to that customer and is not varied as a result of the change in market participant.[6]

The market participant who is the financially responsible person in relation to a customer is responsible for the payment of uplift charges if that market participant or its customer withdraws more gas than the customer's AMDQ or AMDQ CC.[7] The NGR does not preclude the market participant from recovering from its customers the amount of any liability to pay uplift payments in respect of withdrawals of gas by those customers.[8] Therefore, typically under a gas supply agreement with a Tariff D

4 The MSO Rules were created by Victorian Government Order in Council under s. 48N of the *Gas Industry Act 1994*.

5 The MSO Rules provisions dealing with MDQ authorisation were converted into Subdivision 3 of Part 19 of the NGR.

6 Rule 328(5) of the NGR.

7 Rule 240(4) of the NGR.

8 Rule 240(5) of the NGR.

customer, a market participant will pass on all uplift charges it incurs if that customer exceeds its AMDQ.

Market participants supplying Tariff V customers are allocated a share of the Tariff V block AMDQ on a daily basis proportionate to their aggregated Tariff V customer withdrawals. Tariff V customers are therefore deemed to have AMDQ to cover all their withdrawals. AEMO updates each market participant's allocation of the Tariff V block AMDQ based on their share of the total Tariff V peak day demand. This process is run annually after each winter. The market participant's winter allocated Tariff V AMDQ is then adjusted daily to reflect each MP's net gain of customers occurring on each business day.

A market participant is liable for uplift payments if withdrawal is greater than the aggregate amount of AMDQ held by that market participant in relation to all its Tariff V withdrawal points. Any retrospective switching is not included in the calculation of uplift payments. Any pass through of uplift payments to Tariff V customers by a market participant is smeared across all its customers through its retail contracts.

Under particular circumstances, market participants holding AMDQ can change tariffs and/or transfer AMDQ to other market participants. Market participants need a customer's consent to trade any AMDQ that a customer holds.

AMDQ cc

Since the commencement of the DWGM, the capacity of the DTS has increased as a result of numerous augmentations.[9] As new pipeline capacity becomes available, AMDQ cc are created to provide similar benefits to those arising from AMDQ on the Longford pipeline. AMDQ cc gives market participants a contractual right to the market benefits of the AMDQ cc.

The increase in pipeline capacity resulting from an extension or expansion project is agreed between APA GasNet (the DTS owner) and AEMO (the operator of the asset and the DWGM). Once agreement is reached and the new capacity becomes operational, new certificates are created. AEMO allocates the AMDQ cc to market participants for quantities and periods as directed by APA GasNet following a tender process where interested market participants can tender for the new AMDQ cc.

AMDQ cc is not differentiated by final customer (Tariff V or D) and is not allocated directly to customers. Rather, market participants with AMDQ cc must advise AEMO whether the allocated AMDQ cc are to be nominated to sites or the reference hub.[10]

A market participant with excess AMDQ cc can trade capacity to another party. Transfers of AMDQ cc are currently limited to transfers between parties at the reference hub.

9 Changes to the DTS have included the Interconnect, the South West Pipeline, the connection of the former Western Transmission System, the Brooklyn Lara Loop and the BassGas project.

10 The nominated AMDQ cc are called AMDQ credits.

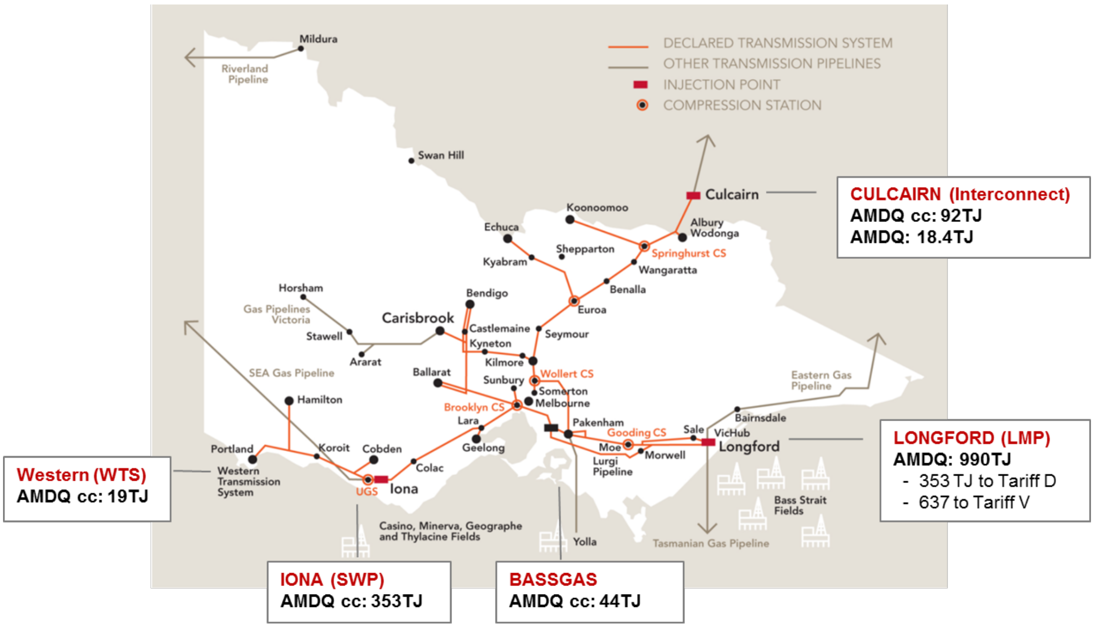
Obtaining AMDQ or AMDQ cc

There are a number of ways that market participants can acquire AMDQ and AMDQ cc. They can:

- enter into an agreement with existing AMDQ and AMDQ cc holders to transfer an agreed quantity from one site to another or to the reference hub;[11]
- enter into an agreement with existing holders of AMDQ cc to transfer an agreed quantity at the reference hub;
- tender for AMDQ cc when new DTS' capacity is created;
- fund an expansion of the DTS (although this has not happened to date);
- tender for existing AMDQ cc from the DTS owner when the current term of the AMDQ cc expires; and
- bid for spare AMDQ at an AEMO run auction.

Figure 2.1 sets out the current allocation of AMDQ and AMDQ cc in the DWGM.

Figure 2.1 Current allocation of AMDQ and AMDQ cc



11 The reference hub is a notional site within the DTS established for the purpose of valuing AMDQ and AMDQ cc. When a market participant does not nominate its entire AMDQ to actual sites, it has to nominate its residual AMDQ somewhere.

2.2 Transmission capacity working group

The concept of PRT was first considered by the Transmission Capacity Working Group (TCWG) in 2011. In August of that year, the TCWG was formed by the Gas Wholesale Consultative Forum (GWCF)[12] to investigate issues affecting the development of the DWGM, in particular, issues related to transmission capacity. At the time, some concern was expressed by various parties that existing DWGM capacity instruments, the design of the DWGM and the Victorian regulatory and planning frameworks were not facilitating the development of the DTS in a manner that promoted increased liquidity. In addition, the introduction of short term trading market (STTM) hubs in Adelaide and Sydney had raised a number of concerns related to interoperability of the pipelines connecting the DWGM and STTM.

Through stakeholder feedback, discussions at the GWCF and discussions with APA GasNet, AEMO identified four main categories of issues.[13] These were:

- existing capacity instruments not meeting market needs;
- maintaining adequate capacity;
- inadequate investment signals; and
- interoperability with other pipelines and markets.

The TCWG was also tasked with developing and recommending market design solutions to address the issues. The group identified six directions and assessed these against a number of criteria.[14] Subsequently, the TCWG recommended to the GWCF that two market design initiatives be progressed as a priority. The two initiates were:

- supporting private investments in transmission capacity through:
  - developing pathways to facilitate private investment;
  - planning enhancement; and
  - refinement of capacity rights – surprise uplift hedge; and
- transportation rights trading (later renamed portfolio rights trading).

12 The Gas Wholesale Consultative Forum is a standing forum for providing consultation between AEMO and stakeholders on development of the DWGM. Under its terms of reference, working groups may be established to consider matters brought before the GWCF.

13 The key issues were set out in detail in GWCF document 11-095-04 'Transmission Capacity Issues in the DWGM – Final'. See www.aemo.com.au.

14 The assessment criteria were set out in TCWG document 4, Assessment Criteria. Assessment of the directions were set out in TCWG document 8, Assessment of Directions. See www.aemo.com.au.

2.3 Broader context

Recently, a number of gas market reports have been released by the AEMC, and the Commonwealth and Victorian Governments, exploring issues affecting the development of the eastern Australian gas market. Among other things, these reports have included consideration of issues related to access to transmission pipeline capacity under both contract and market carriage arrangements.

In early 2013 following the completion of the AEMC's second review of strategic priorities for energy market development, the AEMC commissioned a scoping study on the current state of the east coast gas market.[15] Published in July 2013, the scoping study provides an overview of the changes currently underway, and the areas of potential improvement, in the downstream gas market and regulatory arrangements.[16] A key finding of the study was the need for a strategic plan for gas market development within which the industry, market institutions and governments can work towards achieving a more mature market. The plan would include consideration of whether improvements could be made to the existing trading market designs in eastern Australia.[17]

The findings of the AEMC scoping study were reinforced by the recommendations of the Department of Industry’s (DOI) recently released domestic gas market study,[18] and the Victorian Government gas market taskforce report on eastern Australia gas markets (the Reith report).[19] The DOI’s report identified a number of policy responses to issues it identified in the supply and demand sides of the eastern Australian gas market. These included:

- reviewing the direction, optimal structure and location of the facilitated markets in order to improve depth and liquidity;
- reviewing the features (and merits) of an efficient financial derivative market for gas;
- undertaking a specific review of the contract carriage versus market carriage pipeline models, including the extent to which the current regulatory settings are likely to promote efficient outcomes in contract carriage pipeline services; and

15 The AEMC's second strategic priorities report included the addition of a priority on the gas sector. Consistent with the AEMC’s remit, the gas strategic priority focussed on the means of exchange used in downstream parts of the supply chain, from when the gas enters the pipeline system to its delivery to end users.

16 K Lowe Consulting 2013, Gas Market Scoping Study, A report for the AEMC, July 2013.

17 Other initiatives recommended by the study focussed on improvements in transparency and reductions in transactions costs in the market.

18 Department of Industry 2013, Eastern Australian Domestic Gas Market Study, December 2013.

19 Victorian Government 2013, Gas Market Taskforce - Final Report and Recommendations, October 2013.

- enhancing capacity trading and developing a roadmap and evaluation process around future development of pipeline capacity trading.[20]

In addition, the Reith report specifically recommended that the AEMC undertake a review of pipeline capacity, investment, planning and risk management mechanisms in the Victorian market, with the objective of ensuring arrangements for access to pipeline capacity to promote competition, risk management and provide appropriate investment signals and incentives.

20 This work would be driven by the SCER Pipeline Capacity Trading Regulation Impact Statement (RIS) which recommended that pipelines and shippers provide additional information concerning pipeline capacity utilisation and trading. See www.SCER.gov.au.

3 Details of the rule change request

This chapter provides an overview of the issues identified by the proponent as the driver for change to the NGR. It also sets out the details of the proposed rule, and the rationale for the rule change, as described by the proponent in the rule change request. This chapter also replicates the high level cost benefit analysis provided by the proponent to support its proposal.

3.1 Issues this rule change seeks to address

In the rule change request, the proponent has identified a number of barriers which limit the ability of market participants to acquire AMDQ and AMDQ cc to meet their injection tie-breaking rights (ITR) and uplift hedge (UH) needs. The key issues outlined by the proponent are:

- *Allocation of AMDQ at Longford.* AMDQ associated with Longford is allocated for Tariff V customers between market participants based on their customer base. This may give rise to a situation where a market participant has been allocated more AMDQ than it has injection capacity at Longford.[21] Since AMDQ allocated to Tariff V customers cannot be transferred (see below), it is effectively stranded.

- *The market in AMDQ transfers is not liquid.* The NGR provide for the transfer of AMDQ and AMDQ cc. However, for practical reasons, the AMDQ associated with Tariff V customers (equivalent to two thirds of all AMDQ and AMDQ cc) cannot be transferred in this manner.[22] In addition, AMDQ held by Tariff D customers tends to be widely dispersed and held by those with minimal incentive to trade.

- *Alternatives to AMDQ and AMDQ cc that provide ITR are limited.* It is possible to gain an ITR by selling an agency injection hedge nomination (AIHN) to a market participant who has AMDQ or AMDQ cc but no injections at the relevant injection point. An AIHN provides the market participant with physical injection with a tie-breaking right and payment for validating the other market participants' uplift hedge. Importantly, an AIHN does not provide an uplift

21 According to AEMO, currently all 990TJ of AMDQ has been fully allocated. The three major retailers have over 75 per cent of the allocations as a result of them supplying Tariff V customers. However, these retailers also have a more diversified supply portfolio - over time, they have progressively moved away from Gippsland gas supplies to BassGas or Otway gas. As such, these retailers are holding more AMDQ than they require to support their ITR and UH at the Longford close proximity point (CPP). On the other hand, the Longford CPP remains the major source of gas supplies for some market participants who do not have sufficient AMDQ allocations to cover their current ITR and UH requirements.

22 AMDQ can be transferred: between Tariff D customer sites; from a Tariff D customer site to the reference hub; from the reference hub to a Tariff D customer site; and between parties at the reference hub. Transfers of AMDQ cc may only be undertaken between parties at the reference hub. See AEMO Wholesale Market AMDQ Transfer Procedures (Victoria) v2.0 available at www.aemo.com.au.

hedge benefit to the injecting party. In addition, the process is complicated and tends to be used intra-company only.

- *Allocation of AMDQ cc.* AMDQ cc tends to be released in tranches, often for five years in line with APA GasNet's access arrangement period. This means that market participants must forecast their requirements out five years when tendering for AMDQ cc. This is likely to result in over or underestimation. New entrants within the five year period will also be unable to obtain AMDQ cc from APA GasNet if the full allocation has been sold.
- *Creation of new AMDQ cc at Longford.* AEMO considers that expanding the Longford-Melbourne pipeline through either a regulated expansion or privately funded augmentation is unlikely in the near future.[23] Consequently, obtaining AMDQ cc through an increase in capacity is also unlikely.

3.2 Extent of the issues

To highlight the extent of the issue, the proponent provides some high level analysis in the rule change request. Based on consultation with stakeholders in 2011-2012 and drawing on data from winter 2011, the proponent found that approximately 250TJ of the 990TJ of allocated AMDQ at Longford was not supported by injections at the Longford CPP.

Further, drawing on data from winter 2012, the proponent compared market participants' scheduled injections at the Longford CPP with their allocated AMDQ at Longford. This analysis showed that, while some market participants were allocated up to 142TJ of AMDQ over their scheduled injections, other market participants experienced a shortfall of up to 92TJ of AMDQ relative to their scheduled injections.

Based on this analysis, the proponent considers that there is potentially up to 92TJ of AMDQ available for trade between market participants who have either a surplus or shortfall of AMDQ at Longford relative to their actual injections at the Longford CPP.

3.3 Proposed rule

To address the issues identified above, AEMO has proposed a number of amendments to Part 19 of the NGR. The rule change request includes a proposed rule.

PRT is a proposed new market mechanism to facilitate the trading by a market participant of its portfolio of entitlements to the market benefits of AMDQ and AMDQ cc (that is, tie breaking rights and uplift hedge) that it holds. This would include the

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23 In respect of a regulated expansion, AEMO considers that the current underutilisation of the Longford-Melbourne pipeline would make it difficult for APA GasNet to successfully argue to the AER that an expansion would create an economic benefit and should be included in the regulated capital base. In respect of a privately funded expansion, AEMO considers that ITR benefits alone would be unlikely to incentivise market participants to sign the long term contracts needed to underpin the investment.

entitlements to the market benefits of all the AMDQ from Tariff V and Tariff D customers, plus any AMDQ cc held by the market participant. Physical ownership of authorised MDQ and AMDQ cc and any curtailment rights would remain unchanged by PRT. This may effectively enable underutilised AMDQ and AMDQ cc to become available to market participants who currently do not have enough to cover their available injections.

The proposed PRT model includes:

- a new market systems interface (the PRT nomination WebExchanger (WEX) and Web service) for registering and confirming bilateral trades between market participants; and
- a new module in AEMO's market systems for updating market participant's AMDQ and AMDQ cc allocation to take account of the traded quantities.

The proposed PRT model does not include contract terms and payments. Financial transactions related to PRT will take place through bilateral contracts between the trading parties outside of the NGR.

The changes proposed to Part 19 of the NGR include a number of amendments to existing definitions and rules as well as the inclusion of a number of new definitions and rules. In summary, the proposed rule seeks to:

- create a number of new definitions, for example "Adjusted AMDQ", "Adjusted AMDQ credits";
- amend several existing definitions, for example "AMDQ credit", "AMIQ", "AMDQ";
- amend several existing rules related to AMDQ cc tie-breaking and uplift payments; and
- create a new rule which requires AEMO to make PRT procedures to implement the PRT model.

The proposed rule also clarifies the type of rights that are created by AMDQ and who owns them. Further explanation of these proposed changes is set out in Appendix A.

3.4 Rationale for proposed rule

3.4.1 National gas objective

The proponent provides its rationale for the rule change in the rule change request. The key points raised in the rule change request can be summarised as:

- *Price impact on consumers.* The proponent considers that the proposed changes will, by promoting more efficient utilisation of existing pipeline capacity, defer the need for costly augmentation of the DTS. Deferring increases in the capital base will defer increases in transportation tariffs. In addition, the proponent considers that improving the ability of market participants to manage their risk exposure via ITR and UH will also ultimately deliver lower gas costs to consumers.

- *Competition.* The proponent considers the proposed changes will promote competition in the DWGM by providing larger market participants with the flexibility to manage hedging instruments in the short term, and smaller market participants and new entrants with a mechanism to access AMDQ or AMDQ cc to manage short term exposure.

- *Risk management.* By providing market participants with greater flexibility to optimise scheduled injections and uplift hedge to mitigate the risk of uplift payments, the proponent considers that the proposed changes will increase certainty of supply and result in more efficient allocation of gas.

- *Transparency.* The proponent considers that, by broadening the AMDQ and AMDQ cc transferrable base and establishing a more liquid market for AMDQ and AMDQ cc, the introduction of PRT will improve market transparency.

3.4.2 Expected costs and benefits

The proponent provides a high level cost benefit assessment in the rule change request. To evaluate the net benefits of PRT the proponent compared the net present value (NPV) of PRT system implementation costs with the benefits resulting from avoided system augmentation.

The proponent used the following key assumptions in its analysis:

- A rate of return on investment of 8.5 per cent per annum.

- Total PRT system implementation costs of $500,400 (equivalent to an NPV of $453,424 over five years).

- A system augmentation cost equal to the price paid for an Iona AMDQ cc based on the 2011 tender. That is, $15.58GJ/year (equivalent to an NPV of $48.07 GJ over five years). A three year lead time for system augmentation projects was also assumed.

Assuming that contract negotiation costs would be required for both PRT and also contracting AMDQ cc with APA GasNet (for new system capacity associated with system augmentation projects), these costs were not included in the analysis.

The results of the proponent's analysis are shown in Figure 3.1. In summary, the analysis shows:

- net positive benefits can be achieved if the total traded quantities are greater than 9.5TJ each year;

- total net benefits of up to $508,000 can be expected if the total traded quantity increases to 20TJ; and

- total net benefits of up to $1.47 million can be expected if the total traded quantity increases to 40TJ.

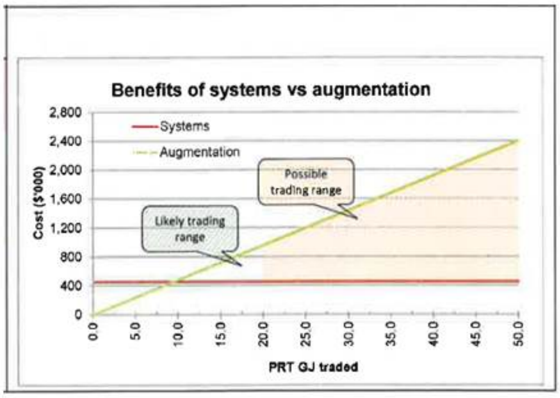
Overall, the proponent considers its cost benefit analysis demonstrates that the PRT mechanism may return positive net market benefits if the traded quantity is above 10TJ for each year over the lifetime of the project (which is assumed to be five years).

The next section sets out the proponents view on the potential opportunities available for the PRT.

Figure 3.1 Total market costs and benefits

Table 2—NPV of PRT net benefits ($1,000)*

Traded TJ	PRT costs	Benefits	Net benefits
0	$453.4	$0	-$453
5	$453.4	$240	-$213
10	$453.4	$481	$27
15	$453.4	$721	$268
20	$453.4	$961	$508
25	$453.4	$1,202	$748
30	$453.4	$1,442	$989
35	$453.4	$1,682	$1,229
40	$453.4	$1,923	$1,469



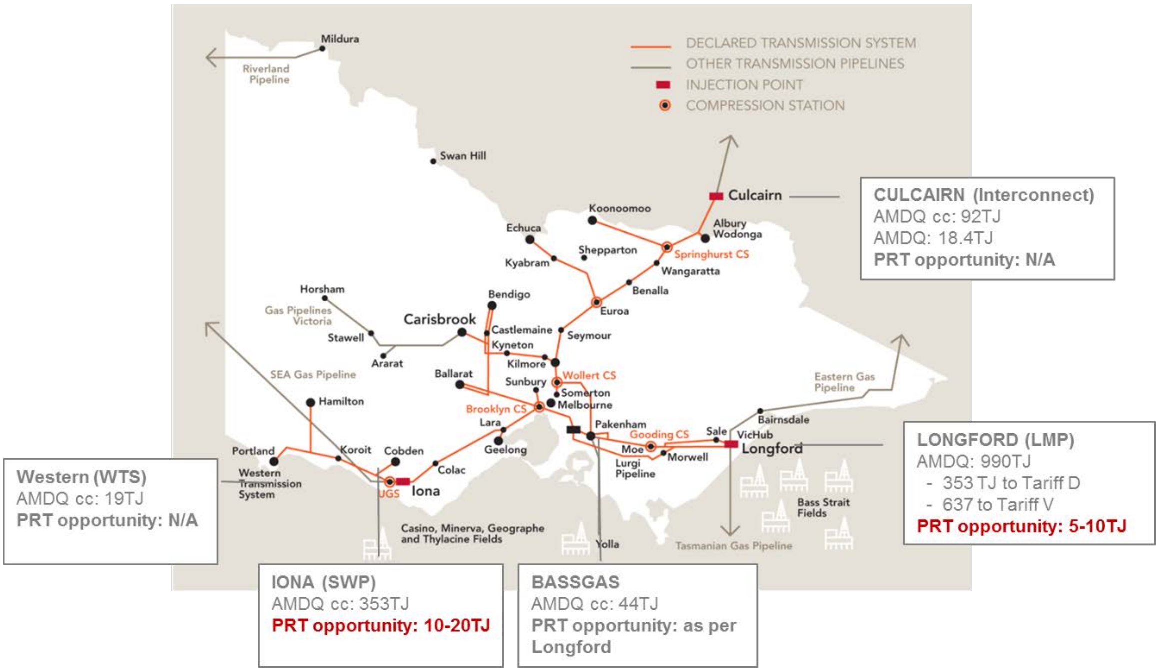
3.4.3 Opportunities for PRT

AEMO states that it has identified sufficient opportunities for the take-up of PRT. Assuming each market participant retains a five per cent position buffer to manage risk associated with demand fluctuations, AEMO has identified scope for between 5-10TJ of AMDQ that could be transferred at Longford, and a further 10-20TJ of AMDQ cc at Iona. According to AEMO, there is currently no opportunity for trade of AMDQ cc at

Culcairn. This is because the full allocation of AMDQ cc at Culcairn tends to be supported by injections.

Figure 3.2 sets out the potential opportunities for the trade of AMDQ and AMDQ cc in the DWGM, as identified by the proponent in its rule change request.

Figure 3.2 Potential opportunities for PRT



3.5 Procedure changes

The proposed rule, if implemented, would require AEMO to develop procedures detailing how the PRT model would operate. While not specified in the proposed rule, the proponent notes that the PRT procedures would contain information related to: permitted trades; the available quantity of transferrable portfolio rights; PRT nominations; determination of market participants' adjusted AMDQ and AMDQ cc; notification to APA GasNet; and restrictions on transfer quantities.

In its rule change request, the proponent has indicated that it will commence consultation on the PRT procedures following publication of a draft rule determination for this rule change.

This consultation paper only addresses the proposed amendments to the NGR. As part of assessing the rule change request, the AEMC will not be assessing the details of AEMO's envisaged procedure changes. Any procedure changes that may be proposed by AEMO in the event this rule change is made will be consulted on by AEMO through its procedures change process. In deciding to make a procedure change, AEMO must have regard to the national gas objective (NGO).

A copy of AEMO’s draft procedures has been published on the AEMC’s website for information.

3.6 Additional information on the rule change request

As noted in section 2.2, the concept of PRT was first considered by the TCWG in 2011. The PRT model was subsequently developed by AEMO, in close consultation with the GWCF, before being submitted to the AEMC as a rule change request.

A multitude of working papers have been produced throughout the period over which PRT has been developed. Appendix B of the rule change request lists the key documents and relevant links to AEMO's website. Stakeholders may find it useful to consider this additional information (much of which is not directly included within the rule change request) when preparing submissions to this consultation paper.

3.7 Timing of the proposed rule

The proponent has requested that a draft rule determination be made on the rule change request no later than mid-June 2014. This will allow a rule (if made) to be incorporated into AEMO's April 2015 release of market systems.

4 Assessment framework

The Commission's assessment of this rule change request must consider whether the proposed rule is likely to contribute to the NGO. The NGO is set out under s. 23 of the National Gas Law (NGL) as follows:

> “The objective of this Law is to promote efficient investment in, and efficient operation and use of, natural gas services for the long term interests of consumers of natural gas with respect to price, quality, safety, reliability and security of supply of natural gas.”

We consider the relevant aspects of the NGO to be:

- efficient use of natural gas services (allocative efficiency); and
- efficient investment in natural gas services (dynamic efficiency).

To give effect to the NGO, we propose using the following principles to assess the rule change request:

- *Competition:* Arrangements which facilitate access to unused pipeline capacity may increase competition between market participants by broadening the tools available for portfolio management, lowering barriers to entry for new market participants (including new retailers) and enhancing participation by end users in the DWGM. Increasing competitive pressure could result in lower prices to consumers.
- *Flexibility:* Well-functioning and flexible pipeline trading arrangements may lower transaction costs for market participants seeking access to short-term pipeline services. In addition, arrangements which generate interest between buyers and sellers may contribute to pipeline capacity trading liquidity.
- *Efficient use of gas transmission capacity:* Arrangements which encourage the reallocation of unused pipeline capacity will facilitate efficient use of existing infrastructure and should contribute to the pipeline network being expanded in an efficient manner.

In assessing the request against the NGO, the Commission will also consider the likely long term costs and benefits of the proposed rule compared to the counterfactual of not making the proposed change to the NGR. In doing so, the Commission will consider whether the proposed rule is likely to lead to more efficient use of, and investment in, natural gas pipelines, which is in the long term interests of consumers.

This assessment framework may be reviewed following the receipt of submissions and the AEMC’s own analysis.

5 Questions for consultation

The AEMC has identified a number of questions for consultation that are relevant to this rule change request.

These questions will assist in the Commission's consideration of the rule change request and the proposed rule. Stakeholders are encouraged to provide responses to these questions and to comment on any other aspect of the rule change request or this consultation paper.

The problem

1. Do you agree that the issues identified by the proponent in the rule change request are currently having a detrimental impact on the DWGM in Victoria? How and to what extent? Consider the impacts on:
   - gas prices;
   - incentives for efficient entry of new participants;
   - efficient investment in, and use of, pipeline services; and
   - efficient operation of the DWGM.

The solution

2. Do you consider that the solution identified by the proponent will address the issues identified in the rule change request? How and to what extent?
3. Do you consider that the solution is proportionate to the issues identified? Please explain your view.
4 How, and to what extent, will the solution impact on participation in the DWGM?
5. Are the amendments proposed to the NGR fit for purpose and likely to achieve the stated objective as outlined by the proponent in the rule change request?

The impacts

6. Which parties are likely to be affected (positively or adversely) by the introduction of PRT in the DWGM? How and to what extent?

How will market participants' behaviour be affected?

7. What are the likely consequences or outcomes of these behavioural changes on efficiency in the market and/or the long term interests of consumers?

The costs and benefits

8. Do you consider that the proponent's analysis of the total market costs and benefits of PRT as set out in the rule change request sufficiently demonstrates a case for the introduction of PRT in the DWGM?

9. If you have not utilised the AMDQ and AMDQ cc transfer arrangements set out in the NGR, why not?

10. Would you participate in PRT as a buyer and/or seller of AMDQ and/or AMDQ cc? Please explain your view.

11. As a potential participant (buyer and/or seller), what are the costs to and benefits to you from participating? Where possible, please quantify these costs and benefits.

The broader context

12. What impact would the introduction of PRT in the DWGM have on other gas markets and pipelines in eastern Australia?

The national gas objective

13. If PRT is introduced, what are the likely impacts on the achievement of the NGO? Consider the impacts on:

    - gas prices;
    - competition, including the incentives for efficient entry of new participants;
    - efficient investment in, and use of, pipeline services; and
    - the efficient operation of the DWGM.

14. Do you consider that the proposed rule is likely to have any other impact on the achievement of the NGO?

General

15. Are there any reasons or concerns that would lead to the conclusion that any parts of the information proposed by AEMO for inclusion in the PRT procedures would be better dealt with in the NGR? Please explain your view.[24]

24 In considering this question, stakeholders may find it useful to refer to the AEMC's draft rule determination on the 'Market Operator Service - Timing and Eligibility' rule change request, published in February 2013. In its determination, the Commission set out a number of principles which it considered provided a good framework for considering where an obligation should sit in the regulatory and institutional framework, consistent with the current governance arrangements.

6 Lodging a submission

The Commission has published a notice under s. 303 of the NGL for this rule change proposal inviting written submission. Submissions are to be lodged online or by mail by 10 April 2014 in accordance with the following requirements.

Where practicable, submissions should be prepared in accordance with the Commission's guidelines for making written submissions on rule change proposals.[25] The Commission publishes all submissions on its website subject to a claim of confidentiality.

All enquiries on this project should be addressed to Claire Rozyn on (02) 8296 7800.

6.1 Lodging a submission electronically

Electronic submissions must be lodged online via the Commission's website, www.aemc.gov.au, using the "lodge a submission" function and selecting the project reference code GRC0021. The submission must be on letterhead (if submitted on behalf of an organisation), signed and dated.

Upon receipt of the electronic submission, the Commission will issue a confirmation email. If this confirmation email is not received within three business days, it is the submitter's responsibility to ensure the submission has been delivered successfully.

6.2 Lodging a submission by mail

The submission must be on letterhead (if submitted on behalf of an organisation), signed and dated. The submission should be sent by mail to:

Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Or by Fax to (02) 8296 7899.

The envelope must be clearly marked with the project reference code: GRC0021.

Except in circumstances where the submission has been received electronically, upon receipt of the hardcopy submission the Commission will issue a confirmation letter.

If this confirmation letter is not received within three business days, it is the submitter's responsibility to ensure successful delivery of the submission has occurred.

25 This guideline is available on the Commission's website.

Abbreviations

AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AMDQ	Authorised MDQ
AMDQ cc	AMDQ credit certificates
AMIQ	Authorised Maximum Interval Quantity
Commission	See AEMC
CPP	close proximity points
DTS	declared transmission system
DWGM	declared wholesale gas market
GWCF	Gas Wholesale Consultative Forum
NGL	National Gas Law
NGO	national gas objective
NGR	National Gas Rules
NPV	net present value
STTM	short term trading market
TCWG	Transmission Capacity Working Group
WEX	WebExchanger

A Proposed amendments to the NGR

Table A.1 sets out the changes proposed by AEMO in its rule change request.

Table A.1 Proposed amendments to the NGR

NGR reference	Section title	Description
New definitions		
Rule 200	"Adjusted AMDQ"	Market participants' AMDQ entitlements adjusted as set out under new rule 327A(1) to take account of the AMDQ entitlements it has transferred with other market participants for that gas day in accordance with the PRT procedures and any associated diversity factors.
Rule 200	"Adjusted AMDQ Credits"	Market participants' AMDQ credit adjusted to take account of the AMDQ credit entitlements it has transferred with other market participants for that gas day in accordance with the PRT procedures and any associated diversity factors.
Rule 200	"Diversity factor"	A factor determined by AEMO by reference to the expected gas consumption at that system point.
Rule 200	"Portfolio Rights Trading Procedures"	The proposed new PRT procedures required under new rule 331A.
Amended definitions		
Rule 200	"AMDQ credit"	Amended to clarify the distinction between AMDQ credit and AMDQ cc.
Rule 200	"Authorised Maximum Interval Quantity"	Amended to reflect AMIQ only has a role in determining uplift payments and not ancillary payments. Amendment also clarifies that AMIQ is based on the adjusted quantities of the AMDQ credit not the total AMDQ cc.
Rule 200	"AMDQ"	Amended to simplify the definition.

NGR reference	Section title	Description
Amended rules		
Existing rule 214(e)	Priority of bids in the scheduling process	Amended to clarify that it is the adjusted quantities for the AMDQ credit and not AMDQ cc that is used for tie-breaking.
Existing rule 240	Uplift payments	Amended to clarify that AEMO must use the adjusted AMDQ or adjusted AMDQ credits when calculating a market participants' exposure to uplift payments.
Existing rule 240(3)(c)	Uplift payments	Amendment moves the reference to the different types of loads allocated adjusted AMDQ to under new rule 327A.
Existing rule 331(2)	Transfer of AMDQ or AMDQ ccs	Amendment moves the clause (related to the AMDQ transfer mechanism) to new rule 327A.
New rules		
Proposed rule 327A	Rights associated with AMDQ and AMDQ ccs	New rule clarifies the rights and entitlements of market participants in relation to AMDQ and AMDQ cc (note that these matters are not directly addressed in the existing rules). It does so by first clarifying that market participants who: are responsible for settling Tariff D sites with AMDQ; have AMDQ allocated to them in relation to Tariff V customers; or otherwise hold AMDQ or AMDQ cc, are entitled to the benefits arising from ITR and UH associated with the AMDQ and AMDQ cc. The new rule then clarifies that a market participant may transfer to another market participant an entitlement to the benefits from ITR and UH associated with a quantity of AMDQ or AMDQ cc (without transferring the AMDQ or AMDQ cc themselves) in accordance with the PRT procedures.
Proposed rule 331A	Portfolio Rights Trading procedures	New rule requires AEMO to make procedures for the transfer of entitlements to the benefits associated with a quantity of AMDQ and AMDQ credit between market participants.

NGR reference	Section title	Description
Consequential amendments		
Existing rule 211(2A)	Timing of submissions by market participants	Amended as consequence of definition change.
Existing rule 239	Ancillary payments	Amended as consequence of definition change.