



10 April 2014

Ms Anne Pearson
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

AEMC reference: GR0021

Dear Ms Pearson

Thank you for the opportunity to comment on the Rule change proposal lodged by the Australian Energy Market Operator (AEMO) in relation to Portfolio Rights Trading.

APA Group (APA) supports this rule change proposal.

APA supports initiatives that seek to improve the operation of the Declared Wholesale Gas Market (DWGM) by addressing known shortcomings in the Victorian market.

A key shortcoming of the market identified in the Rule change proposal is the inability of market participants to manage their risk exposure where they do not have adequate Authorised Maximum Daily Quantity (AMDQ) or AMDQ credit certificates. This risk exposure arises because of the design of the DWGM based on market carriage, which means that market participants do not have firm transmission rights. It is also a legacy of the initial allocation of AMDQ directly to final Tariff D customers and indirectly to Tariff V customers which resulted in much of the benefits of that AMDQ being unable to be realised unless a shipper injected gas from Longford.

APA notes that this Rule change is attempting to create additional opportunities for market participants to access instruments designed to provide some elements of the 'firmness' available on contract carriage pipelines. APA agrees that there is an issue with the current market structure of the DWGM in respect of providing market participants with the certainty they need, and that the proposed Rule change, which APA had a significant part in developing, may assist in addressing this issue. It should be noted, however, that the Rule change will only partially address this issue.

In addition, the trading mechanism proposed will create significant additional complexity on top of an already complex and technically challenging market structure. Alternative market models, such as contract-carriage operating alongside gas and pipeline capacity trading, offer opportunities for improving market liquidity without giving rise to issues in respect of firm capacity rights. These market models also operate without the complexity and cost of the DWGM.



APA considers that contract carriage-based market models offer superior outcomes for market participants, and ultimately customers, and ought to be considered in the context of the long term development of the Australian gas market.

If you would like any further information, please call me on 02 9275 0020.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Alex', located below the 'Yours sincerely' text.

Alexandra Curran
Regulatory Manager