16 November 2009

FROM THE OFFICE OF THE
CHIEF EXECUTIVE OFFICER

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Dr John Tamblyn
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**Submitted online**

Dear John

**Re: Prioritisation of Tied Controlled Withdrawal Bids**

AEMO requests that the AEMC consider making a Rule change under section 295 of the *National Gas Law* (**NGL**). The proposed Rule change seeks to amend Part 19, Rule 214 of the *National Gas Rules* (**NGR**) to allow those withdrawal bids from Participants with authorised MDQ and AMDQ credit certificates to be given priority in the event of tied bids.

AEMO also requests that the AEMC have regard to Item 62 of Schedule 3 of that Act. Details of the consultation process undertaken by AEMO are included in the proposal.

A description and drafting of the proposed Rule, a statement of the issues concerning the existing NGR and a description of the consultation process, and how the proposed Rule contributes to the achievement of the national gas objective is provided in Attachment A.

AEMO would be pleased if you could have these matters considered by the AEMC. For further details, please do not hesitate to contact Neale Scott on 03 8664 6536.

Yours sincerely

Matt Zema
**Managing Director and Chief Executive Officer**

Attachments A: Rule Change request

## ATTACHMENT A

## 1. Statement of issues

### Background

Authorised MDQ and AMDQ credits, are forms of gas transmission capacity rights used in the Victorian Declared Wholesale Gas Market (**DWGM**). These rights are primarily used as a hedging tool to manage the risk of congestion uplift costs[1] when transmission constraints occur, however, they also provide physical rights to injections and withdrawals on the Victorian Declared Transmission System (**DTS**).

During 2008, a number of participants of the Gas Market Consultative Committee (**GMCC**) raised their concern that the Victorian Market and System Operations Rules (**MSOR**) prior to their incorporation into the National Gas Rules (**NGR**) contained no tie-break procedure for "equally beneficial"[2] withdrawal bids in a scheduling interval. It was proposed that a prioritisation procedure was required for tied withdrawal bids across all controllable withdrawal points on the DTS.

Since 2007, a tie-break procedure has existed for injection bids[3] and some participants argued that a similar procedure should apply to equally beneficial tied withdrawal bids. At the time that the tie-break procedure for tied injection bids was considered and adopted, the treatment of tied withdrawal bids was also considered by participants but did not proceed any further. The treatment of this issue is dealt with in greater depth below (under the "Consultation" heading) and in Appendix 2.

### Issue

Rule 214(d) of the NGR allows for priority scheduling for equally beneficial injection bids for holders of authorised MDQ and AMDQ credit certificates associated with the relevant injection points, but does not do so for withdrawal bids that have associated authorised MDQ and AMDQ credits.[4] Further, in the event of a transmission constraint that is a threat to

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[1] Uplift funds the cost of ancillary payments to compensate Market Participants for any of their bids that are priced higher than the market price and which are scheduled to resolve transmission system constraints.

[2] Equally beneficial bids means bids that, in the absence of a tie-break procedure, and taking account of bid price, location, accredited constraints, system capacity and the temporal and physical distribution of system demand over the gas day, would be scheduled with equal priority on a pro-rated basis by the scheduling systems and processes.

[3] This was implemented as part of the Stage 1 Gas market which commenced on 1 February 2007.

[4] AMDQ Credits Certificates that are nominated by the holder to a withdrawal point (or the hub) are then referred to as AMDQ credits

system security and prior to curtailing any other Customer, rule 343(2) of the NGR requires AEMO to use reasonable endeavours to curtail Customers who are, in AEMO's reasonable opinion, using more than their assigned authorised MDQ and AMDQ credits. This implies that Customers without authorised MDQ and AMDQ credits are curtailed before those who possess these rights.

Accordingly the NGR currently treats injection bids and withdrawal bids inconsistently in the scheduling process.

**Consultation**

*Changes to the MSOR*

The proposed rules and system changes were originally proposed to the GMCC by VENCorp as changes to the MSOR prior to their incorporation into the NGR. They were subsequently extensively consulted on through the GMCC and the Gas Wholesale Consultative Forum (**GWCF**).[5]

*The GMCC and the GWCF*

The GWCF is a standing open forum for providing consultation with all stakeholders on development of the DWGM. The GWCF's objective is to:

- facilitate effective and efficient consultation between AEMO and stakeholders for the development of changes to the DGWM Procedures, the National Gas Rules (primarily Part 19), systems and arrangements governing the wholesale market; and
- provide stakeholders with a forum to raise and address issues relating to the operation and functionality of the wholesale market.

All papers, minutes and agendas relating to proposed rules and system changes are distributed to a mailing list of interested parties as well as regular attendees of the GWCF and are published on AEMO's website. An extract of the Terms of Reference of the GWCF (including links to the published constituting documentation of the forum) and current industry representation can be found in Appendix 3.

*Consultation on tied withdrawal bids*

A summary of the key dates and the issues raised in consultation with participants of the GMCC and GWCF follows:

- On 22 April 2008, the issue of prioritising tied controllable withdrawal bids was formally raised at the GMCC meeting 138 in the paper *GMCC 08-014-02 Prioritisation of tied controllable withdrawal bids with AMDQ or AMDQ credits.*

[5] The Gas Market Consultative Committee (GMCC) was the predecessor to the GWCF and was an effective means of consultation from market inception in 1999, however, the then Board of Directors of VENCorp changed the GMCC from a representative committee to an open forum from 1 May 2008 to enable a more inclusive and open consultation process. Its name was changed to GWCF in July 2009 reflecting this change.

- On 22 July 2008, a subsequent paper (*GMCC 08-014-04 Prioritisation of tied controllable withdrawal bids with AMDQ or AMDQ credits*) was presented at GMCC meeting 141. Participants of the meeting engaged in detailed discussion of the issues and options, this resulted in VENCorp (now AEMO) receiving support to explore two preferred options further.
- The two options were discussed over the next few GMCC meetings leading to the organisation of a workshop in February 2009. The workshop was attended by VENCorp, producers, retailers, market customers, storage providers, the transmission pipeline owner and the AER. The workshop took into account input from VENCorp's IT and Operations teams and attendees agreed on the option to be developed. The findings were presented and discussed in detail at the GMCC.
- On 17 March 2009, there were further discussions of the option being developed at the GMCC meeting 147. The committee chair asked for an indication of who supported the change. Most attendees including all those who would be directly impacted indicated their support and no representatives opposed it. One attendee raised a concern with the preferred option because of the proposed lack of injection dependence of the authorised MDQ and AMDQ credits supporting the tied withdrawal bid. Participants affected by the proposed rule change and VENCorp concurred that the authorised MDQ and AMDQ credits do not need to be dependent on scheduled injections for tie-breaking purposes.[6] Commensurate scheduled injections is only necessary when AMDQ is used as an uplift hedge.

  Further, including injection dependency would require a complex and expensive system change to the Market Clearing Engine which could not be justified on the basis of cost. Conversely, the supported approach represents a simple and inexpensive solution by enabling AMDQ withdrawal rights to reflect the current AMDQ injection rights. More detailed treatment of these issues is set out in Appendix 2.
- A first draft of the proposed rule change was published in the paper *GMCC 09-014-02 Tied Controllable Withdrawals – Implementation Plan* dated 19 May 2009, it was agreed by forum attendees that VENCorp progress the rule change.
- The proposed changes to the NGL as detailed in the rule change were presented to the participants of the GWCF in anticipation of its 20 October 2009 meeting (GWCF Meeting 153) and discussed at the meeting. Participants were given an opportunity to comment on the wording of the proposed rule change and the proposed wording was posted to AEMO's website. No submissions were received in relation to the rule change.

[6] Affected Market Participants are those located at withdrawal points in the DTS

## 2. Proposed Rule

### Description of the Proposed Rule

The proposed rule includes a new rule 214(e) and an amendment to rule 214(c) so that it refers to new rule 214(e). Proposed rule 214(e) expresses the principle that AEMO must as far as practicable, take authorised MDQ or AMDQ credits into account when determining the priority of otherwise equally beneficial bids in a scheduling interval. In particular, the proposed rule would require AEMO, where two or more withdrawal bids are equally beneficial, to apply the principle that withdrawal bids associated with authorised MDQ or AMDQ credits are given priority over withdrawal bids that are not.

AEMO notes that the proposed principle mirrors rule 214(d) in respect of bids relating to injections.

The current rule 214 and the proposed amendments are supported by item 55B of schedule 1 which allows the AEMC to make rules concerning:

> The operation and administration of a regulated gas market.

### Draft of the Proposed Rule

The proposed drafting of the rule is:

**214 Priority of bids in the scheduling process**

For the purpose of scheduling under clause 214, if two or more bids are equally beneficial for scheduling, then AEMO must as far as practicable apply the following principles:

(a) an increase in the amount of gas injected in accordance with an injection bid should be scheduled before scheduling a reduction in gas withdrawn under a withdrawal bid;

(b) subject to paragraph (d), where two or more injection bids are equally beneficial, those injection bids should be scheduled to the same extent;

(c) subject to paragraph (e), where two or more withdrawal bids are equally beneficial, those withdrawal bids should be scheduled to the same extent;

(d) where two or more injection bids are equally beneficial, then those injection bids that are associated with AMDQ credit certificates or authorised MDQ should be scheduled before other injection bids that are not associated with AMDQ credit certificates or authorised MDQ~~.~~; and

(e) where two or more withdrawal bids are equally beneficial, then those withdrawal bids associated with AMDQ credit certificates or authorised MDQ should be scheduled before other withdrawal bids that are not associated with AMDQ credit certificates or authorised MDQ.

**Request for Rule Change**

AEMO requests that the AEMC consider this proposed Rule change under Part 3 of the NGL but has consideration to Item 62 of Schedule 3 of the NGL and requests that it dispenses with the notice provisions of section 303 and public hearing requirements of section 307.

Item 62 of Schedule 3 of the NGL states that:

> The AEMC or AEMO (as the case requires) may dispense with a particular step in the process for making a Rule or a Procedure if it is of the opinion that the relevant step is unnecessary because no equivalent step existed under the superseded jurisdictional rules or the same or a similar step has already been taken under the superseded jurisdictional rules.

The MSOR were jurisdictional rules that are now superseded by the NGR. AEMO notes that the NGL allows the AEMC some flexibility in its treatment of changes to the rules under certain circumstances. AEMO considers that the AEMC may exercise its discretion to determine that the consultation held by VENCorp and AEMO through the GMCC and GWCF because:

- the superseded procedure had "no equivalent step" to the public consultation required under section 303, 305 or the public hearings under section 307, other than the consultation with the GMCC (later the GWCF); or
- that the composition of the GWCF during the discussions, as noted above, is sufficiently open to the public that is constitutes "the same or similar step" to the sections 303, 305 and 307 consultation requirements.

For reference, the consultation process for a rule change under the MSOR is set out in Appendix 1.

**Consultation**

AEMO considers that it has met the MSOR's consultation requirements for Rule changes and requests the AEMC take this into consideration when considering the proposed Rule change. AEMO's consultation process is outlined in Section 1 and Appendix 2 provides details of issues raised with VENCorp concerning the proposed Rule change and VENCorp's responses to these.

## 3. How the proposed Rule contributes to the National Gas Objective (NGO)

Before the AEMC can make the a Rule change it must apply the rule making test set out in the NGL, which requires it to assess whether the proposed Rule will or is likely to contribute to the National Gas Objective (**NGO**). Section 23 of the NGL states the **NGO** 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.

AEMO submits that the proposed Rule promotes the NGO and represents good regulatory practice because it would increase consistency in the treatment of scheduling between equally beneficial withdrawal and injection bids. This is consistent with the existing practice of giving preference to holders of authorised MDQ and AMDQ credits in circumstances of equally beneficial injection bids and for injection and withdrawal rights provided under load curtailment. Additionally, this rule change may contribute to signalling investment in the DTS in situations of system constraints because it incrementally increases the utility of authorised MDQ and AMDQ credits. Part of the purpose of these rights is to act as a signal to augment the DTS. In summary, AEMO considers the proposed Rule allows for consistency of the NGR and strengthens an investment mechanism which, in turn, promotes an environment of efficient investment, operation and use of natural gas services.

## 4. Expected Benefits and Costs of the Proposed Rule

AEMO expects that the proposed Rule may increase the value of authorised MDQ and AMDQ credits because where a tied withdrawal bidding situation occurs, the withdrawal bid of a Market Participant who holds authorised MDQ and AMDQ credits that is allocated or nominated to a controllable withdrawal point would be accepted over those who do not hold them. This change is expected to affect Market Participants holding authorised MDQ or AMDQ credits at the Culcairn withdrawal point.

The proposed Rule would require AEMO to make minor changes to market systems and this is expected to cost approximately $40,000. The costs are less than would usually be the case for a systems change of this type because when the Market Clearing Engine was changed to incorporate changes for tied injection bids, the necessary changes for withdrawals were anticipated and built in. These costs reflect the costs of activating systems that while built in are not yet activated. There will be no alteration to how Market Participants enter bids and other data into the web exchange system and it is unlikely that Market Participants will be required to make changes to their systems to comply or otherwise increase their operational costs. The benefit of the rule change, while incremental, is to send a potential signal to invest in the DTS as a consequence of the increased marginal value of authorised MDQ and AMDQ credits.

## Appendix 1

### MSOR Rule Change Process

Under Chapter 8 of the MSOR, the process for Rules changes was as follows:

- VENCorp or a person could propose a Rule change and where the Rule change was proposed by another person, VENCorp needed to consider the proposal;
- VENCorp was required to consult with those it considered likely to be affected by the proposed Rule change, this consultation with Market Participants and other stakeholders occurred through the GMCC (now the GWCF);
- After consulting the affected parties and taking their views into consideration, VENCorp could recommend a Rule change and the drafted Rule to VENCorp's Board of Directors for approval; and
- VENCorp then recommended the proposed Rule change and draft Rule to the relevant Minister who recommended it to the Governor-in-Council to make the Rule by Order-in-Council after which the Rule would be gazetted.

## Appendix 2

### Detailed Responses to Issues Raised by GWFC (formerly GMCC)

Discussions at the GWCF (GMCC) concerning this issue are documented and published on AEMO's website. Relevant papers and minutes of subsequent discussions can be found by navigating the following links:

GMCC Meeting 138, 22 April 2008 - Prioritisation of tied controllable withdrawals with AMDQ or AMDQ Credits

GMCC Meeting 141, 22 July 2008 - Prioritisation of tied controllable withdrawals with AMDQ2

Notes from Workshop held 17 February 2009 – see "GMCC Meeting 146 : Authorised MDQ for withdrawals - follow up on workshop"

GMCC Meeting 147, 17 March 2009 – Verbal update on participant discussions reflected in the Minutes of meeting (see Item 6.5 of Minutes)

GMCC Meeting 148, May 2009: - Paper – GMCC 09-014-02, 19 May 2009 – Tied Controllable Withdrawals – Implementation Plan

GWCF Meeting 153, 20 October 2009: Paper – Draft Rule Change for Tied Controllable Withdrawal – 14 October 2009

In considering the issue of tied controllable withdrawal bids, the GWCF (GMCC) considered two options. One was put forward by Visy as a Market Participant (Option 1) and the other by VENCorp (Option 2).

| Issue | Summary of concern | Response |
|---|---|---|
| Cost and Simplicity | Visy's Option 1 proposed to make tie-breaking of withdrawal bids dependent on there being a corresponding injection bid elsewhere in the DTS. | The Market Clearing Engine (MCE) is not currently configured to resolve ties in this way and if it were, it would be required to run twice or more to determine the clearing price. It is therefore physically not feasible from the operations standpoint. This approach is also counter to market carriage model as bid price is secondary |
| Injection Dependence | TRUEnergy argued that injection dependency was a central tenet of the DWGM.<br><br>VENCorp's proposed option (as detailed in this rule | VENCorp's option has no injection dependency, and should be thought of as a withdrawal right. AMDQ rights are transmission rights that provide both physical and financial rights. |

| Issue | Summary of concern | Response |
|---|---|---|
| | change application) would in TRUenergy's view "give preference to holders of un-validated property rights" and "contradicted a fundamental tenet of Victoria's market carriage regime; to create pipeline capacity in the PTS it is not sufficient only to contribute to infrastructure investment. It is also necessary to actually inject gas into the pipeline on a gas day".<br><br>TRUenergy expressed concern that "VENCorp's desire to adopt an easy-to-implement solution inappropriately ignored this aspect of the market design which was recently re-endorsed by VENCorp's Board" | The physical rights are:<br><br>• load shedding 'protection' under certain conditions due to transmission constraints (where practicable). This generally applies to uncontrollable withdrawals;<br>• tie-breaking of equally priced injection bids for controllable injections; and<br>• tie-breaking of equally priced withdrawal bids for controllable withdrawals (the subject of this rule change proposal);<br><br>The single financial right is:<br><br>• a hedge against costs of congestion - known as an 'uplift hedge'.<br><br>The uplift hedge is injection dependent as endorsed by the VENCorp Board and remains so. None of the three physical rights is injection dependent.<br><br>The rationale behind injection dependence of uplift hedges is based on the premise that injections from different sources are required to relieve any transmission constraint and thus reduce congestion and associated costs. Accordingly, to the extent that a person is scheduled to inject gas to support their AMDQ (nominated for this purpose), they are hedged against uplift costs.<br><br>Currently controllable withdrawals bids of equal benefit are pro-rated regardless of AMDQ held at the withdrawal point - i.e. those holding AMDQ at a withdrawal point (e.g. Culcairn) get nothing for their AMDQ even though the original AMDQ allocation was intended as a physical export transmission right.<br><br>It should be noted that scheduled controllable withdrawals (as part of a Market Participant's overall withdrawals) are subject to uplift congestion |

| Issue | Summary of concern | Response |
|---|---|---|
| | | charges if the Market Participant's uplift hedge is insufficient. Hence, as a financial hedging tool, any AMDQ allocated to controllable withdrawals that is not supported by injections elsewhere is exposed to congestion uplift. |

## Appendix 3

### Representation at Gas Wholesale Consultative Forum (GWCF)

### Objectives of GWCF

The following is an extract from "Gas Wholesale Consultative Forum (GWCF) Terms of Reference and Operational Procedure" found on AEMO's website.

Gas Wholesale Consultative Forum (GWCF) is a standing forum for providing effective and efficient consultation with stakeholders on development of the Victorian Gas Wholesale Market.

The objective of the GWCF is to provide:

- Effective consultation between AEMO and stakeholders for the development of changes to the Gas Wholesale Market Procedures (Victoria) (Procedures), National Gas Rules, systems and arrangements governing the wholesale market. Such consultation for procedures must be in accordance with the "Approved Process" (see Attachment A – Transitional Approved Process) established under rule 135EC of the National Gas Rules (NGR). This includes advising AEMO and assisting AEMO in making a determination on the matters referred to in section 4 (Consultative Forum process) of the "Approved Process" and the completion of an Impact and Implementation Report (I&IR). Such consultation on rule must be in accordance with the rule change process established by the Australian Energy Market Commission (AEMC); and
- Effective ability for stakeholders to raise and address issues relating to the operation or functionality of the wholesale market.

The functions of the GWCF include:

a) The making and consideration of submissions in relation to development of the Victorian Gas Wholesale Market its Procedures and the NGR, to improve the market's efficiency and effectiveness in satisfying the National Gas Objective;

b) Providing a forum for consultation and involvement of interested and affected parties for consideration of issues relating to the operation and design of the Victorian Gas Wholesale Market;

c) Providing feedback to AEMO on proposals made in relation to the Victorian Gas Wholesale Market;

d) Advising the AEMO Board (or its delegate) on development of the Victorian Gas Wholesale Market, including making recommendations for changes to the design of the Gas Market, Procedures, systems, processes and other arrangements;

e) Advising AEMO of issues in relation to operation of the Victorian Gas Wholesale Market; and

f) Formally recording the positions and views of each participant organisation and other interested stakeholders on matters relating to the Victorian Gas Wholesale Market.

## GWCF Participation

GWCF has been established as a standing committee to facilitate consultation on the operation of the Victorian Gas Wholesale Market with interested parties including registered participants, end user representatives and any members of the public. Additionally, it is established to provide continuity of stakeholder representation in development of the market and system processes.

The GWCF shall comprise:

a) A Chairperson nominated by AEMO;

b) A Secretary to AEMO nominated by the Chairperson;

c) An AEMO representative nominated by AEMO;

d) Any representative of a registered participant;

e) Any representatives of end-user groups; and/or

f) Any interested person of the public.

The purpose of participation is to ensure that the views of all registered participants for consideration of matters relating to the Victorian Gas Wholesale Market are recorded on the public record. Accordingly, the views put by members at meetings will be placed on the public record as the views of the organisations that they represent.

The GWCF is an open forum and all interested parties may attend the GWCF and participate in the meetings. Persons wishing to avail themselves of this opportunity must identify themselves prior to the meeting, via the method indicated on the AEMO website and at the commencement of the meeting, to the Secretary. The views put by interested parties at meetings will also be recorded on the public record.

Where an individual represents group of interested stakeholders, they:

- Must be nominated by a responsible person from the organisation(s) from whom the individuals represent. This nomination notice will be sent to the Secretary in writing or by email at least 5 business days prior to the meeting unless otherwise agreed by the Chairperson; and

- Should have sufficient expertise and authority to consider matters on behalf of the organisation(s) that they represent, and provide the formal views of those organisations for the public record.

Any individual nominated to represent a group of interested stakeholders will continue in that capacity until that individual resigns or a new individual is nominated by the organisation(s) that they represent. Unless indicated in the written notification to the Secretary, as specified above.

The Chairperson will formally recognise individuals at the commencement of each meeting and is responsible for the conduct of the meeting. During the meetings, the Chairperson will take into account the need to provide adequate consultation with all affected parties and stakeholders, and the requirements to satisfy the appropriate regulatory approval process for approval of a Procedure or Rule change.

**Industry Representation and Decision Making**

The GWCF was been established as a standing committee to facilitate consultation on the operation of the DWGM and is made up of representatives from across the gas industry. These include producers, retailers, gas pipeline owners, market customers, consumer representatives and the Australian Energy Regulator (AER). Representatives include industry participants such as TRUEnergy, Origin Energy, AGL, Esso/BHP and Visy.

Additionally, it is established to provide continuity of stakeholder representation in the development of the market and system processes.

At earlier stages of the GMCC, the participants acted as a decision making committee where rule changes were made by majority vote of the Committee members. As noted above, on 1 May 2008, the GMCC's procedures were changed to become a forum where issues and concerns regarding the DWGM and rule changes relating to the DWGM were discussed and debated. Whether a proposal was taken forward depended on whether there was sufficient support for the proposal but more importantly whether the proposal represented an overall benefit to the operation of the market as a whole. This procedural alteration was taken forward to the GWCF. The change of name and terms of reference were adopted on 1 July 2009 to reflect the nature that the group was now a public discussion forum rather than a committee convened for decision making.

## Appendix 4

## GLOSSARY

| Term or Abbreviation | Explanation |
|---|---|
| AEMC | Australian Energy Market Commission |
| AEMO | Australian Energy Market Operator |
| DTS | Victorian Declared Transmission System |
| DWGM | Declared Victorian Wholesale Gas Market |
| GMCC | Gas Market Consultative Committee |
| GWCF | Gas Wholesale Consultative Forum |
| MSOR | Market and System Operations Rules |
| NGL | National Gas Law |
| NGO | The national gas objective as stated in section 23 of the NGL. |
| NGR | National Gas Rules |
| VENCorp | Victorian Energy Networks Corporation |