Mr John Pierce
Australian Energy Market Commission
Level 6, 201 Elizabeth Street
Sydney NSW 2000
Lodged via www.aemc.gov.au

Monday, 15 May 2017

Dear Mr Pierce,

**RE: Review of the Victorian DWGM – Assessment of Alternative Market Designs (ref GPR0002)**

ENGIE appreciates the opportunity to comment on the Australian Energy Market Commission (AEMC) discussion paper on alternative Victorian gas market designs (Discussion Paper).

In establishing the terms of reference for the Victorian gas market review the Victorian Government asked the AEMC to consider whether the declared wholesale gas market (DWGM):

- allows market participants to effectively manage price and volume risk;
- provides appropriate signals and incentives for investment in pipeline capacity; and
- facilitates the efficient trade of gas to and from adjacent markets.

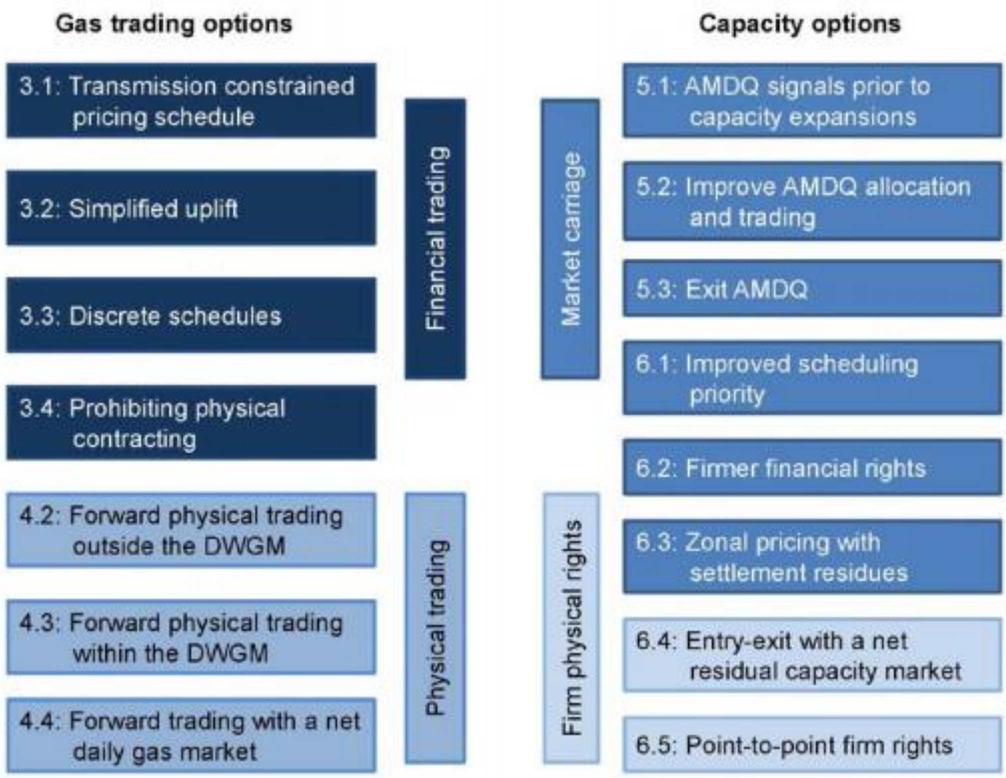
In its draft final paper, the AEMC concluded that the DWGM does not facilitate the achievement of these objectives, noting limited risk management options, opaque longer-term pricing, limited market driven pipeline investment and inhibitions on trading between markets.

As noted in our previous submissions to the DWGM review, ENGIE agrees with the AEMC observations and descriptions of the DWGM shortcomings, and has identified a number of additional deficiencies including asymmetrical burden on smaller participants, lack of a clean commodity price, lack of locational pricing, and issues associated with separate pricing and operational schedules.

ENGIE is of the view that the current DWGM design is not suitable to respond to the needs of industry as it strives to meet the current and future challenges of gas and electricity markets.

In October 2016, the AEMC commenced consultation on their proposed model to reform the DWGM, which was to replace the current daily gross pool with continuous voluntary trades at any time, coupled with tradable entry and exit rights to the Declared Transmission System (DTS).

The AEMC proposal did not receive strong support from industry, although there was acknowledgement from some (including ENGIE) that reform was needed. In response, the AEMC have now put forward for discussion, a number of ideas that could be considered as components or incremental steps towards a reform outcome. The components, or options are summarised in the AEMC paper in the following diagram:




As a general principle, ENGIE is supportive of reforms that move the design of the gas and electricity wholesale markets towards greater alignment. This is particularly important for businesses that participate in both the electricity and gas markets, and will provide a better mechanism for coordinating the needs of the increasingly integrated gas and electricity industries.

With this point in mind, ENGIE is broadly supportive of option 3.4, which would result in better alignment between the Victorian gas market and the national electricity market arrangements. The AEMC have described this option as being a prohibition on producers and their counterparties entering into physical contracts outside the DWGM.

ENGIE suggests that rather than define this option as being a prohibition on physical contracting, the obligation should be that all parties that wish to supply gas to customers within the DTS should be required to offer their gas into the Victorian gas market.  In other words, the Victorian gas market would be a gross pool of all daily gas supplied and withdrawn (over a defined threshold amount) – similar to the NEM.

ENGIE does not see the need to invoke rules to prevent counterparties from entering into physical bilateral contracts. Any such contracts however, would have no direct bearing on the Victorian gas market dispatch, and counterparties would need to manage their contractual obligations alongside of their market participation.

It is recognised that a number of key structural issues would need to be overcome in order for this option to be implemented, such as the shift for gas suppliers from long-term contracts to short-term market transactions. Nevertheless, ENGIE believes that this option should be retained as idealised objective (light on the hill) which can then be used to guide any proposed incremental reforms.

At a more specific level, an important issue that ENGIE would like to see overcome by this DWGM review is the current poor management of pipeline congestion in the DTS, and the resultant anomalies that arise between the amount of gas scheduled and the ex-ante price. A good example of the current poor congestion management in the DWGM is the manner in which a constraint on flows from Pt Campbell to Melbourne on the South West pipeline unnecessarily prevents gas from being scheduled between willing gas suppliers and buyers at the Pt Campbell node.

ENGIE believes that this problem arises at least in part, because of the separate pricing and operational schedules that are used by AEMO as part of the current DWGM arrangements.

Another important issue that ENGIE would like to see addressed is the fact that the ex-ante gas price, which is determined by the un-constrained pricing schedule, is not necessarily the price that participants are ultimately settled on.

The final settlement price is a function of the operational schedule, which includes the effect of pipeline constraints, and is determined later. The difference between the price between the pricing and operational schedules is then allocated according to four separate and complicated ancillary uplift calculations. These complex and non-transparent market price arrangements, which result in a ‘non-clean’ price, are a barrier to the development of financial risk management products.

ENGIE believes that both the congestion and the non-clean price issues can to a certain extent, be overcome by adopting option 3.1 (transmission constrained pricing schedule).

ENGIE believes that by including the impact of congestion into the pricing schedule, there is an opportunity (depending on how the congestion is modelled in the algorithm) to address the shortcomings of the current congestion management within the DWGM. In addition, having one constrained pricing schedule would do away with the need to have a separate operational schedule, and all the subsequent uplift payments.

If it was found that the single transmission constrained pricing schedule did not completely overcome the congestion issues described earlier, then ENGIE would suggest further investigation into the option of zonal pricing, which should address most of the congestion issues This option would need to be approached carefully to ensure that liquidity within each zone was preserved to a level required to ensure reasonable levels of competition.

ENGIE trusts that the comments provided in this response are of assistance to the AEMC in its deliberations. Should you wish to discuss any aspects of this submission, please do not hesitate to contact me on, telephone, 03 9617 8331.

Yours sincerely,

**Chris Deague**
Wholesale Regulations Manager