RULE CHANGE

Australian Energy Market Commission

INFORMATION PAPER

National Gas Amendment (Prioritisation of Tied Controlled Withdrawal Bids) Rule 2009

Rule Proponent

Australian Energy Market Operator

23 December 2009

This staff paper has been prepared to provide information on the Rule change proposal and does not represent the views of the Commission or any individual Commissioner of the Australian Energy Market Commission.

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About the AEMC

The Council of Australian Governments, through its Ministerial Council on Energy, established the Australian Energy Market Commission (AEMC) in July 2005 to be the Rule maker for national energy markets. The AEMC is currently responsible for Rules and policy advice covering the National Electricity Market and aspects of the National Gas Market. It is a statutory authority. Our key responsibilities are to consider Rule change proposals, conduct energy market reviews and provide policy advice to the Ministerial Council as requested, or on AEMC initiative.

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Introduction

Rule change request

On 16 November 2009, the Australian Energy Market Operator Limited (AEMO) submitted a rule change request to the Australian Energy Market Commission (AEMC or Commission) seeking to change aspects of the scheduling rules in the Victorian wholesale gas market. This is the first rule change request submitted to the AEMC to amend the National Gas Rules (NGR).

AEMO's proposal seeks to change how withdrawal (consumption) bids are dealt with in the scheduling process whenever there are two or more withdrawal bids at the same price. In those situations, the proposal would result in bidders holding transmission rights called Authorised Maximum Daily Quantity (AMDQ) or AMDQ credits being prioritised over other withdrawal bidders.

AEMO request that the AEMC dispense with steps in the rule change process

The AEMC has the discretion under the transitional provisions of the National Gas Law (NGL) as detailed below, to dispense with steps in the statutory rule change process under Chapter 9 of the NGL. In raising this proposal, AEMO has requested that the AEMC dispense with the requirements of section 303(3)(a) of the NGL under which the AEMC seeks written submissions and comments on the rule change request from the public (the first round of consultation) and the option for a public hearing to occur in advance of the AEMC making its draft rule determination (under section 307 of the NGL). The AEMC has considered this request and decided to dispense with the first round of consultation. The details of this request and the AEMC's decision are discussed below.

AEMO requested that the AEMC exercise its discretion under clause 62 of Schedule 3 of the NGL to dispense with the first round of public consultation in the rule change process (under section 303(3)(a) of the NGL) and the pre-draft determination public hearing (under section 307 of the NGL). Clause 62 of Schedule 3 of the NGL is a transitional provision applying to rule change requests that were proposals to amend superseded jurisdictional rules at the "relevant changeover date". In this case, the superseded jurisdictional rules were the Victorian Gas Industry Market and System Operations Rules version 31 (MSOR)[1] and the relevant changeover date was 1 July 2009.

Under clause 62 of Schedule 3 of the NGL the Commission may dispense with a particular step in the rule change process if the Commission is of the opinion that the relevant step is unnecessary because no equivalent step existed under the superseded

1 See http://aemogas.com.au/index.php?action=filemanager&folder_id=846

jurisdictional rules or the same or a similar step has already been taken under the superseded jurisdictional rules.[2]

The Commission was able to exercise its discretion to dispense with the first round of public consultation[3] as the rule change process under the MSOR did not include a step equivalent to the AEMC's first round of consultation.

In relation to AEMO's request to dispense with the option to hold a pre-draft determination public hearing[4], the Commission has decided not to dispense with that option. However, it does not plan on holding such a hearing at this stage.

Rule change process

On 23 December 2009, the Commission published a notice under section 303 of the National Gas Law (NGL) setting out its decision to commence the rule change process for this rule change request. The process for assessing the rule change request will follow an amended rule change process under the NGL which will involve, at a minimum, the following steps:

- publication of the draft rule determination by early March 2010;
- an option for the Commission to hold a public hearing after the publication of the draft rule determination;
- at least six weeks of public consultation on the draft rule determination; and
- publication of the final rule determination within six weeks of the close of public consultation on the draft rule determination.

Stakeholders should note that the Commission has the ability to extend the periods for publishing the draft and final rule determinations for rule change requests under section 317 of the NGL if the Commission considers that:[5]

"…a request for a Rule raises issues of sufficient complexity or difficulty or there is a material change in circumstances such that it is necessary that the relevant period of time…be extended."

This is similar to the Commission's ability to extend the periods for publishing the draft and final rule determinations for rule change requests to amend the National Electricity Rules under section 107 of the National Electricity Law.

2 Clause 62(2) of Schedule 3.

3 Section 303(3)(a) of the NGL.

4 Section 307 of the NGL.

5 Section 317 of the NGL.

This information paper

Whilst the Commission has dispensed with the first stage of the statutory consultation process for this rule change proposal, the Commission considered that it would be helpful to highlight the issues raised by this proposal at an early stage. The issues set out in this paper are those that the Commission is likely to consider in preparing the draft rule determination. This paper does not represent the views of the Commission or any individual Commissioner. This information paper sets out:

- some background information on the rule change request;
- an overview of the Victorian wholesale gas market;
- AEMO's proposed changes;
- some issues that have arisen in our initial analysis of the rule change request; and
- the next steps in the rule change process.

Background

In 2008 and 2009, VENCorp proposed introducing tie-breaking provisions for withdrawal bids in the Victorian wholesale gas market at the request of a market participant. VENCorp consulted with the GMCC and prepared a rule change proposal to introduce tie-breaking provisions.

After AEMO was created on 1 July 2009, it took over the rule change proposal and submitted this rule change request to the Commission on 16 November 2009.

Brief overview of the Victorian wholesale gas market

The Victorian wholesale gas market was introduced in 1999. The market applies to the Victorian declared transmission system (DTS) which is Victoria's primary interconnected high pressure gas system. Parties wishing to inject gas into, or withdraw gas from the network are obliged to submit injection bids and withdrawal bids, respectively, to AEMO (the system and market operator).

AEMO uses these injection and withdrawal bids, together with forecasts of (uncontrollable) demand and other relevant information, to determine the injection and withdrawal bids to schedule in each of the five scheduling intervals in the gas day.[6] To determine which of the injection and withdrawal bids it is to schedule, AEMO seeks to minimise the cost of satisfying the expected demand for gas in the gas day.[7] It uses an optimisation program to determine which injection and

6 The gas day is the 24 hours starting at 6am each day. The scheduling intervals are the periods of time each day starting at 6am, 10am, 2pm, 6pm and 10pm.

7 NGR rule 215.

withdrawal bids it is to schedule. The market is a net market, in that participants pay or receive imbalance payments based on the difference between their scheduled injections and their scheduled withdrawals. These payments are derived according to the price set at the start of each scheduling interval during the gas day. Market participants also face “deviation payments” which are levied on the differences between the scheduled quantities of gas and actual quantities of gas that were delivered or withdrawn.

In determining the schedule of injections and withdrawals, AEMO may need to apply tie-breaking rules. These are applied whenever there are two or more “equally beneficial” injection or withdrawal bids. Here, “equally beneficial” means that the prices of the bids are the same. The tie-breaking rules are that:[8]

- injection bids are scheduled before withdrawal bids;
- equally beneficial withdrawal bids are scheduled on a pro-rated basis; and
- equally beneficial injection bids are scheduled on a pro-rated basis, provided that those bidders holding Authorised Maximum Daily Quantity (AMDQ) or AMDQ credits are prioritised.

AMDQ and AMDQ credits are transmission network capacity rights. These rights are allocated to customers at injection and withdrawal points on the network.

These AMDQ and AMDQ credits are tradeable and provide their holders with benefits:

- they can be used to hedge against congestion uplift charges[9];
- their holders are entitled to preferential curtailment treatment; and
- their holders receive priority in having injection bids scheduled whenever there are tied injection bids (as discussed above).

Issue the rule change request is seeking to address

AEMO states that the issue this rule change request is seeking to address is that withdrawal bids and injection bids are currently treated inconsistently in the scheduling process.

8 NGR rule 214.

9 Congestion uplift charges are levied on market participants. The charges are used to fund ancillary payments to market participants. Ancillary payments are made to market participants who are scheduled by AEMO to inject gas when the market price is lower than the participant’s bid price, e.g. in order to allow AEMO to manage congestion on the network. (They can also be paid to market participants that are similarly scheduled to withdraw gas.) The congestion uplift charges are levied on market participants whose gas withdrawals exceed their allocations of their AMDQ and AMDQ credits.

Proposal put forward in the rule change request

The rule change request seeks to introduce a tie-breaking rule for withdrawal bids mirroring the existing tie-breaking rule for injection bids. In situations of tied withdrawal bids, the existing pro-rated arrangements would be retained except that bidders holding AMDQ or AMDQ credits would be prioritised.

AEMO states that this proposal would promote the National Gas Objective[10] as:

- it would represent good regulatory practice as it would increase consistency in the treatment of scheduling between equally beneficial withdrawal and injection bids; and

- it may contribute to signalling investment in the DTS in situations of system constraints as it would incrementally increase the utility of AMDQ and AMDQ credits, which may act as a signal to augment the DTS.

Impacts and implications of the proposal

AEMO stated that a potential impact of its proposal could be to increase the value of AMDQ and AMDQ credits as it could increase their utility. The reason for this is that it would lead to parties holding AMDQ or AMDQ credits having a firmer right to withdraw gas from the network in situations of there being tied withdrawal bids.

Tied withdrawal bid scenarios may arise during periods where demand for gas is high and bids are tied at the market price cap (VoLL), which is set at $800/GJ. In these scenarios, due to the market price cap, there is no scope for parties to outbid each other.

While we have not undertaken a full analysis of the impacts and implications of the proposal, there are a number of issues which the Commission is likely to consider in developing the draft rule determination. These are discussed below.

We will seek to assess the impacts of the proposal on investment in the DTS, including the extent to which the proposal might increase incentives on parties to book transmission rights in the form of AMDQ or AMDQ credits and whether, in turn, this would lead to improved signals on network owners to invest in the Victorian pipeline system.

We also intend to evaluate the impacts of the proposal on competition between market participants at withdrawal points, including between those parties that hold AMDQ or AMDQ credits and those that do not. In particular, we will assess the extent the proposal promotes the efficient allocation of gas at withdrawal points between competing parties in tied bid scenarios. Related to this, we will also assess whether the proposal will provide price and competition benefits at withdrawal

10 Section 23 of the NGL.

points relative to the existing framework under which equally beneficial withdrawal bids are pro-rated.

In assessing these issues, we will explore how transmission rights are allocated and the extent to which they are tradeable between parties at withdrawal points. In particular, we will assess whether and how new entrants and parties that do not hold transmission rights can purchase them from existing holders in order to secure flows of gas at the relevant withdrawal points in tied bid scenarios. In considering these issues, we will also seek to understand whether the proposal has any security of supply impacts, particularly in VoLL scenarios.

Next steps

The Commission has published a notice on 23 December 2009 under section 303 of the NGL setting out its decision to commence the rule change process for this rule change request. This notice also indicates that the Commission has exercised its discretion to dispense with the first round of consultation under clause 62 of Schedule 3 of the NGL. The next step in the rule change process is for the Commission to publish a draft rule determination.

Under section 308 of the NGL, the Commission is to publish a draft rule determination within ten weeks of the publication of the section 303 notice, i.e. 3 March 2010. Under the statutory rule change process, the Commission will accept submissions on the draft rule determination for at least six weeks after its publication.

All enquiries on this project should be addressed to Sacha Blumen or Mark Feather on (02) 8296 7800.