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**Mr Owen Pascoe**  
**Australian Energy Market Commission**  
**PO Box A2449**  
**Sydney South NSW 1235**

**24 October 2019**

**GRC0049 DWGM Simpler Wholesale Price**

**GRC0051 DWGM Improving AMDQ Regime**

AGL Energy Limited (AGL) welcomes the opportunity to comment on the Australian Energy Market Commission's (AEMC) draft determinations on the Declared Wholesale Gas Market (DWGM) Simpler Wholesale Price and Improving the AMDQ Regime rule changes.

AGL is one of Australia's leading integrated energy companies and the largest ASX listed owner, operator and developer of renewable generation. AGL has a long history of involvement in Eastern Australian gas markets and aside from delivering gas to over 1.4 million customers, AGL also owns and operates gas power generation, is a gas shipper and owns gas facilities across the east coast.

This rule change is considering options to improve risk management and investment signals in the Victorian Gas Market, as well as improving the ability to move gas into and out of Victoria. The AEMC's draft determination is to:

1. Realign the pricing and operating schedules, such that withdrawal constraints are incorporated into the pricing schedule.
2. Reform the AMDQ regime into tradable entry and exit Capacity Certificates.
3. Abolish the congestion uplift hedge and injection hedge nominations, and that congestion uplift would be paid by those without sufficient exit capacity certificates to cover their withdrawals.

AGL is supportive of realigning the pricing and operating schedules and acknowledges the benefits of the proposed reforms to the AMDQ regime and congestion uplift. Should the implementation costs of AEMO system changes to implement the reforms be significant, AGL proposes an alternative option that could help to minimise these implementation costs. Attachment A to this submission provides detailed feedback for the AEMC's consideration.

If you have any queries about this submission, please contact Jenessa Rabone on (02) 9921 2323 or [JRabone@agl.com.au](mailto:JRabone@agl.com.au).

Yours sincerely,

Meng Goh  
Senior Manager Regulatory Strategy



## **Attachment A**

### **Realigning the pricing and operating schedules**

AGL is supportive of the draft determination to realign the pricing and operating schedules.

As discussed in our submission to the consultation paper, we consider this will lead to more rational and predictable pricing outcomes. The DWGM would no longer be able to constrain off withdrawals at a price that is lower than the market price. Including withdrawal constraints in the pricing schedule will improve the confidence of market participants that pricing outcomes reflect the physical capability of the system.

AGL is supportive of this change being implemented as soon as possible by AEMO.

### **Reforming AMDQ**

The draft determination includes reforms to the AMDQ regime to create entry capacity certificates, exit capacity certificates and uncontrollable exit capacity certificates. These capacity certificates would provide a combination of tie-breaking rights, congestion uplift hedge and limited curtailment protection. Capacity certificates would be auctioned by AEMO periodically and be available for a range of tenures. They could also be traded between participants through a trading platform.

AGL considers the primary benefit of this aspect of the draft determination is that it addresses the current limitations of Authorised MDQ, which originate from the Longford close proximity point and are allocated to Tariff V and Tariff D customers. The draft determination allows non-retailer shippers to access capacity certificates, facilitates gas flows across the DTS and supports the development of new gas supply options.

However, AGL notes that the implementation costs for AEMO's systems changes have not yet been quantified. We suggest that AEMO should provide an estimate of the costs to implement the draft determination before the AEMC makes its final decision.

Should the implementation costs be significant, AGL suggests that the AEMC consider an alternative, incremental reform to AMDQ that would likely be lower cost for AEMO to implement but achieves some of the benefits of the draft determination:

1. Transition Authorised MDQ into AMDQ cc

Authorised MDQ would be transitioned into AMDQ cc. AMDQ cc would provide tie-breaking rights and potentially congestion uplift protection (see discussion below). The limited curtailment protection associated with Authorised MDQ could be abolished, or if there was significant concern with this approach, the protection could be applied to AMDQ cc and be activated where the owner is a particular customer type (ie Tariff D).

This approach would enable anyone to obtain through auction the AMDQ cc that would be available at connection points along the Longford to Melbourne pipeline, which would facilitate gas transfers into and across the DTS.

A participant that is only injecting or withdrawing gas would still purchase AMDQ cc to rely on the tie-breaking rights at the relevant close proximity point.

While this option may not provide all the same benefits of the draft determination, it would result in a lower complexity and cost regime as it leverages off existing AMDQ cc.

AGL explores several options related to the congestion uplift hedge in the discussion below.

2. Make AMDQ cc available at regular auctions and possibly for a range of tenures

Batches of AMDQ cc would be regularly auctioned by AEMO, and could be available for different tenures as proposed for capacity certificates in the draft determination. For example, there could be four auctions a year for a volume of quarterly, annual, and multi-year products.

This proposal leverages the existing auction process. The auction would occur more frequently but would not require fundamental changes.

AGL understands that building a trading platform for Capacity Certificates in the draft determination would be a significant implementation cost. Under this alternative proposal, trading of AMDQ cc would not be specifically facilitated. However, making AMDQ cc available for different tenures would assist market participants with purchasing AMDQ cc to meet their individual needs. AEMO could also work with industry to improve the processes associated with bilateral transfers of AMDQ cc in a cost-effective way.

As discussed in our submission to the consultation paper, another option that would avoid the cost and complexity of AMDQ reform is to abolish the AMDQ regime in its entirety. The AEMC states in the draft determination that this option is outside the scope of the rule change and so AGL will not explore that option further in this submission.

### **Congestion uplift**

The draft determination changes the way in which market participants would hedge against congestion uplift. Instead of having to 'activate' the congestion uplift hedge associated with AMDQ by injecting gas, participants would have automatic coverage by holding sufficient exit capacity certificates to cover their withdrawals.

AGL considers that separating the congestion uplift hedge from injection is a good outcome for market participants. Currently the congestion uplift hedge is not available to participants that only wish to withdraw gas from the market, meaning they are unable to avoid congestion charges in the same way as participants that hold AMDQ and are injecting gas.

In the section above, AGL suggested that AMDQ cc could be retained with incremental changes. In that case, congestion uplift could be allocated in one of the following ways:

1. Holding AMDQ cc could provide a congestion uplift hedge. Like the draft determination, participants would not need to inject gas to activate the hedge; holding AMDQ cc would be sufficient. This would enable a participant that is only withdrawing gas from the DWGM to purchase AMDQ cc and avoid the congestion uplift charges.
2. The ability to hedge against congestion uplift is removed and instead all participants that are exposed to congestion uplift would have an incentive to minimise that congestion by reducing demand or bringing in supply from other parts of the DTS. This option would ideally be supported with greater market information and the ability for participants to change bids and offers in response to congestion signals:



- Market information and notices about constraints and any issues with supply sources, to elicit market responses. For example, should there be a curtailment at Longford, participants could re-balance supply from Iona or another supply source.
- Additional provisional schedules, for example an hour before each actual schedule, that would allow participants to respond to congestion and other market issues.

Should the AEMC proceed with the reforms to congestion uplift hedge as outlined in the draft determination, AGL seeks clarification on the following issues:

- Location: The draft determination describes congestion uplift as being assessed on a DTS wide basis. AGL is unclear as to whether a participant must actually withdraw gas at the location they hold exit capacity certificates to be eligible for the congestion uplift hedge.

For example, could holding exit capacity certificates at Culcairn cover a participant from incurring congestion charges for withdrawals at Iona (where exit capacity certificates are not held).

In AGL's view, a participant should hold capacity certificates in the zone in which congestion is occurring to protect themselves against congestion uplift in that zone.

- Timing: The draft determination removes the congestion uplift hedge and the concept of AMIQ, which is currently used to provide participants with a daily profile and indicates the volume of AMDQ rights that are available over the course of the day. If this concept is removed entirely, participants would be unclear as to how/when they can use their capacity certificate rights.

As a worst-case scenario, multiple participants might try to rely on their entire daily capacity certificate volume at the same time of the day, exceeding the capacity of the DTS.

AGL suggests that the rules should retain the concept of an hourly profile, so participants understand the volume of capacity certificates that can be relied upon throughout the day.