

## Notice to participants of AEMO's decision on making the Wholesale Market Distribution UAFG Procedures (Victoria) version 3.0

AEMO gives notice of its decision to amend the Wholesale Market Distribution UAFG Procedures (Victoria), effective from 1 January 2016.

This notice advises all Registered Participants (Participants) and other interested stakeholders that consultation for changes to the Wholesale Market Distribution UAFG Procedures (Victoria) under the ordinary procedure change process prescribed in rule 135EE of the National Gas Rules (NGR), concluded on 30 October 2015.

The proposed changes to Wholesale Market Distribution UAFG Procedures (Victoria) version 3.0 and participant feedback from the consultation process are available on the AEMO website at:

<http://www.aemo.com.au/Consultations/Gas-Consultations/General/IIR-DWG-15003-Changes-to-Wholesale-Market-Distribution-UAFG-Procedures-Victoria>

AEMO will make the Procedures as set out in "Final Draft Wholesale Market Distribution UAFG Procedures (Victoria) v3.0". This document includes the changes set out in the draft that was published for consultation, with additional amendments following AEMO's consideration of submissions (as set out in Attachment A below) and minor drafting and formatting changes. In summary the changes are:

- Amend the formula for the average volume weighted market price (AVWMP).
- Expressly link the AVWMP formula with the formula for the Unaccounted for Gas reconciliation amount in item C2 of Part C of Schedule 1 of Victorian Gas Distribution System Code (the Code).
- Allow a DUAFG year to be split into DUAFG periods with the same benchmark values for a supply point class and distributor.
- Adjust data formats for DUAFG year and DUAFG periods. Allow other data formats to be agreed.
- Correct typographic errors and improve clarity of diagrams.
- Remove Appendix E – Sample Reconciliation Statement.

AEMO considers that this change meets the requirements of the National Gas Objective for efficient operation and use of, natural gas services for the long term benefit of consumers of natural gas by allowing AVWMP to be determined in a way that reflects the costs to market participants in the declared wholesale gas market when actual UAFG is different to benchmark UAFG. AEMO also considers that this change is consistent with the National Gas Law, the National Gas Rules and applicable Access Arrangements as set out in the Impact & Implementation Report DWGM-IIR-15-003.

As required by Rule 135EE(5), AEMO also publishes this notice to inform Participants that version 3.0 of the Wholesale Market Distribution UAFG Procedures (Victoria) will be effective from 1 January 2016.

## Notice Date: 27 November 2015

## Attachment A - Submissions

Submissions on the Procedure change were received prior to the conclusion of consultation at 5pm on Friday 30 October 2015 from:

- Australian Gas Networks Limited (AGNL) – Distributor
  - AGNL distribution networks are operated and managed by the APA Group
- Multinet Gas Distribution Partnership – Distributor

No late submissions were received.

A summary of comments and AEMO’s response to the comments is set out below.

Submission from	Comment	AEMO response
Australian Gas Networks Limited / APA Group Distributor	APA/AGNL supports the AEMO proposal to use deviation pricing as the basis for the DUAFG wash-up price in Victoria.	Noted
Multinet Gas Distribution Partnership Distributor	In summary, Multinet recommend: <ul style="list-style-type: none"> <li>• No change to the definition or calculation of the gas price as defined in the Gas Distribution System Code (Code) and replicated in Appendix C of the current UAFG Procedures during the current access period; and</li> </ul>	AEMO notes Multinet’s position that the substance of the change – to use a weighted average deviation price as the gas price for reconciliation purposes – should not be implemented.  AEMO has addressed comments from Multinet in relation to this recommendation below.

Submission from	Comment	AEMO response
	<ul style="list-style-type: none"> <li>Renaming of the Wholesale Market Distribution UAFG procedures to be consistent with its reference head of power and the naming in NGR Part 19 and the retail Market Procedures Victoria, Section 7.</li> </ul>	<p>AEMO notes Multinet’s recommendation for Procedures to be renamed ‘Distribution UAFG Procedures’.</p> <p>AEMO has addressed comments from Multinet in relation to this recommendation below.</p>
Multinet Gas Distribution Partnership Distributor	<p><b>Consistency of proposed changes with jurisdictional instruments and access setting</b></p> <p>The ESC established a distribution unaccounted for gas framework in the Gas Distribution System Code (Code). The calculation requirements, including the basis for the gas price used is in the Code in Schedule 1 of Part C, and is currently replicated in the UAFG Procedures and has been for well over 7 years. Multinet is obliged to comply with the Code under clause 4 of its ESC distribution licence. A breach of that licence can lead to significant financial penalties and even licence revocation.</p> <p>Multinet’s view is that it is unlawful for AEMO to make a UAFG Procedure that is inconsistent with the framework in the Code established by the ESC. Multinet considers it is unreasonable, in a legal sense, and contrary to law, for AEMO to make a</p>	<p>AEMO has amended Appendix C of the Procedure to reinforce the link between ‘X’ and the AVWMP.</p> <p>The amendments to the Procedures have been designed to align directly with the formula in Part C2 of Schedule 1 to the Code, specifically stating that AVWMP is the value to be used for ‘X’ in that formula. To reinforce this, AEMO will make a further amendment to Appendix C in the Distribution UAFG procedures, as follows:</p> <p>X = AVWMP as determined by AEMO under clause 2.1.1 for the DUAFG period, <a href="#">being the quantity determined for the purposes of the value of X in the ‘Reconciliation Amount’ formula in the Victorian Gas Distribution System Code;</a></p> <p>AEMO will make a minor drafting change to the final paragraph of clause 2.1.1, by deleting the words ‘item C2 of Part C of’.</p> <p>AEMO is satisfied that the proposed calculation of AVWMP is consistent with the description of X in the Code. Reasons for this conclusion are given in the detailed discussion below on how AVWMP equates to X.</p> <p>In relation to the question of breaching the Code, it is not a specific obligation of the distributor (or the retailer) to calculate the value of X in the ‘Reconciliation Amount’ under the Code. It is unclear how either a distributor or a retailer could be in breach of the Code by paying a Reconciliation Amount that incorporates a value for X that has been</p>

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	Procedure that will make Multinet non-compliant with the Code and so its licence.	determined by AEMO, since that is what the Reconciliation Amount formula expressly requires.
Multinet Gas	AEMO's decisions in making Procedures can be the subject of applications for judicial review under section 243 of the National Gas Law.	Noted
Multinet Gas	<p>The Code obliges Multinet to make Reconciliation Payments, being amounts calculated in accordance with Schedule 1 of Part C of the Code. That amount depends upon a number of terms, including "X" which is defined as:</p> <p>'X=the quantity annual price of Gas, using spot and contract prices and quantities, as determined by AEMO for the previous calendar year expressed in \$ per gigajoule;'</p> <p>AEMO cannot redefine "X" to use a 100% average volume weighted market price (AVWMP) in the UAFG Procedures that will make Multinet, if it makes a payment under Rule 317, non-complaint with the Code. Multinet does not support the use of the AVWMP as it does not use spot and contract prices.</p>	<p>AEMO will not retain the explicit 'contract price' value in the existing calculation, as it has ceased to be relevant. AEMO notes that contract prices as adjusted by spot market conditions are implicit in the proposed AVWMP..</p> <p>The Code provides no definition or guidance on the meaning of the 'quantity annual price' of gas, nor is there any generally understood definition of the term. It is the value that AEMO determines.</p> <p>AEMO understands Multinet's concern is that AVWMP does not include any specifically identified contract price element. As discussed at the GWCF workshop in June 2015, there is no single identifiable contract price as it existed when the DUAFG process commenced and the GASCOR contract at Longford was still on foot. That contract ended several years ago, and there are now multiple contracts (and sub contracts) with 8 sources of injection, different supply profiles and no visibility of direct contract prices.</p> <p>A contract price element is, however, implicit in the deviation price. Market participants can be expected to factor in their cost of gas (contract prices) when submitting injection bids. Of course, other factors such as contractual terms and the forecast gas quantity requirement will also influence bid prices. As the market prices are set by the cheapest available gas to meet expected demand, the market price (the ex-ante price for current schedule which equals the</p>

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		<p>deviation price for the previous schedule) should reflect the contract price of the marginally scheduled gas as adjusted by spot market conditions (the circumstances of the day, the need for the marginal supplier to meet take or pay conditions of their contracts, their own desire to manage their own prudential exposure, their risk management profile, etc).</p> <p>It is relevant to note that the impact on market participants of actual UAFG not equalling benchmark UAFG is priced in the DWGM at the deviation price. Market participants can provide the benchmark UAFG at their own cost of gas (reflecting their own contract prices), but any differences between actual UAFG and benchmark UAFG are costed in the DWGM at the deviation price.</p>
Multinet Gas	The AVWMP introduces more price volatility; Multinet has no control of the price and based on our analysis the regulatory incentive is no longer symmetrical.	<p>Although potentially desirable, there is no requirement for the AVWMP (or the Reconciliation Amount) to be predictable.</p> <p>An assertion that that the regulatory incentive is no longer symmetrical implies that using the weighted average deviation price would impose greater costs on one party. As noted above, however, the deviation price is directly related to the impact on market participants where actual UAFG is different to benchmark UAFG.</p> <p>The regulatory incentive on a Distributor is to:</p> <p><i>“...use reasonable endeavours to ensure that the quantity of unaccounted for gas in its distribution system for any year as a percentage of the aggregate quantity of gas received by the Distributor at transfer points into its distribution system in that year is less than the unaccounted for gas benchmark set out against its name in Schedule 1, Part C to the Distribution System Code<sup>1</sup>.”</i></p>

<sup>1</sup> Section 2.4(a) of the Distribution System Code version 9 dated 12 December 2008

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		<p>If actual UAFG is greater than benchmark UAFG, the design of the DWGM is such that affected market participants will be required to pay for this gas at the deviation price. Under the proposed revised DUAFG procedures, they will receive compensation from the Distributor based on a weighted average of the deviation prices.</p> <p>If actual UAFG is less than benchmark UAFG, the affected market participants will receive a payment for the gas at the deviation price. Under the proposed revised procedures, they will pay this as an incentive to the Distributor based on a weighted average of the deviation prices.</p> <p>In both cases, there is a regulatory incentive for the Distributor to meet benchmark UAFG rates. The Distributor will either compensate market participants for their additional costs in the DWGM (actual UAFG greater than benchmark UAFG) or receive incentives from market participants to the extent of their additional payments from the DWGM (actual UAFG less than benchmark UAFG).</p> <p>While it is possible that net reconciliation payments over successive years are predominantly from Distributor to market participant, this asymmetry results from actual UAFG being higher than benchmark UAFG, rather than from the reconciliation price itself.</p> <p>Multinet's proposal to continue using the current annual price determination would result in asymmetry, as the market impact on market participants where actual UAFG was different to benchmark UAFG would be priced on a different basis to payments to or from Distributors.</p>
	<p>AEMO asserts that the amended UAFG Procedure aligns with the Code, however, no explanation is given. Insofar as these</p>	<p>NGR 135EC(1)(b)(i) and (ii) deal with the establishment by AEMO of a process for examining and assessing a proposal for changing procedures.</p>

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	<p>assertions are unsupported, AEMO has failed to comply with rule 135EC(1)(b)(i) and (ii) of the NGR in that there is inadequate critical examination of the proposal nor an adequate assessment of the likely effect of the proposed Procedure.</p>	<p>The requirements for examining and assessing a proposal were met through a GWCF meeting in April, a GWCF Workshop in June 2015, submissions following the workshop, and a GWCF meeting in August 2015.</p> <p>135EB deals with preconditions for making procedures.</p> <p><b>135EB Preconditions for making Procedures</b></p> <p><i>(1) AEMO may only make Procedures if AEMO is satisfied that the Procedures:</i></p> <ul style="list-style-type: none"> <li><i>(a) are consistent with the NGL and these rules; and</i></li> <li><i>(b) are appropriate having regard to:</i> <ul style="list-style-type: none"> <li><i>(i) the national gas objective; and</i></li> <li><i>(ii) any compliance costs likely to be incurred by AEMO, Registered participants or BB participants in consequence of the Procedures;</i></li> <li><i>(iii) any principles stated in these rules that are applicable to the relevant Procedures.</i></li> </ul> </li> </ul> <p>As noted in the IIR, AEMO is satisfied that the proposed changes are consistent with the NGL and NGR, and specifically with the National Gas Objective in that they promote the efficient operation and use of natural gas services by allowing AVWMP to be determined in a way that reflects the costs to market participants in the declared wholesale gas market when actual UAFG is different to benchmark UAFG.</p>
	<p>The benchmark and reconciliation process is part of an incentive framework. AEMO say that retailers forecast volume including the expected UAFG amounts and that retailers pay for any variation between the actual and benchmark UAFG at the deviation price. Retailers forecast accuracy, the weather, the</p>	<p>AEMO agrees that the deviation price is affected by the factors noted by Multinet, and that these are not within its control. This does not represent a material change, as distributors also had no influence over the prices used to determine the reconciliation amount prior to this proposed change.</p>

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	<p>state of the systems and line pack and a range of other factors can influence whether any variation in the UAFG forecast vs actual is to the benefit or the detriment of the retailer. Multinet has no control over the forecasting accuracy which influences the deviation price.</p>	<p>The design of the DWGM is such that effect of differences between actual and benchmark UAFG are costed at the applicable deviation price.</p> <p>Market participants are responsible for payments or charges that arise from the forecast and actual consumptions being different, and so have an incentive to improve their forecasts.</p>
<p>Multinet Gas</p>	<p>The access arrangement establishes the economic agreement between the distributor and retailer. This framework assumes that the UAFG is settled using the Distribution UAFG Procedures under NGR 317 in accordance with any relevant Regulatory instruments, of which the Code is recognised and referenced in the UAFG Procedure itself. In other words, the access arrangement assumes conformity between the UAFG procedure and the Code.</p> <p>Clause 4.10(b) of Part C of Multinet's access arrangement provides:</p> <p><i>The parties acknowledge that, in accordance with Rule 317 of the National Gas Rules and the Distribution UAFG Procedures made pursuant to that rule (and in accordance with any other relevant Regulatory Instruments from time to time) AEMO will from time to time calculate the amounts (if any) payable by the User to the Service Provider or by the Service Provider to the User on account of Unaccounted for Gas (Reconciliation Amounts).</i></p>	<p>Although the IIR noted that AEMO was not required to have regard to applicable Access Arrangements, it also noted that the proposed change was consistent with the Code on which Multinet's Access Arrangement is based.</p> <p>The IIR did not specifically draw attention to the proposed changes set out in Appendix A to the IIR. These included changes to the determination of AVWMP in 2.1.1 of the Procedure, and the determination of reconciliation amounts in Appendix C, that ensured alignment with factor X in Schedule 1, Part C2 of the Code. As set out above, AEMO will be reinforcing this link with further changes to Appendix C of the proposed Procedure.</p>

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	<p>AEMO asserts that as the UAFG Procedure is not a Retail Market Procedure, it need not have regard to the access arrangement. This takes a narrow view of the law as comprising only the express provisions of the NGR. In exercising a statutory function, AEMO is limited by the principles of administrative law. Multinet's view is that it is unreasonable, in a legal sense, and contrary to law, for AEMO to make a Procedure that is inconsistent with the access arrangement.</p>	
Multinet Gas	<p>NGR Rule 317 requires AEMO to make a Distribution UAFG Procedure, not a Wholesale Market Distribution UAFG Procedure. The Retail Market Procedures (Victoria) (RMP) also reference the use of the Distribution UAFG Procedure in Part 7 for use in calculating the non DTS UAFG.</p> <p>The Wholesale Market Distribution UAFG Procedure itself links back to NGR 317, not NGR 135EA (2) (k).</p> <p>Multinet recommends that the UAFG Procedure name be amended and the words 'Wholesale Market' be removed to make it consistent with its head of power in NGR 317 and the naming used in the Retail Market Procedure.</p>	<p>AEMO will not make the suggested change to the naming of the Procedure.</p> <p>The Procedures are made under rule 317 and specifically recognised in NGR 135EA(2) as Wholesale Market Procedures. Rule 135EA(2) is a provision that describes the scope of Wholesale Market Procedures for the purposes of the definition in the NGL. It was drafted in 2008/9 with specific reference to the subject matter of the declared wholesale market rules (as largely transferred from the MSOR. The DUAFG procedures are not part of the Retail Market Procedures, even though they are referenced in them.</p>
Multinet Gas	<p>AEMO need to confirm that any proposed changes to the UAFG Procedure are also</p>	<p>AEMO believes the proposed Procedure is appropriate to the non-declared transmission areas.</p>

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	<p>appropriate for the non-declared transmission areas such as South Gippsland. Any revised UAFG Procedure needs to be workable under the Retail Market Procedure; AVWMP is even less applicable in South Gippsland.</p>	<p>Chapter 7 of the Retail Market Procedures (Victoria) (RMP(V)) reference the “Distribution UAFG Procedures (as in force from time to time) made by AEMO under Part 19 of the Rules”. Section 7.1.1 also includes a statement that the Procedure applies “with such adaptations and modifications as are required.”</p> <p>Gas for non-declared transmission networks is sourced as follows:</p> <ul style="list-style-type: none"> <li>• The Grampians network is completely sourced from the DWGM.</li> <li>• The Bairnsdale network is indirectly connected to the DWGM via the VicHub system point, so could source gas from the DWGM or could use gas that is otherwise sold to the DWGM.</li> <li>• The S Gippsland network is partially sourced from the DWGM, and otherwise uses gas that would have been sold to the DWGM.</li> </ul> <p>AEMO believes that the AVWMP is therefore an appropriate facsimile for the reconciliation price in non-declared transmission areas.</p> <p>AEMO further notes that section 7.3 of the RMP(V) allows the distributor and market participants to reach agreement for payments other than those determined by AEMO.</p>