

# IMPACT IMPLEMENTATION REPORT (IIR)

## Summary Section

For AEMO to complete and administer.

|   |  |   |                          |
|---|--|---|--------------------------|
| <b>Issue Number</b>                           | 2019-01  |   |                          |
| <b>Impacted Jurisdiction(s)</b>               | Victoria   |   |                          |
| <b>Proponent</b>                              | Nicholas Pope  | <b>Company</b>  | AEMO                     |
| <b>Affected Gas Market(s)</b>                 | <ul style="list-style-type: none"> <li>Declared Wholesale Gas Market</li> </ul>  | <b>Consultation process (Ordinary or Expedited)</b>               | Ordinary                 |
| <b>Industry Consultative forum(s) used</b>    | PCT Reference Group  | <b>Date Industry Consultative forum(s) consultation concluded</b> | Monday, 17 December 2018 |
| <b>Short Description of change(s)</b>         | Amendments to Accreditation Procedures arising from the implementation of the pipeline capacity trading reform package.  |   |                          |
| <b>Procedure(s) or Documentation impacted</b> | Wholesale Market Accreditation Procedures (Victoria)   |   |                          |
| <b>Summary of the change(s)</b>               | <ul style="list-style-type: none"> <li>New provision for deemed applications for accreditation of a controllable quantity for withdrawals and for injections, including how AEMO will assess this.</li> <li>Amendments to detail how AEMO will adjust maximum hourly quantity and ramp rates for deemed applications to accreditations.</li> </ul> |   |                          |
| <b>I&amp;IR Prepared By</b>                   | Markets  | <b>Approved By</b>  | Paddy Costigan           |
| <b>Date I&amp;IR published</b>                | 10 January 2019  | <b>Date Consultation under 135EE or 135EF concludes</b>           | 7 February 2019          |
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## IMPACT & IMPLEMENTATION REPORT – DETAILED REPORT SECTION

### CRITICAL EXAMINATION OF PROPOSAL

#### 1. DESCRIPTION OF CHANGE(S) AND REASONS FOR CHANGE(S)

##### 1.1. Overview of the capacity trading reform package

On 29 June 2018 the Council of Australian Governments (COAG) Energy Council (Energy Council) agreed to implement the legal and regulatory framework required to give effect to the capacity trading reform package.

The capacity trading reform package applies to transmission pipelines and compression facilities operating under the contract carriage model. The package provides for the implementation of:

1. A capacity trading platform (CTP) that will form part of the gas trading exchange (Gas Supply Hub (GSH)) and provide for:
  - exchange-based trading of commonly traded transportation products (including firm forward haul services, firm park services and firm compression services on stand-alone compressors); and
  - a listing service for other more bespoke products.
2. A day-ahead auction (DAA) of contracted but un-nominated (CBU) capacity, which will be conducted each day on non-exempt transportation facilities shortly after nomination cut-off and subject to a reserve price of zero. Shippers will be able to use the DAA to procure forward haul transportation services (with separate products offered in both directions on bi-directional pipelines); backhaul services on single direction pipelines (or parts of pipelines) and stand-alone compression services.
3. A range of measures to facilitate capacity trading and the DAA, including the development of standard operational transportation service agreements (standard OTSA) that will establish the standard contract terms between service providers and shippers for capacity procured through the CTP and DAA.
4. A reporting framework for secondary capacity trades and a number of other transparency measures that are designed to facilitate capacity trades and the DAA.
5. A standard market timetable that provides for:
  - a common gas day start time across the east coast (and Northern Territory once connected to the east coast) that will apply to all production, pipeline, compression and storage facilities and in the facilitated markets; and
  - a common nomination cut-off time and common auction service nomination cut-off time for transportation facilities that will be subject to the capacity trading reforms.

On 22 November 2019, the amendments to the National Gas Law (NGL) were proclaimed and the required amendments to the National Gas Rules (NGR) were made.

##### 1.2. Changes to the Accreditation Procedures

The changes being consulted on in this PPC are necessary amendments to the Wholesale Market Accreditation Procedures (Victoria) (the Accreditation Procedures) arising from the National Gas (Capacity Trading and Auctions) Amendment Rule 2018.



The capacity trading reforms apply to pipelines that have interfaces with the DTS, therefore, integration between the CTP and DAA and the DWGM is needed at those interfaces.

The new version of the NGR and the Capacity Trading and Auction Procedures (CTAP) make provision for the integration of CTP and DAA transfers with the DWGM. The Accreditation Procedures need to be amended for this integration. The intent of the changes to these Procedures is to reflect the outcomes of relevant transfers made via the CTP or DAA in the accredited quantities for Market Participants at DWGM interface points.

## 2. REFERENCE DOCUMENTATION

The Wholesale Market Accreditation Procedures (Victoria) version 3.0 are proposed to be amended to include the new requirements arising from the National Gas (Capacity Trading and Auction) Amendment Rule 2018 and the CTAP.

The current version of the Accreditation Procedures can be found here: <http://aemo.com.au/Gas/Declared-Wholesale-Gas-Market-DWGM/Policies-and-procedures>

Participants may wish to review the CTAP published on AEMO's website (<http://aemo.com.au/Gas/Pipeline-Capacity-Trading/Procedures>) and the new version of the NGR published on the AEMC's website.

## 3. THE HIGH LEVEL DETAILS OF THE CHANGE(S) TO THE EXISTING PROCEDURES

### 3.1. Deemed Applications

The proposed Procedure amendments include a new provision for deemed applications for:

- accreditation of a controllable quantity for withdrawals and,
- accreditation of a controllable quantity for injections

A deemed application for accreditation is an application for Accreditation taken to be issued pursuant to clause 9.1 or 20.2 of the Capacity Transfer and Auction Procedures (CTAP). A deemed application results from a confirmed transfer of pipeline capacity (confirmed transfer quantity) under the CTAP at a DWGM interface point for a Market Participant.

A confirmed transfer quantity for a participant may be negative (reflecting a net sale of capacity) or positive (reflecting a net purchase of capacity) at the interface point.

### 3.2. Assessment of deemed applications

The proposed procedure amendments also make provision for how AEMO assess a deemed application for accreditation.

A deemed application will be taken to be a revised application for accreditation. Where a deemed application for a controllable quantity is taken to be issued, AEMO will increase (for a positive transfer quantity) or decrease (for a negative transfer quantity) the maximum hourly quantity and ramp times (where applicable) to reflect the corresponding transportation capacity transferred under the CTAP for the period of the transfer. Following the period of the transfer, the maximum hourly quantity and ramp times will be adjusted back to their previous value.

### 3.3. Adjustments to maximum hourly quantities

AEMO will make the following adjustments for deemed applications to the accreditation of maximum hourly quantities at each application interface point:

- Where the participant's accredited MHQ immediately before the deemed application is not null, for a positive confirmed transfer quantity, the participant's accredited MHQ will be increased for each hour by the confirmed transferred quantity divided by twenty-four.



- Where the participant's current accredited MHQ immediately before the deemed application is not null, for a confirmed negative transfer quantity, the participant's accredited MHQ will be decreased for each hour by the confirmed transferred quantity divided by twenty-four.
- Where the confirmed negative transfer quantity divided by twenty-four exceeds the participant's current accredited MHQ, the MHQ will be adjusted down to zero.
- Where the accredited MHQ immediately before the deemed application is null, no adjustment to the participant's MHQ will be made.

### **3.4. Adjustments to ramp up rate**

AEMO will make the following adjustments for deemed applications to the accreditation of ramp up rates at each applicable interface point:

- Where, immediately before the deemed application, the participant's current accredited ramp up rate is not null and the accredited MHQ is not null, the participant's accredited ramp up rate will be the accredited MHQ, following any adjustments made for confirmed transfers of capacity, divided by the accredited facility ramping period, for each hour.
- Where, immediately before the deemed application, the current accredited ramp up is null or the accredited MHQ is null, no adjustment will be made to the participant's accredited ramp up rate.

### **3.5. Adjustments to ramp down rate**

AEMO will make the following adjustments for deemed applications to the accreditation of ramp down rates at each applicable interface point:

- Where the current accredited ramp up rate is not null and the MHQ is not null, the accredited ramp down rate will be the accredited MHQ, following any adjustments made for confirmed transfers of capacity divided by the accredited facility ramping period, for each hour.
- Where the current accredited ramp up rate is null or the accredited MHQ is null, no adjustment will be made to the accredited ramp down rate.

## **4. EXPLANATION REGARDING THE ORDER OF MAGNITUDE OF THE CHANGE**

Implementation of the COAG Energy Council's capacity trading reform package is a mandatory, material change for industry.

The changes to these Procedures are material for DWGM Market Participants who intend to transfer capacity under the CTAP at DWGM interface points.



## ASSESSMENT OF LIKELY EFFECT OF PROPOSAL

### 5. OVERALL INDUSTRY COST / BENEFIT (TANGIBLE / INTANGIBLE / RISK) ANALYSIS AND/OR COST ESTIMATES

#### 5.1. Benefits of the capacity trading reform package

The capacity trading reform package is expected to foster the development of a more liquid secondary capacity market and, in so doing, improve the efficiency with which capacity is allocated and used on transportation facilities by:

- using market-based processes to allocate capacity to those that value it most;
- improving the incentive shippers have to trade capacity and posing a constraint on the ability of transportation facilities to sell secondary capacity at prices in excess of what would be expected in a workably competitive market;
- reducing search and transaction costs; and
- reducing information asymmetries and aiding the price discovery process.

Implementation of the capacity trading reform package will require expenditure by AEMO on market systems, legal artefacts as well as on market and operational readiness activities.

Facility operators and participants are also likely to incur costs associated with systems, commercial arrangements and operational readiness.

#### 5.2. Benefits of the change to the Accreditation Procedures

The change to these Procedures will enable transfers made for the CTP and DAA at DWGM interface points to be automatically reflected in Market Participant's accredited quantities without requiring participants to manually submit applications (or revised applications) for accreditation to AEMO.

This change will reduce the administrative burden associated with making adjustments to accreditation for CTP and DAA transfers at a DWGM interface point. The change will benefit participants who want to use capacity acquired or sold via the CTP or DAA at interface points in the DWGM and this will support the trade of gas and capacity between markets.

### 6. THE LIKELY IMPLEMENTATION EFFECT OF THE CHANGE(S) ON STAKEHOLDERS

#### 6.1. Capacity Price in Settlement calculations

The proposed changes will integrate the Capacity Trading Platform and Capacity Auction with the DWGM, enabling participants to trade capacity at DWGM interface points. Participation in the Capacity Trading Platform and Capacity Auction is voluntary.

Implementation of the proposed changes will require expenditure by AEMO on market systems and legal artefacts as well as on market and operational readiness activities.

Participants may wish to update their systems to accommodate the new MIBB report. AEMO will publish an updated MIBB guide to provide further information on the new MIBB report.

### 7. TESTING REQUIREMENTS

The PCT Market Trial will provide participants a chance to test the changes to the DWGM arrangements.



## **8. AEMO'S PRELIMINARY ASSESSMENT OF THE PROPOSAL'S COMPLIANCE WITH SECTION 135EB:**

The pipeline capacity trading reforms will be implemented through the amendments to the NGL and NGR. These changes to the Accreditation Procedures are to enable pipeline capacity trading to integrate with the DWGM, as per the design of the pipeline capacity reforms as approved by COAG. As stated, the capacity trading reform package is expected to foster the development of a more liquid secondary capacity market and, in so doing, improve the efficiency with which capacity is allocated and used on transportation facilities, consistent with the national gas objective.

## **9. CONSULTATION FORUM OUTCOMES**

AEMO discussed these changes with the Pipeline Capacity Trading Reference Group throughout 2018, and with the GWCF in October 2018. The proposed amendments that AEMO released in a Proposed Procedure Change to industry (the Pipeline Capacity Trading and Gas Wholesale Reference Group (GWCF) distribution lists) on 30 November 2018 were as a result of these discussions.

Two submissions were received in response to the PPC. These submissions and AEMO's response are summarised in Attachment B.



## RECOMMENDATION(S)

### **10. SHOULD THE PROPOSED PROCEDURES BE MADE, (WITH OR WITHOUT AMENDMENTS)?**

AEMO recommends for the proposed amendments to be made to the Accreditation Procedures.

### **11. IF APPLICABLE, A PROPOSED EFFECTIVE DATE FOR THE PROPOSED CHANGE(S) TO TAKE EFFECT AND JUSTIFICATION FOR THAT TIMELINE.**

The changes to the Accreditation Procedures will come into effect at the same time as commencement of the Capacity Trading Platform and Capacity Auction, which is expected to be on 1 March 2019.



## ATTACHMENT A – DOCUMENTATION CHANGES (SEE SECTION 3)

Blue represents additions Red and strikethrough represents deletions – Marked up changes shown only in sections with changes.

### GLOSSARY

- (a) In this document, a word or phrase *in this style* has the same meaning as given to that term in the NGR.
- (b) In this document, capitalised words or phrases or acronyms have the meaning set out opposite those words, phrases, or acronyms in the table below.
- (c) Unless the context otherwise requires, this document will be interpreted in accordance with Schedule 2 of the *National Gas Law*.

| TERM                                     | MEANING  |
|--|--|
| Accreditation                            | Accreditation in accordance with rules 210(1), (4) and (5) of the Rules.   |
| AEMO                                     | Australian Energy Market Operator  |
| Application                              | Application made by a Market Participant for Accreditation.  |
| Capacity Transfer and Auction Procedures | Has the meaning as defined in the NGL  |
| Deemed Application                       | An application for Accreditation taken to be issued pursuant to clause 9.1 or 20.2 of the Capacity Transfer and Auction Procedures |
| DWGM                                     | Declared Wholesale Gas Market  |
| DWGM allocation                          | Has the meaning as defined in the Capacity Transfer and Auction Procedures   |
| DWGM interface point                     | Has the meaning as defined in Part 24 of the NGR   |
| DWGM transfer                            | Has the meaning as defined in the Capacity Transfer and Auction Procedures   |
| Facility Operator                        | Has the meaning as defined in Part 24 of the NGR   |
| MIRN                                     | Metering Installation Registration Number  |
| NGL                                      | National Gas Law   |
| NGR                                      | National Gas Rules   |
| Nominated DWGM participant               | Has the meaning as defined in clause 9.1 and 20.2 (as applicable) of the Capacity Transfer and Auction Procedures                  |





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|-------------------------|--|
| ramp times              | The ramp up time and ramp down time of a <i>system withdrawal point</i> or a <i>system injection point</i> , being the time (hours) it takes to change up to and down from the maximum flow rate at that point |
| Rules                   | National Gas Rules   |
| TMM                     | Transportation and Market Manager application  |
| Transportation Capacity | Has the meaning as defined in the NGL  |

## Preliminary

### 1.1 Introduction

(a) These are the *accreditation procedures* for the declared wholesale gas market made in accordance with rule 210(8) of the NGR.

~~(b) These Procedures are effective from 29 July 2013.~~

~~(e)~~ (b) These Procedures may only be amended in accordance with Part 15B of the NGR.

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### 2.2A Deemed Applications for accreditation of a controllable quantity for withdrawals

If a Nominated DWGM participant has a *controllable quantity* for *withdrawal bids* accredited at a *system withdrawal point* that is a DWGM interface point, pursuant to clauses 9.1 and 20.2 of the Capacity Transfer and Auction Procedures, the Nominated DWGM participant is taken to have issued a Deemed Application for that *controllable quantity* as follows:

- a revised Application for Accreditation for that *controllable quantity*;
- to increase or decrease the *maximum hourly quantity* to reflect the corresponding Transportation Capacity increase or decrease for each *gas day* confirmed for the DWGM transfer or the increase confirmed for the DWGM allocation, as applicable;
- for the period of the Transportation Capacity sold or purchased pursuant to the DWGM transfer or the DWGM allocation, as applicable;
- otherwise, the Deemed Application will be taken to specify the same information for the *controllable quantity* as is registered for the *controllable quantity* at the time of the Deemed Application.

AEMO may rely on the information provided by the Facility Operator for the DWGM transfer or DWGM allocation for the purpose of the Deemed Application and does not have to notify the Nominated DWGM participant of the Deemed Application.

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### 2.3A Deemed Applications for accreditation of a controllable quantity for injections

If a Nominated DWGM participant has a *controllable quantity* for *injection bids* accredited at a *system injection point* that is a DWGM interface point, pursuant to clauses 9.1 and 20.2 of the Capacity Transfer and Auction Procedures, the Nominated DWGM participant is taken to have issued a Deemed Application for that *controllable quantity* as follows:



- a revised Application for Accreditation for that *controllable quantity*;
- to increase or decrease the *maximum hourly quantity* to reflect the corresponding Transportation Capacity increase or decrease for each *gas day* confirmed for the DWGM transfer or the increase confirmed for the DWGM allocation, as applicable;
- for the period of the Transportation Capacity sold or purchased pursuant to the DWGM transfer or the DWGM allocation, as applicable;
- otherwise, the Deemed Application will be taken to specify the same information for the *controllable quantity* as is registered for the *controllable quantity* at the time of the Deemed Application.

AEMO may rely on the information provided by the Facility Operator for the DWGM transfer or DWGM allocation for the purpose of the Deemed Application and does not have to notify the Nominated DWGM participant of the Deemed Application.

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## 2.5 AEMO's assessment of applications for accreditation

AEMO will assess each application for accreditation of a *controllable quantity* against the requirements of rule 210(7) of the NGR.

AEMO may require a *Market Participant* to provide any additional information reasonably required to demonstrate that the *Market Participant* meets the requirements of rule 210(7).

Except for Deemed Applications, AEMO will notify the *Market Participant* of the outcome of an application, including the effective date of accreditation if applicable, within:

- within 5 business days of receipt of an initial application.
- within 3 business days of receipt of a revised application.

The effective date of the accreditation of a *controllable quantity* will be no earlier than 4 gas days after AEMO notifies the *Market Participant* of the outcome of the application.

Note: Once accredited (through an initial Accreditation application), the controllable quantities are standing data which is used as an input to produce operating schedules and pricing schedules. Controllable quantities data may only be changed by a further application by the *Market Participant* for Accreditation (a revised Accreditation application). Controllable quantities data is confidential to the *Market Participant* involved and will only be disclosed with the written consent of the *Market Participant*.

### 2.5A AEMO's assessment of Deemed Applications

If a Nominated DWGM participant is taken to have issued a Deemed Application:

- the requirements of rule 210(7) of the NGR will be taken to have been met based on the information provided by the Facility Operator for the DWGM transfer or DWGM allocation, as applicable; and
- subject to this section, AEMO will accredit the *controllable quantity* for each *gas day* confirmed for the DWGM transfer or the increase confirmed for the DWGM allocation, as applicable by increasing or decreasing the *maximum hourly quantity* and ramp times for that *controllable quantity*



in accordance with AEMO's standard practices to reflect the corresponding Transportation Capacity increase or decrease.

The increase or decrease of the *maximum hourly quantity* and ramp times will be for the period of the Transportation Capacity sold or purchased pursuant to the DWGM transfer or the DWGM allocation, as applicable, as confirmed by Facility Operator.

After the period of the Transportation Capacity sold or purchased pursuant to the DWGM transfer or the DWGM allocation, the *maximum hourly quantity* and ramp times accredited for the *controllable quantity* will automatically revert to the *maximum hourly quantity* and ramp times accredited immediately before the DWGM transfer or the DWGM allocation, subject to any further Applications or Deemed Application(s).

If the Nominated DWGM participant's *maximum hourly quantity* for that *controllable quantity* at that DWGM interface point would reduce to less than zero for any *gas day* as a result of a Deemed Application, the *maximum hourly quantity* will reduce to zero for that *gas day*.

If the Nominated DWGM participant's *maximum hourly quantity* for that *controllable quantity* at that DWGM interface point is null for any *gas day*, it will remain null for that *gas day* notwithstanding the DWGM transfer or DWGM allocation.

AEMO does not have to notify the Nominated DWGM participant of the accreditation of the increase or decrease of the *maximum hourly quantity* or ramp times as a result of a Deemed Application.

Note: Although DWGM transfers may be for a period greater than 3 *gas days*, INT118 report (which provides details of the accreditations that AEMO has recorded) only records changes to accreditations from DWGM transfers for the current *gas day* and for the next 2 *gas days*.

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## ATTACHMENT B – SUMMARY OF SUBMISSIONS

| No. | Consulted person | Issue   | AEMO response  |
|-----|------------------|---|--|
| 1.  | APA              | <p>APA supports the proposed approach in the revised accreditation procedures, noting that these changes are required to ensure that holders of short term capacity procured through the capacity trading platform or capacity auction can participate in the DWGM. This access has the potential to increase competition and market liquidity on a daily basis, which is the overarching objective of the Capacity Trading and Auction reforms.</p> <p>In support of this policy objective, APA has introduced a number of shorter term transportation products to allow shippers to trade gas more freely and increase liquidity in the market.</p> <p>These short lead time services, including Short Term, Day-Ahead, and Within-Day Firm services, and As Available, Authorised Overruns or Interruptible services, have similar characteristics to day-ahead traded capacity or auction capacity, in that current accreditation procedures are not accommodative.</p> | Noted  |
| 2.  | APA              | <p>APA believes that a similar approach to accreditation should equally apply to these shorter term products. Similar to auction capacity, shippers using these services may only know they are scheduled after the nomination deadline. As with the capacity trading or auction services, this is too late for AEMO's current accreditation processes, which are more suitable for standing firm capacity commitments.</p>   | Noted  |
| 3.  | APA              | <p>APA believes that all shippers that wish to inject or withdraw gas from the DWGM should be able to be accredited to do so. This accreditation, however, should not distort existing contractual priorities on interconnected pipelines. To do so may undermine the firmness of both traditional firm and auction products. Shipper accreditation for services that have short lead times between procurement and use, such as shorter term firm and non-firm services, should therefore match quantities scheduled at DWGM interface points on a daily basis, similar to that proposed for traded and auction capacity.</p> <p>APA would like to work with AEMO to develop a process to share information with AEMO each day on shipper scheduled quantities to</p>  | <p>AEMO notes APA's concern that participants may be unable to register bid accreditation constraints for very short-term products, procured from the facility operator, due to the processing time associated with accreditation applications.</p> <p>Integration between facility operator and AEMO systems for accreditation would require additional substantial changes to market systems, processes and the regulatory framework. Such a change is not able to be accommodated as part of the implementation of the pipeline capacity trading reforms.</p> |



| No. | Consulted person | Issue  | AEMO response   |
|-----|------------------|--|---|
|     |                  | support accreditation of those quantities for bidding into and out of the DWGM.  | AEMO would be pleased to discuss this matter further with APA and industry to establish the nature of the issue and whether changes are required to the DWGM.   |
| 4.  | AGL              | AGL supports the proposed long-term accreditation table to allow participants to keep track of their DWGM accreditations. The current short-term table only shows accreditations for the next few days   | Noted   |
| 5.  | AGL              | AGL understands that AEMO will only amend a seller's accreditation when the capacity is sold on the trading platform. AGL believes this approach is a practical method to implement the changes being made for the introduction of pipeline capacity trading and the day ahead auction (adjusting a buyer's accreditation based on the results of the auction or from platform trades, but only amending a seller's accreditation when capacity is sold on the platform) | Noted   |
| 6.  | AGL              | However, AGL remain concerned that allocations may not match schedules under scenarios where capacity of an auction winner is affected by renominations of a firm shipper. This will likely lead to unexpected financial outcomes, issues for facility operators in providing accurate data, and frustration from auction winning shippers.  | AEMO notes that purchasers of the auction product at DWGM interface points should be aware of the market risks associated with the auction product given it is subordinate to firm capacity and may be interrupted by renominations from firm shippers.<br><br>Participants at DWGM interface points should familiarise themselves with the allocation arrangements at those points including how facility operators will allocate quantities when there is a mismatch between DWGM and pipeline schedules. AEMO notes that such a mismatch could also occur under existing arrangements. |
| 7.  | AGL              | AGL notes that aligning the operating and market schedules would help to address scheduling mismatch, and suggests the rule change on this issue currently with the Australian Energy Market Commission should be implemented immediately.   | Noted   |