

IMPACT & IMPLEMENTATION REPORT – SUMMARY SECTION
(For AEMO to complete and administer)

Issue Number			
Impacted Jurisdiction (s)	Victoria		
Proponent	Meng Sam	Company	AEMO
Affected Gas Markets(s)	Declared Wholesale Gas Market	Consultation process (Ordinary or Expedited)	Ordinary Process for Making Procedures
Industry Consultative forum(s) used	Gas Wholesale Consultative Forum	Date Industry Consultative forum(s) consultation concluded	25 September 2013
Short Description of change(s)	<p>A change to Section 6.10 of the Wholesale Market Administered Pricing Procedure (Victoria) to reduce to the Cumulative Price Threshold (CPT) from \$3700 to \$1800.</p> <p>Additionally, the format of the Procedure has been updated to reflect the new corporate template.</p>		
Procedure(s) or Documentation impacted	Wholesale Market Administered Pricing Procedure (Victoria) version 1.0, Section 6.10		
Summary of the change(s) and the reasons for the change(s)	<p>The review of the CPT mechanism found that: the current CPT settings may not provide sufficient wholesale market price risk mitigation for new entrant and rapidly growing retailers; and the level of residual risk implied by the current CPT settings was found to be out-of-step with other markets, therefore imposing an excessive and onerous management cost.</p> <p>AEMO concluded that these factors can create a barrier to entry and may discourage new retailers from entering the Declared Wholesale Gas Market (DWGM). This may result in a reduction in the long run competitiveness of the market. Due to these findings, AEMO recommended a change in the CPT setting from \$3700 to \$1800, which is aimed at lowering the level of residual risk resultant from the CPT mechanism.</p>		
I&IR Prepared By	Meng Sam	Approved By	Peter Ferretto
Date I&IR published	23 December 2013	Date Consultation under 135EE or 135EF concludes	24 January 2014
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Other key contact information			

IMPACT & IMPLEMENTATION REPORT – DETAILED REPORT SECTION

CRITICAL EXAMINATION OF PROPOSAL

<p>1. Description of change(s) and reasons for change(s)</p>	<p>A review of the CPT Mechanism was requested following the Gas Wholesale Consultative Forum’s (GWCF) proposal to remove the Force Majeure provisions from Part 19 of the National Gas Rules (NGR). The GWCF was concerned that this left limited scope to offer protection to Market Participants when market prices were being set at a very high level, and no further market response was possible, and asked for this issue to be examined.</p> <p>The Declared Wholesale Gas Market (DWGM) CPT review was led by AEMO with guidance from the GWCF. Two key findings were distilled from the review. Firstly, the analysis showed that the current CPT settings may not provide sufficient wholesale market price risk mitigation for new entrant and rapidly growing retailers. Secondly, the level of residual risk implied by the current CPT settings was found to be out-of-step with other markets, therefore imposing an excessive and onerous management cost. AEMO concluded that these factors can create a barrier to entry and may discourage new retailers from entering the DWGM.</p> <p>Due to these findings, AEMO recommended a change in the CPT setting from \$3700 to \$1800. This will lower the level of risk that is resultant from the CPT mechanism, and in doing so, prevent barriers to entry. This works to improve the competitiveness of market and that the long-run interests of consumers are protected in alignment with the National Gas Objective.</p> <p>The GWCF has generally endorsed this recommendation.</p>
<p>2. Reference documentation</p> <ul style="list-style-type: none"> ▪ Procedure Reference ▪ GIP/Specification Pack Reference ▪ Other Reference 	<p>Wholesale Market Administered Pricing Procedure (Victoria) – version NGR 1.0¹;</p>
<p>3. The high level details of the change(s) to the existing Procedures</p> <p>This includes:</p> <ul style="list-style-type: none"> ▪ A comparison of the existing operation of the Procedures to the proposed change to the operation of the Procedures ▪ A marked up version of the 	<p>The amendment to this Procedure incorporates the recommendation from the DWGM CPT review. This will lead to a reduction in the CPT from \$3700 to \$1800.</p> <p>Additionally, the format of the Procedure has been updated to reflect the new corporate template.</p> <p>See Attachment A for a marked up changes.</p>

¹ <http://www.aemo.com.au/Gas/Policies-and-Procedures/Declared-Wholesale-Gas-Market-Rules-and-Procedures>

Procedure change (see Attachment A)	
4. Explanation regarding the order of magnitude of the change (eg: material, non-material or non-substantial)	<p>In terms of implementation, AEMO considers that the proposed change to be non-material in nature for the following reasons:</p> <ul style="list-style-type: none"> • The implementation of the proposed change will lead to a reconfiguration of the CPT value in the market systems. No testing will be required for the change; and • During the consultation process, participants have not identified any implementation costs resulting from the proposed change.

ASSESSMENT OF LIKELY EFFECT OF PROPOSAL

5. Overall Industry Cost / benefit (tangible / intangible / risk) analysis and/or cost estimates	<p><u>Costs:</u></p> <ul style="list-style-type: none"> • AEMO will not incur any costs; and • During the consultation process, participants have not identified any implementation costs. <p><u>Benefits:</u></p> <p>The likely benefits from the proposed changes were discussed in Section 6.4 of the DWGM CPT Review Final Report 2013². These are:</p> <ol style="list-style-type: none"> 1. <i>We recommend that the CPT is lowered from \$3700 to \$1800. Based on our measure of excessive and/or unmanageable risk, this reduces the level of residual wholesale market risk to a level that better addresses the needs of new entrant and rapidly growing retailers. We understand that in the case of the Declared Transmission System, access to injection capacity from the Dandenong LNG facility will often be required to maintain the security of the system during possible CPT events. AEMO understands that the bilateral market for LNG capacity is not liquid, and is mostly contracted by the larger established retailers. It follows that new entrant and rapidly growing retailers may therefore experience difficulty in procuring sufficient LNG capacity to address optimal risk management needs. This could present a barrier to entry, affecting competition and price outcomes, and may create a possible insolvency risk during major CPT events. Our assessment has also shown that the risk mitigation power of the current settings is weaker than those of the CPT mechanisms of the NEM and STTM; and</i> 2. <i>A CPT setting of \$1800 will not deny sufficient cost recovery for the fixed and variable costs of the LNG facility, which is also the most expensive source of supply in the Victorian system on a total average cost basis.</i> <p><u>AEMO's Assessment</u></p> <p>There are no apparent costs involved in the implementation of the proposed Procedure changes. In contrast, its implementation will enable a reduction in the level of residual risk resultant from the CPT mechanism for new and rapidly growing retailers.</p>
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² <http://www.aemo.com.au/Gas/Market-Operations/Declared-Wholesale-Gas-Market-Cumulative-Price-Threshold-Review>

<p>6. The likely implementation effect of the change(s) on stakeholders (e.g. Industry or end-users)</p>	<p>Market Participants need to take into account the effective date for this proposed change and make any required adjustments to their own processes.</p>																		
<p>7. Testing requirements</p>	<p>Testing is not required for the proposed procedure change.</p>																		
<p>8. AEMO's preliminary assessment of the proposal's compliance with section 135EB:</p> <ul style="list-style-type: none"> - consistency with NGL and NGR, - regard to national gas objective - regard to any applicable access arrangements 	<p><u>Consistency with NGL and NGR</u></p> <p>AEMO's view is that the proposed changes described in this document are consistent with the National Gas Law (NGL) and the National Gas Rules (NGR).</p> <p><u>National Gas Objective</u></p> <p><i>"Promote efficient investment in, and efficient operation and use of, natural gas services for the long term interests of consumers of natural gas with respect to price, quality, safety, reliability and security of supply of natural gas."</i></p> <p>The proposed Procedure change promotes efficient operation of natural gas services for the long term interest of consumers of natural gas with respect to price and security of supply of natural gas by improving the level of competitiveness of the market by lowering the level of residual risk resultant from the CPT mechanism that better addresses the needs of new entrant and rapidly growing retailers.</p>																		
<p>9. Consultation Forum Outcomes (e.g. the conclusions made on the change(s) whether there was unanimous approval, any dissenting views)</p>	<p>The GWCF is a standing forum for providing effective and efficient consultation with stakeholders on development of the Victorian Gas Wholesale Market. The GWCF is an open forum and all interested parties may attend the GWCF and participate in the meetings.</p> <p>AEMO, in consultation with the GWCF, commenced a review of the DWGM CPT in April 2013. The table below outlines the review consultation process. Three papers were presented at GWCF meetings for discussion.</p> <table border="1" data-bbox="454 1417 1473 2031"> <thead> <tr> <th>Process</th> <th>Date</th> </tr> </thead> <tbody> <tr> <td>GWCF 13-082-02 – DWGM CPT Review – Proposed Approach And Timetable - Open for discussion with the GWCF</td> <td>9 April 2013 – GWCF Meeting 179</td> </tr> <tr> <td>Assumptions And Key Inputs - Open for Feedback</td> <td>24 April 2013</td> </tr> <tr> <td>Assumptions And Key Inputs -Closing date for Feedback</td> <td>14 May 2013</td> </tr> <tr> <td>CPT Review Initial Results - Open for Discussion within the GWCF</td> <td>11 June 2013 – GWCF Meeting 180</td> </tr> <tr> <td>DWGM CPT Review – Draft Report - Open for Submission</td> <td>2 July 2013</td> </tr> <tr> <td>DWGM CPT Review – Draft Report - Closing date for Submission</td> <td>22 July 2013</td> </tr> <tr> <td>GWCF 13-082-04 – DWGM CPT Review – Updates And Next Steps - Open for Discussion within the GWCF</td> <td>13 August 2013 – GWCF Meeting 181</td> </tr> <tr> <td>DWGM CPT Review – Final Report</td> <td>23 September 2013</td> </tr> </tbody> </table>	Process	Date	GWCF 13-082-02 – DWGM CPT Review – Proposed Approach And Timetable - Open for discussion with the GWCF	9 April 2013 – GWCF Meeting 179	Assumptions And Key Inputs - Open for Feedback	24 April 2013	Assumptions And Key Inputs -Closing date for Feedback	14 May 2013	CPT Review Initial Results - Open for Discussion within the GWCF	11 June 2013 – GWCF Meeting 180	DWGM CPT Review – Draft Report - Open for Submission	2 July 2013	DWGM CPT Review – Draft Report - Closing date for Submission	22 July 2013	GWCF 13-082-04 – DWGM CPT Review – Updates And Next Steps - Open for Discussion within the GWCF	13 August 2013 – GWCF Meeting 181	DWGM CPT Review – Final Report	23 September 2013
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	<p>The minutes for the GWCF meetings above are available by emailing a request to the GWCF mailbox - gwcf_correspondence@aemo.com.au.</p> <p>Following support from the GWCF, AEMO published the Final Report on the DWGM CPT Review in September 2013. All of the documents relating to the review can be found at: http://www.aemo.com.au/Gas/Market-Operations/Declared-Wholesale-Gas-Market-Cumulative-Price-Threshold-Review.</p> <p>On 4 November 2013, AEMO published a Proposed Procedure Change (PPC) for stakeholder comment. The consultation for the PPC closed on 22 November 2013. AEMO received one submission from AGL in support of the proposed changes. This submission is available at: http://www.aemo.com.au/Consultations/Gas-Consultations/Wholesale-Gas/Wholesale-Market-Administered-Pricing-Procedures-Victoria.</p>
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RECOMMENDATION(S)	
<p>10. Should the proposed Procedures be made, (with or without amendments)?</p>	<p>Taking into account the consultation that has occurred, AEMO recommends the proposed Procedures change should be made as described in Attachment A.</p>
<p>11. If applicable, a proposed effective date for the proposed change(s) to take effect and justification for that timeline.</p>	<p>AEMO intends to use the ordinary consultative procedure as set out in the National Gas Rules/Part 3/Division 2 as the changes proposed are non-material.</p> <p>The changes are expected to come into effect in 4 March 2014. In accordance with rule 135EE(5) of the NGR, 15 business days prior to the effective date, AEMO will publish a notice specifying the exact date on which the proposed new procedures come into effect.</p>

ATTACHMENT A – DOCUMENTATION CHANGES (SEE SECTION 3)

Blue represents additions Red and strikeout represents deletions – Marked up changes

Clean and change marked versions of the procedure covered in this I&IR can be found on AEMO's website at:

<http://www.aemo.com.au/Consultations/Gas-Consultations/Wholesale-Gas/Wholesale-Market-Administered-Pricing-Procedures-Victoria>. The marked changes are also shown below.

6.1 Cumulative price threshold

The cumulative price threshold is ~~\$3,700/GJ~~ \$1,800/GJ.