



24 October 2016

Ms Yvonne Tan
Australian Energy Market Operator
Level 22
530 Collins Street
Melbourne VIC 3000

Dear Ms Tan

APA comments on Energy Australia proposed Rule change – Application of constraints in the DTS

APA welcomes the opportunity to comment on the proposed rule change submitted by EnergyAustralia in relation to the application of constraints in the DTS.

APA acknowledges the circumstances that have led to EnergyAustralia submitting its proposed rule change. APA is concerned, however, that the specific approach that EnergyAustralia proposes, that is to vary the Declared Wholesale Gas Market (DWGM) rules to include system constraints in the pricing schedule for withdrawals from the DTS, will have broader negative implications for the efficient operation of the market which are not discussed in the proposal or supporting documentation.

APA does not consider that the proposed rule change should be submitted to the Australian Energy Market Commission (AEMC) in its current form.

Market implications of alignment of operating and pricing schedules for system withdrawals

In the second half of 2014, AEMO identified a serious compliance issue associated with its operation of the DWGM, whereby it had been reflecting operating constraints in the pricing schedule, contrary to the requirements of Rule 239(6). A particular concern expressed by AEMO at the time, was that its operation of the market in this way had impacted the market price, and had been suppressing congestion signals and reducing the value of AMDQ.¹

APA is concerned that the rule change proposal and the *Gas Market Issues* paper that accompanies this rule change proposal do not identify the loss of congestion signals, or the loss of efficient pricing of AMDQ, as issues relevant to this rule change. Given that, it is unclear how the information supporting the rule change proposal adequately meets the requirements under Rule 356. The proposal does not provide a balanced or complete assessment of the impacts of the proposed rule change on the efficient operation of the market (in particular signals for investment) that are important for the achievement of the National Gas Objective.

APA has copied below a relevant slide prepared by AEMO in 2014 that highlights the issue associated with alignment of the operating and pricing schedules for withdrawals from the DWGM.² AEMO clearly identifies that alignment of the operating and pricing schedules reduces the value of AMDQ and AMDQcc, the market price³ of which will be critical for signalling investment in additional system capacity.

¹ Australian Energy Market Operator 2014, *Application of constraints in the DWGM*, September, slide 4

² AEMO 2014, *Application of constraints in the DWGM*, September, slide 17

³ Notwithstanding the disposition of the proceeds under the new auction and allocation procedures.

APA Group comprises two registered investment schemes, Australian Pipeline Trust (ARSN 091 678 778) and APT Investment Trust (ARSN 115 585 441), the securities in which are stapled together. Australian Pipeline Limited (ACN 091 344 704) is the responsible entity of those trusts. The registered office is HSBC building, Level 19, 580 George Street, Sydney NSW 2000.

Scenario		Schedule	Constraint Applied	Compliant	Under the current rules it is unclear how AEMO would comply
3	Export to NSW limited to VGPR capacity	OS	Yes	✓	
		PS	Yes	✗	

NB: When this constraint is applied, the withdrawal quantities are restricted to a feasible withdrawal, and injections are reduced (or other withdrawals increased) for a supply-demand-balance.

Constraint Applied	
In OS and PS	In OS only
Produces a lower market price	Produces higher market price.
Market Impact	
No Uplift or APs	May create Uplift and APs for any 'constrained on' withdrawals. AMDQ hedges protect MPs with them.

SLIDE 17

APA understands that this rule change (and supporting Gas Market Issue paper) was prepared by EnergyAustralia and not AEMO. Notwithstanding this, AEMO, in any rule change proposal, needs to consider and highlight the broader market issues associated with a rule change to enable market participants to adequately assess its likely impact on the efficient operation of the market. APA does not believe that the rule change proposal, or the information prepared in support of the proposal, adequately discusses and considers all the impacts of the proposed change.

AEMO highlighted market efficiency as a very relevant and important element of its consideration of this issue in 2014/15. The ultimate decision, which was for AEMO to amend its approach and ensure that constraints are not reflected in the pricing schedule, was supported by market participants as the appropriate course of action. It is unclear why AEMO has chosen not to highlight these issues now in respect of this rule change proposal.

Inadequate consideration of alternative ways to address specific problem in relation to SWP/Iona gas flows

On reading the specific issue in relation to the South West Pipeline and Iona gas flows, it would appear that the operating system, which should reflect constraints in the system, was constraining gas movements that were otherwise able to be delivered. This appears to reflect an issue with the modelling of the system in the operating schedule, where gas entering or leaving the system at the South West Pipeline near Iona is at high enough pressure to travel east or west into the system, however under the operating schedule these flows are being constrained.

An approach to address this issue within the current rules would be to better reflect the capabilities of the system in the operating schedule. Indeed, additional gas flows may also be accommodated at Culcairn and Longford via a similar upgrade to the system model in the operating schedule.

Rule change not supported and should not be fast tracked

APA does not support this rule change being submitted to the AEMC at this stage. APA considers there are better, more targeted options to address the specific issues raised by EnergyAustralia that would not undermine the already limited investment signals available in the DWGM.

To the extent that AEMO decides to proceed with this rule change proposal and submit it to the AEMC, this rule change should certainly not be 'fast tracked'. APA considers that the rule change proposal deserves appropriate in depth consideration as it involves fundamental changes to the efficient operation of the DWGM.

The fast tracking process was intended to stop a duplication of consultation processes between AEMO and the AEMC for rule changes that have been developed with broad industry support and guidance. This rule change has not been subject to the same industry consideration applying to most AEMO generated rule changes, and is therefore not appropriate for fast tracking.

APA would welcome the opportunity to discuss this submission, and potential alternative approaches that may address the specific issues raised by EnergyAustralia that would not impact on the wider incentives for efficient investment in the DTS. Please contact Alexandra Curran on 02 9275 0020.

Yours sincerely

A handwritten signature in black ink, appearing to read 'P. Bolding', with a long, sweeping horizontal stroke at the end.

Peter Bolding
General Manager Regulatory & Strategy