

IMPACT & IMPLEMENTATION REPORT – SUMMARY SECTION			
Proponent	AEMO	Date of Submission	29 May 2017
Affected market	DWGM	Consultation process	Expedited
Industry Consultative Forum	GWCF	Date Consultative Forum consultation concluded	29 May 2017
Short description of change	Adding an administered price period trigger following a material curtailment direction and amending administered price period triggers for Retailer of Last Resort events.		
Procedures or documentation impacted	Wholesale Market Administered Pricing Procedures (Victoria)		
Date I&IR published	6 June 2017	Date consultation under 135EE or 135EF concludes	5pm on 28 June 2017 (minimum 15 business days)
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IMPACT & ASSESSMENT REPORT – Detailed report section

ASSESSMENT OF PROPOSAL

<p>Summary and rationale for the changes (see Attachment A for the full set of changes)</p>	<p>At the GWCF meeting on 11 April 2017, AEMO informed the GWCF of some aspects of administered pricing where AEMO had identified that risk management in the DWGM could be improved through better alignment with the STTM. A GWCF workshop on 28 April 2017 reviewed these elements, and worked through some design features that were included in a Proposed Procedure Change (PPC) that was published on 22 May 2017.</p> <p>Submissions in response to the PCC have been summarised in Appendix A.</p> <p>The proposed changes to the Wholesale Market Administered Pricing Procedures (Victoria) are:</p> <ul style="list-style-type: none"> • Add a new administered price period trigger following issue of directions for material load curtailment; and • Modify the Retailer of last Resort (ROLR) administered price period trigger to: <ul style="list-style-type: none"> ○ Prevent an administered price period trigger unless the cumulative market share of exiting retailers is greater than or equal to 3% ○ Allow for different administered price periods depending on the cumulative market share of exiting retailers: <ul style="list-style-type: none"> ➤ Minor ROLR trigger for market share greater than or equal to 3% and less than 6% ➤ Major ROLR trigger for market share greater than or equal to 6% • Make it explicit that an administered price period for ROLR events starts from the effective gas day of the suspension notice. • Align this version of the Procedure with current template, group administered price cap settings, and place the details of the consultation process following the settings. • Minor formatting and typographic changes
<p>Cost estimate (and/or cost/benefit analysis)</p>	<p>The costs of implementing the changes are expected to be non-material.</p> <p>AEMO market systems allow manual triggering of an administered price period. Process changes are needed to implement the new and modified administered price period triggers.</p>
<p>The likely implementation effect of the change(s) on stakeholders</p>	<p>Market Participants will need to factor the changes into their bid strategies.</p> <p>AEMO will need to modify manual processes to accommodate the changes.</p>
<p>Testing requirements</p>	<p>None</p>

AEMO's preliminary assessment of the proposal's compliance with section 135EB:

Consistency with NGL and NGR

The proposal is consistent with the relevant NGL sections:

- 91BL—Wholesale Market Procedures
- 91BM—Nature of Wholesale Market Procedures

The proposal is consistent with relevant NGR:

- Part 15B, rule 135EA, 'Matters about which Procedures may be made'
 - Sub rule (2)(e) 'Administered pricing'
- Part 19, rule 224 'Administered Pricing'
 - Sub rule (1)(c) 'the process that AEMO must apply to declare and end administered price periods'

Consistency with National Gas Objective

'...to 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'

The proposal supports the efficient operation and use of natural gas services with respect to price and security of supply.

Consultation forum outcomes

At the GWCF workshop on the changes, market participants supported the changes to the ROLR triggers.

A market participant expressed the view that the proposed new curtailment trigger for administered pricing may result in unintended consequences, as there is less incentive for market participants to offer gas for injection when market prices are, or may be, capped.

The same market participant made a PPC submission to this effect, and noted that '... a broader review of price setting arrangements and market parameters in the DWGM is necessary to ensure they remain fit for purpose...'. AEMO notes the June 2017 GWCF includes an agenda item proposing that a gas market parameter review is conducted in a time frame aligning with that of the Reliability Panel review of National Electricity Market parameters concluding in April 2018.

AEMO is seeking specific feedback whether the introduction of the new material curtailment trigger prior to the gas market parameter review is likely to add significantly to market participants' risks.

RECOMMENDATIONS	
Should the proposed Procedures be made, (with or without amendments)?	AEMO recommends that the proposed Procedure as set out in the PPC be made with no amendments.
Proposed effective date for the proposed change(s)	Final decision 6 July 2017 Effective date 28 July 2017 (minimum 15 business days after Final Decision)



ATTACHMENTS/ APPENDICES:
1. APPENDIX A: Submissions in response to PPC
2. ATTACHMENT B: Draft Wholesale Market Administered Pricing Procedures (Victoria) v3.0 – with change marking

Appendix A: Submissions in response to PPC

This attachment presents a summary of stakeholders' comments in response to the Proposed Procedure Change (PPC) - Administered Pricing Procedure - Adding Curtailment and Changing ROLR triggers May 2107 published by AEMO on 22 May 2017 as part of a formal consultation under Rule 135EE of the National Gas Rules (NGR).

AEMO received one submissions from Origin Energy (Origin)

Stakeholder	Clause	Submission	AEMO response
Origin	ROLR	Origin is supportive of modifying the Retailer of Last Resort (ROLR) administered price period trigger with a view to ensuring administered pricing periods are only triggered when the cumulative market share of any failed retailer(s) is significant. Such an approach will improve the risk profile for market participants and avoid unnecessary market intervention...	Noted

Stakeholder	Clause	Submission	AEMO response
Origin	Material Curtailment	<p>...But further consideration should be given to the proposed implementation of an administered pricing trigger related to material curtailment in the DWGM.</p> <p>While Origin understands the overall rationale for the reform (i.e. it is intended to limit the level of pricing risk faced by market participants), we are mindful of any resultant impact on market price signals. In particular, the proposal may actually reduce incentives for market participants to address supply shortfalls during material curtailment periods, with electricity/gas price relativities strongly influencing where gas is ultimately directed by market participants. Recent increases in the CPT and market price cap in the National Electricity Market (NEM) are worth noting in this regard.</p> <p>In light of the above, Origin believes a broader review of price setting arrangements and market parameters in the DWGM is necessary to ensure they remain fit for purpose (i.e. they limit financial risk for market participants while simultaneously allowing the market to send appropriate price signals in support of reliability of supply). Further, a periodic review mechanism similar to that used in the NEM should also be established.</p>	<p>AEMO agrees that market parameters should be consistent across the DWGM, STTM and NEM, but this is not within the scope of changes to the Wholesale Market Administered Pricing Procedures (Victoria).</p> <p>AEMO notes that a paper seeking to involve the GWCF in a market parameter review for the STTM and DWGM has been added to the June 2017 GWCF agenda. The proposed review would be aligned with the Reliability Panel review of the market parameters in the NEM.</p> <p>The GWCF paper also notes that AEMO may subsequently seek coordinated changes to the NEM, DWGM and STTM rules to align requirements for periodic market parameter reviews.</p> <p>In relation to the risk that the proposal may reduce incentives for market participants to address supply shortfall AEMO notes:</p> <ul style="list-style-type: none"> • This new trigger requires a curtailment direction. Until this point the market or ancillary prices can still reach or approach VoLL as the reduced supply can be accommodated by reducing controllable demand in an ad hoc or normal schedule. • Additionally, directions can require gas to be injected whether it has been bid into the market or not. <p>AEMO is progressing the inclusion of the material curtailment trigger, this IIR is seeking specific feedback on the level of increased risk to assist AEMO in making a final decision.</p>