

SUBJECT:	AMDQ PROCEDURE PROPOSAL
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1. PROBLEM STATEMENT

Currently where a pipeline in the Declared Wholesale Gas Market (DWGM) is constrained, shippers who want to ship gas between Victoria and other pipelines or facilities face uncertainty that they can match DWGM scheduled amounts with contract nominations on non DWGM pipelines, even where they have authorised maximum daily quantity (AMDQ); firm contracts on the other pipeline and, have bid for the withdrawal from the Victorian Declared Transmission System (DTS) at the maximum price.

This means these shippers have a contract/customer risk under this scenario.

2. PURPOSE

This paper examines a proposed procedure change raised by APA, which aims to assist with management of risks in inter-pipeline trading, by aligning scheduling outcomes between interconnecting facilities, and poses questions to stakeholders to assist AEMO in evaluating the merits of the proposal.

3. BACKGROUND

Authorised MDQ and AMDQ credit certificates, collectively referred to as AMDQ, are a limited form of transportation right in the DWGM and are linked to the transmission capacity of the DTS.

AMDQ provides two main advantages to the holder: the first as a financial hedge against congestion uplift charges (a penalty applied to causers of congestion in the DWGM), and the second as a tie-breaking right during scheduling. In order to use AMDQ for tie-breaking, it must be assigned to the specific location where tie-breaking is required (assigned AMDQ).

A tie-breaking right means that when two parties have bid the same price for gas injections or withdrawals, and only some of their combined total bid quantity is required or can physically be delivered into or from the system, a party with assigned AMDQ at that location will be scheduled in priority to a party without assigned AMDQ. On all other occasions scheduling is based on priced bids, without regard to AMDQ.

Currently, AMDQ can be assigned at a System Withdrawal Point (SWP) on a 'first come first served' basis, only capped by the capacity of the DTS to deliver to the SWP, and without regard for any contractual limitations on the interconnected facility, either volume or priority. Under these arrangements, it is possible for market participants to assign AMDQ in excess of their contractual rights to withdraw into the interconnected facility, preventing other market participants, who do have contractual rights to withdraw into that facility, from assigning AMDQ to that SWP. When delivery of gas to the interconnected facility is constrained and tie breaking of equal bids is required, this could mean that these market participants' withdrawal bids are scheduled in the DWGM ahead of equal priced bids of other market participants who have firm contractual rights on the interconnected facility but have been unable to assign AMDQ.

4. PROPOSED SOLUTION

APA has proposed that AMDQ only be assigned to a SWP at an interconnected facility if a market participant is entitled to sufficient firm capacity on that interconnected facility to cover the quantity being assigned and any existing holdings.

APA proposed this change on the basis that it will deliver the following benefits:

- Increase the alignment of shipper rights across the connection points between the DTS and other pipeline systems operating under contract carriage.
- Enhance interoperability between the DTS market carriage system and adjacent contract carriage markets.
- Assist in securing greater trade of gas across the Eastern Australian market.

Specifically, APA states that the change will increase certainty of flow from the DTS into the NSW system at Culcairn, with AMDQ matching shipper firm contracts for gas transportation on NSW pipelines.

5. DISCUSSION

5.1. Problem validation

The stated problem is that the tie-breaking arrangements for equal priced controllable withdrawal bids in the DWGM do not provide scheduling certainty for participants, even where they bid at the maximum market price and have firm contractual rights on the interconnected facility. The consequences are a disconnect between gas allocations and financial obligations for the affected participants in the DWGM and with the interconnected facility operator, with associated market and/or contract risk. A participant may be scheduled on an interconnected facility on the basis of their firm contracts, but then be unable to deliver gas from the DWGM in accordance with their scheduled nomination if they are not scheduled in the DWGM. The counterpoint to this is that a participant holding AMDQ at the SWP may be scheduled in the DWGM, despite not being scheduled on the interconnected facility.

Questions for consultation:

Is the stated problem a valid and material concern? What are the consequences if this is not addressed?

5.2. Proposed solution

The proposed solution is to restrict assignments of AMDQ at a SWP to participants who hold firm contracts on the interconnected facility. This would apply at all controllable withdrawal points to interconnected facilities.

This proposal would effectively result in withdrawals from the DTS being prioritised during periods of pipeline constraints on the basis of 'firm' contracts on interconnected facilities only if and when the party(ies) with a firm contract have also assigned AMDQ at the SWP, have bid for that withdrawal at the same price as competing participants and tie-breaking is required. The most likely occurrence of this is when the ability to withdraw gas from the DTS to an interconnected facility is constrained, and participants are bidding at the market price cap (\$800/GJ).

Questions for consultation:

Can the stated problem be addressed more efficiently/effectively through other means e.g. confirmations under contracts with interconnected facility operators? Good faith bidding? Any other mechanisms?

Are there any concerns with limiting assignment of AMDQ at SWPs by linking to firm contractual rights on the interconnected facility?

5.3. Further examination of solution

5.3.1. Competition

The proposal requires parties wishing to assign AMDQ to a SWP to hold a firm shipping contract on an interconnected facility rather than an 'as available' contract'.

However, other than at times of pipeline constraints, shippers without assigned AMDQ will still be able to submit bids and be scheduled for withdrawals at an SWP on the basis of those bids. Even when the pipeline is constrained, withdrawals will continue to be scheduled on the DTS based on priced bids unless there are competing bids at equal price (tied bids).

Question for consultation:

Do market participants consider that the requirement to hold a firm contract outside of the Declared Transmission System (DTS) in order to utilise AMDQ at that location imposes inequitable barriers to trading or has an adverse effect on competition in the market?

5.3.2. Ability to restrict inter-pipeline trading by holding firm capacity or AMDQ

In the event that one participant holds a majority of firm access on an interconnected facility and hence a majority of the AMDQ allowed at a SWP, there could be concerns about the ability of other parties to be scheduled at that point.

On an unconstrained day (meaning there are no scheduling constraints at the SWP), AMDQ will confer no benefit in scheduling, and all parties wishing to withdraw compete equally on the basis of price – whoever is willing to pay above the ex-ante clearing price will be scheduled, regardless of AMDQ or firm contracts outside of the DWGM.

Under APA's proposal, on a constrained day, a participant holding a large share of AMDQ will be prioritised only in times of pipeline constraint and if they are willing to pay at least the same price as other participants competing to withdraw. This aligns with how that party would expect to be allocated gas on the interconnected facility, where firm shippers would have their nominations accepted first. However, if that party is not wishing to withdraw, or has a lower bid price than other participants, all other participants holding contracts ('firm' or 'as available') on the interconnected facility can be scheduled. If tie-breaking is required, in the absence of assigned AMDQ, participants at the tied price will be pro-rated upon their bid quantity.

5.3.3. Market Risk

As interconnected pipelines outside of the DTS operate on contract carriage, there can be disparities between how gas flows are scheduled and allocated on either side of the market carriage¹ / contract carriage interface in the event of a constraint. This creates a risk of deviations in the DWGM, whereby one party is scheduled to withdraw in the DWGM but is not allocated gas, and another party is not scheduled in the DWGM but is allocated gas.

Explanation of market risk

The DWGM schedules participant bids into interconnecting pipelines based on bid price, and tie breaks scheduling of bids of the same price using AMDQ in times of pipeline constraint.

¹ Market carriage is the unique carriage arrangement of the DWGM, where participants have equal access to use the system and do not require haulage contracts. Some financial rights can be gained by the allocation or purchase of AMDQ.

The interconnected pipeline schedules shipper nominations based on contracts. It defines receipts of gas based on pipeline schedules, and these receipts are used for actual quantities for settlement in the DWGM.

Therefore, there is the risk that parties will not be allocated matched quantities of gas on the DWGM and interconnected pipeline, and other participants may be allocated the receipts under 'firm' contracts. This exposes the participant to a deviation in the DWGM, which could be priced at up to \$800/GJ.

If the next schedule price drops, that participant will not be paid back in full for the gas they bought but were not allocated (conversely, if the price rises they will be more than compensated for not receiving the gas). This risk is considered to be greater than the risk faced by a participant with a firm contract who is not scheduled but is allocated gas. In this case the participant will end up paying the next schedule price for that gas (which may be higher or lower than the original schedule price), but they will be allocated gas, which they can on-sell to a different market.

Question for consultation:

Do market participants consider this a valid description of the risk involved under the current arrangements?

Do market participants consider that the requirement to hold a firm contract outside of the DTS is a greater barrier to trade than the market risk faced by a participant prioritised with only an 'as available' contract on an interconnected pipeline?

5.3.4. Efficiency of investment

Shippers typically invest in pipeline capacity [via the purchase of firm capacity] in the knowledge that they have priority access to use that pipeline over non-firm shippers. During a period when flows on the pipeline are constrained, this certainty of access becomes important for shippers to manage their delivery risks, and thereby supply to customers.

Improving alignment of DWGM withdrawal scheduling with contractual rights improves investment signals and reduces risk of stranding of existing investments

Question for consultation:

Do participants have views on how improved alignment of DWGM withdrawal scheduling through AMDQ on interconnecting pipelines supports investments or otherwise?

