

Sarah McKelvie  
Australian Energy Market Operator  
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By email: GWCF\_Correspondance@aemo.com.au

Monday 31 March 2014

Dear Sarah,

### **AMDQ PROCEDURE PROPOSAL**

GDF Suez Australian Energy (GDFSAE) appreciates the opportunity to comment on AEMO's Wholesale Market AMDQ Procedures (Victoria) proposal, published 28 February 2014.

GDFSAE has a number of serious concerns with the AEMO proposal to link the AMDQ certificates to the firm contractual shipper rights on an interconnected pipeline.

The Declared Wholesale Gas Market (DWGM) is based on the premise of *good faith*, where a market participant bidding for AMDQ Credits through the DWGM tender process, must only bid for the number of AMDQ Credits that match their forecast portfolio need. GDFSAE is unaware of any incident where a participant has failed to bid in good faith, however if such an eventuality should arise, the AER is already empowered to intervene. Consequently GDFSAE believes there is no justification for the proposed amendment to AMDQ procedures.

However, if the proposed amendments to the AMDQ procedures are adopted, one of the key difficulties for the DWGM market operator will be remaining informed of who holds the firm gas transport rights on the interconnected pipeline or facility due to:

- implications of secondary pipeline capacity trading where neither AEMO nor the interconnected pipeline or facility owner may be aware of that trade or who is the counterparty; and
- the operation of interconnected pipelines or facilities are outside the jurisdiction of the DWGM.

Consequently this proposed procedure will place an additional reporting / declaration obligation on participants that is likely to inhibit both the tendering for AMDQ Credits and secondary trading of pipeline capacity.

GDFSAE believes that a market-based solution is most likely to deliver efficient outcomes, and the AEMO proposal falls short of that objective. An example of a market-based solution would be the adoption of an open auction model where AMDQ Credits are offered to market participants at regular intervals. GDFSAE would suggest that an appropriate design for such an auction would be for 50% AMDQ Credits auctioned every year with the term of each trade being two years, 'pay as bid' with no reserve price.

A market based process such as the auction described above would ensure that AMDQ Credits are churned regularly, provides a competitive process for valuing AMDQ Credits, and greatly reduces the requirement for pro-rating entitlements.

### **GDF SUEZ Australian Energy**

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Please do not hesitate to contact me on 03 9617 8410 if you wish to discuss any aspect of this submission.

Yours sincerely,

Michael Downey  
Gas Regulatory Specialist