

PROPOSED PROCEDURE CHANGE (PPC) – SUMMARY SECTION
(For Proponent or AEMO to complete. Template focuses on solution identification)

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| Issue Number | | | |
| Impacted Jurisdiction(s) | Declared Wholesale Gas Market - Victoria | | |
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| Affected Gas Market(s) <ul style="list-style-type: none"> ▪ Retail ▪ Wholesale ▪ Bulletin Board ▪ STTM | Declared Wholesale Gas Market (DWGM) | Date proposal sent to AEMO | N.A. |
| Short Title | Adding an administered price period trigger following a material curtailment direction and amending administered price period triggers for Retailer of Last Resort events. | | |
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PROPOSED PROCEDURE CHANGE (PPC) – DETAILED REPORT SECTION

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| <p>1. Description of change(s) and reasons for change(s)</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 have been included in this PPC.</p> <p>The proposed changes to the Wholesale Market Administered Pricing Procedures (Victoria):</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>2. Reference documentation</p> <ul style="list-style-type: none"> ▪ Procedure Reference ▪ GIP/Specification Pack Reference ▪ Other Reference | <p>NGR Part 19 – rule 224</p> <p>Wholesale Market Administered Pricing Procedures (Victoria)</p> |

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| <p>3. The high level details of the change 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 Procedure change (see Attachment A). | <p>New administered price period trigger for material curtailment.</p> <p>An administered price period will be triggered by a direction under relevant powers by AEMO, Energy Safe Victoria or the Victorian Government that includes load curtailment, if AEMO decides that the curtailment is a material curtailment of the declared transmission system.</p> <p>Modified administered price period triggers for ROLR events.</p> <p>The existing administered price period trigger for a ROLR event does not take the size of the exiting retailer into account. Thus one small retailer suspended from the DWGM will trigger an administered price period despite having little or no impact on the market.</p> <p>The proposed change will result in administered price periods dependent on the aggregate market share for all exiting retailers:</p> <ul style="list-style-type: none"> • No administered price period for market share less than 3%; • A 15 business day administered price period for market share greater than or equal to 3% and less than 6%; • A 20 business day administered price period for market share greater than or equal to 6% <p>A marked up summary of proposed changes is included in Attachment A.</p> |
| <p>4. Consequences for making or not making the change(s)</p> | <p>New administered price period trigger for material curtailment.</p> <p>In response to a production facility or transmission pipeline outage, a curtailment direction may be needed where the available supply of gas is less than the demand.</p> <p>As a consequence of the change, when AEMO decides a curtailment direction is material, the market price for affected scheduling horizons will not exceed the administered price cap (currently \$40 per GJ). This aligns with a similar provision in the STTM, and provides risk management to market participants who may be facing significant financial exposure if the market price is not capped.</p> <p>Under the current rules effective risk mitigation strategies are difficult to implement as outage events are random, meaning market participants have to be able to inject at a range of system injection points to maintain a hedge against physical imbalances. The tariff V customers are curtailed later in the curtailment process, meaning that the smaller market participants, with a greater proportion of tariff V customers in their portfolio, face proportionally larger physical imbalances at high prices.</p> <p>At the GWCF workshop (referenced in section 1 above), a market participant expressed the view that this new trigger may result in</p> |

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| | <p>unintended consequences, as there is less incentive for market participants to offer gas for injection when market prices are, or may be, capped.</p> <p>It should be noted that 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.</p> <p>Additionally, directions can require gas to be injected whether it has been bid into the market or not.</p> <p>AEMO is seeking specific feedback on whether the introduction of the new material curtailment trigger is likely to reduce the overall quantity of injection bids, and whether this could create the need for deeper curtailment than otherwise may have been necessary.</p> |
| | <p>Modified administered price period triggers for ROLR events.</p> <p>AEMO initiates the ROLR process set out in Chapter 6 of the Retail Market Procedures (Victoria) from the effective gas day of a suspension notice is issued under NGR 260 to a market participant who is a retailer (the exiting retailer(s)).</p> <p>As a consequence of making the change:</p> <ul style="list-style-type: none"> • AEMO will determine the aggregate market share of exiting retailers expressed as a percentage for the most recent month for which final settlement data is available as: <ul style="list-style-type: none"> ○ the adjusted withdrawals for exiting retailers for distribution customers; divided by ○ the adjusted withdrawals for all retailers for distribution customers • AEMO will no longer declare an administered price period where the aggregate market share of exiting retailers is less than 3%. • AEMO will declare a Minor ROLR Event with an administered price period of 15 business days where the aggregate market share of exiting retailers is greater than or equal to 3% and less than 6% • AEMO will declare a Major ROLR Event with an administered price period of 20 business days where the aggregate market share of the exiting retailers is greater than or equal to 6% <p>Under the current rules, a ROLR event involving a small retailer will trigger an administered price period, capping market prices at \$40 per GJ. Market prices exceeded \$40 per GJ on two occasions in 2016, so would have been capped had a small retailer been suspended.</p> |

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| <p>5. Explanation regarding the order of magnitude of the change(s) (eg: material, non-material or non-substantial)</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>6. Likely benefits for industry as a whole</p> | <p>Better imbalance risk management during material curtailment events.</p> |
| <p>7. The likely implementation effect of the proposal on Industry in general and/or any identified parties (e.g. end-users)</p> | <p>Market Participants may need to review market participation strategies and processes to take account of the changes.</p> |
| <p>8. Testing requirements</p> | <p>None</p> |
| <p>9. Supporting Documentation</p> <p>(attach if necessary)</p> | <p>Draft - Wholesale market administered pricing procedures (Victoria) – change marked version for PPC</p> |
| <p>10. If applicable, a proposed effective date for the proposed changed Procedures to take effect and justification for that timeline.</p> | <p>Submissions on this PPC should be made by COB on Monday 29 May 2017.</p> <p>Depending on submissions, the Impact & Implementation Report will be published on 5 June 2017, with submissions closing on 27 June 2017 (15 business days).</p> <p>The proposed effective date for the changed Procedure is 27 July 2017 to align with the expedited process for making Procedures as set out in NGR 135EF.</p> <p>The expedited process is applicable as AEMO considers this Proposed Procedure Change is urgent to ensure the proper operation of the DWGM.</p> |