

IMPACT & IMPLEMENTATION REPORT (IIR) – 2020 DWGM ENHANCEMENTS

Impacted Jurisdiction(s)	Victoria		
Proponent	Hugh Ridgway	Company	AEMO
Affected Gas Market(s)	DWGM	Consultation process (Ordinary or Expedited)	Ordinary
Industry Consultative forum(s) used	GWCF	Date Industry Consultative forum(s) consultation concluded	Thursday, 25 February 2021
Short Description of change(s)	Implementation of the 'DWGM simpler wholesale price' and 'DWGM improvement to AMDQ regime' rule changes (the '2020 DWGM enhancements').		
Procedure(s) or Documentation impacted	Updates to: Gas Scheduling Procedures; Ancillary Payment Procedures; Uplift Payment Procedures Making the: Capacity Certificates Auction and Transfer Procedures Removal of: AMDQ Procedures		
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Date IIR published	12 March 2021	Date Consultation under 135EE or 135EF concludes	14 April 2021
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IMPACT & IMPLEMENTATION REPORT – DETAILED REPORT SECTION

CRITICAL EXAMINATION OF PROPOSAL

1. DESCRIPTION OF ISSUE

In 2020, the AEMC made the following rule changes in respect of the DWGM:

1. DWGM simpler wholesale price¹; and
2. DWGM improvement to AMDQ regime².

The 2020 DWGM enhancements require updates to the existing wholesale market procedures as well as the creation of two new procedures to govern capacity certificates.

2. REFERENCE DOCUMENTATION

- Wholesale Market Gas Scheduling Procedures
- Wholesale Market Uplift Payment Procedures
- Wholesale Market Ancillary Payment Procedures
- Wholesale Market AMDQ Procedures

3. OVERVIEW OF CHANGES

3.1. Procedure Changes

The changes to the Procedures include:

3.1.1. Wholesale Market Gas Scheduling Procedures

- Detail on how capacity certificates will be adjusted to reflect constraints due to maintenance or other activities.
- Detail on how the adjusted capacity certificates will be used for tie breaking.
 - Zonal capacity certificates will be scaled for each schedule to reflect the impact of capacity limiting constraints affecting that schedule.
 - AEMO is considering applying a materiality check before determining scaling factors – see section 3.9.2 of the draft procedure for more details.
 - AEMO is seeking stakeholder’s views as to whether it is appropriate to include a materiality limit when determining the scaling factor, and the extent of the materiality limit if it is included.
- Removal of references to AMDQ and associated clauses.

3.1.2. Wholesale Market Uplift Payment Procedures

- Removal of the component of congestion uplift payments due to AMIQ exceedance
- Transition of the component of congestion uplift due to the declared transmission system service provider (DTS SP) not meeting service envelope requirements to a new uplift payment category

¹ <https://www.aemc.gov.au/rule-changes/dwgm-simpler-wholesale-price>

² <https://www.aemc.gov.au/rule-changes/dwgm-improvement-amdq-regime>



- Removal of references to AMDQ and associated clauses
- Addition of ancillary payment redistribution algorithm to determine total uplift amounts and quantities per schedule (previously only referred to in the Ancillary Payment Functional Design)
- Detail on new uplift payment categories and processing order as follows
 - DTS SP uplift
 - DTS SP event liability cap exceedance uplift
 - DTS SP annual liability cap exceedance
 - Surprise uplift
 - Common uplift

3.1.3. Wholesale Market Ancillary Payment Procedures

- Removal of uplift hedges and associated concepts.
- Amendments to the ancillary payment calculation methodology to ensure that negative ancillary payments do not arise except where they offset the prior generation of positive ancillary payments (see removal of concepts such as MSIQ/MSWQ).
- Removal of references to AMDQ and associated clauses.

3.2. New Procedures

AEMO proposes to make a single procedure combining the following two procedures:

1. the Capacity Certificates Auction procedures as required by new rule 328D of the NGR; and
2. the Capacity Certificates Transfer procedures as required by new rule 331(2) of the NGR.

These procedures are required to govern the auction and transfer of capacity certificates and will be known as the Capacity certificates auction and transfer procedures.

Some significant changes have been made to the procedure since it was circulated as an exposure draft.

3.2.1. Transfer of capacity certificates to a RoLR

Following a suggestion from a Market Participant, AEMO has added a new section covering transfer of capacity certificates from a failed retailer to the Retailer(s) of Last Resort (RoLR). The transfer will be for capacity certificates covered by the period between the month of the RoLR event until the last month before the start of the rolling forward period for next auction for which an auction notice has yet to be published. Where there are multiple RoLR's, the capacity certificates will be transferred in proportion to number of customers that are transferring.

Without this addition, there is a risk that the RoLR(s) would be unable to adequately manage their injection bids to meet their increased demand for the period between the RoLR event and the next opportunity to purchase capacity certificates at auction.

For example, if a RoLR event happened in February 2023 before the auction notice for rolling forward period of July 2023 and June 2026 was published (in approximately April 2023), then capacity certificates would be transferred to RoLR for the period February 2023 until June 2023 and relinquished thereafter.

AEMO seeks stakeholders' views on the appropriateness of this change



3.2.2. Adjustment to the formula for capacity release schedule

The formula for the capacity release schedule has been corrected so that the capacity to be released in each tranche reflects the modelled capacity less capacity certificates allocated to market participants less capacity certificates yet to be allocated by the declared transmission system service provider.

3.2.3. Clarification on transitional auctions

AEMO has added more detail on the transitional auctions to be held before the first scheduled auction. The transitional auctions cover capacity certificates that would normally have been sold in prior auctions. AEMO has not specified the number of transitional auctions, as this will depend on system availability, but will seek to have multiple auctions.

3.3. Removed Procedures

The Wholesale Market AMDQ Procedures are obsolete with the removal of the AMDQ regime and will no longer apply for gas days after 31 December 2022.

4. LIKELY IMPLEMENTATION EFFECTS AND TESTING REQUIREMENTS

Updates to market systems

- Remove Injection Hedge Nomination and Agency Injection Hedge Nomination user interfaces
- Add Capacity Certificate Auction system
- Add Capacity Certificate transfer user interfaces (with option for allocation of capacity certificates allocated to DTS SP under rule 329D)
- Add Capacity Certificate bidding and re-bidding user interface
- Add Capacity Certificate listing service user interface
- Add Capacity Certificate and Capacity Certificate Zone registries
- New market interface bulletin board (MIBB) reports

Transitional and Market Readiness activities

- Market participant training
- Market readiness activities
- Market trial of auction systems (to be confirmed)
- Two transitional auctions to auction Capacity Certificates that will not be auctioned in rolling six monthly auctions
- Cutover planning
- End all AMDQ at end of gas day 31 December 2022

5. OVERALL COST AND BENEFITS

The AEMC has assessed the cost/benefit of the rule changes against the NGO (see footnote 3). It is AEMO's view that this PPC implements those rules in a way that delivers the greatest benefit. These changes represent a major rework of the DWGM functional design and AEMO's systems.



5.1. DWGM Capacity Certificate auction fees

It is noted that AEMO is still to determine the costs and the need for any separate fee structure associated with the DWGM Capacity Certificates (CC) Auction which will commence in September 2022. AEMO is permitted to charge auction fees relating to the establishment, operation and administration of the CC auctions, which are payable by auction participants, however AEMO will consider the materiality of these costs and other factors before determining whether a separate fee will be established. Should the need for a separate fee be considered necessary, AEMO would commence an additional, fee structure review covering just CC auction fees. This would commence no later than April 2022.

6. AEMO'S PRELIMINARY ASSESSMENT OF THE PROPOSAL'S COMPLIANCE WITH SECTION 135EB:

The set of changes described in this PPC are required for AEMO's procedures to maintain consistency with the NGR and to implement the 2020 DWGM enhancements. AEMO considers that the NGO is met for the reasons set forth in sections 2.4 of the AEMC's rule determinations³.

7. CONSULTATION FORUM OUTCOMES

AEMO issued a proposed procedure change by email to the Gas Wholesale Consultative Forum on 3rd February 2021. The following updates were made as a result of the feedback received from stakeholders:

7.1. Wholesale Market Gas Scheduling Procedures

7.1.1. Materiality limit on scaling for capacity certificates removed

Feedback from market participants indicated that while the scaling of capacity certificates was supported, the materiality limit was not supported on grounds of complexity. From AEMO's perspective there is a small cost saving in not having to allow for a materiality test.

AEMO has accordingly removed the materiality test from 3.9.2(g) of the Gas Scheduling Procedures.

7.1.2. Error in formula for calculation of the scaling factor

In adjusting the formula for determining the scaling factor in 3.9.2(g) to remove the materiality limit, AEMO decided that the formula was not correct.

The correct formulation is:

3.9.2(g) Capacity Certificate Zonal Limitation in sub-section (d) divided by the total capacity certificates allocated to Market Participants, determined in sub-section (f).

This is consistent with the discussion on scaling in the GWCF WG meeting number six on 22 October 2020.

7.2. Wholesale Market Uplift Payment Procedures

7.2.1. Concerns over transparency of common model

A market participant had concerns over the transparency of the service envelope agreement and its liability caps. AEMO notes the concerns but is bound by confidentiality clauses in the service level agreement. AEMO further notes that NGR 240(7) requires AEMO to take liability caps into account.

³ https://www.aemc.gov.au/sites/default/files/documents/final_determination_-_dwgm_simpler_wholesale_price_-_final_for_publication.pdf and https://www.aemc.gov.au/sites/default/files/documents/grc0051_improvement_to_amdq_regime_final_determination_12_march_2020_final.pdf



By making the new categories, AEMO is promoting transparency as to the formulation (see sections 5 and 6 of the Uplift Payment Procedures) and the extent of any liability caps through reporting requirements contained in NGR 240(8).

7.2.2. Clarifying which market participants pay for DTS SP liability cap exceedance

A market participant raised concerns as to how the DTS SP liability cap exceedance payments to the DTS SP were funded.

The formulation of the common uplift is such that it includes any DTS SP liability cap exceedance, and this has been clarified by addition of a new clause:

8.1(c) Common uplift includes any DTS SP event liability cap exceedance uplift and DTS SP annual liability cap exceedance uplift payments to the DTS SP

A new 'for avoidance of doubt' clause explains this:

8.2(a) ... For the avoidance of doubt, because any DTS SP event liability cap exceedance uplift and any DTS SP annual liability cap exceedance uplift are always a payment to the DTS SP, they are always recovered through common uplift.

7.2.3. Implications of changes to the common model

A market participant raised concerns that the any changes to the common model were not adequately covered by the Procedure. AEMO notes the concerns, and has added a definition of the common model, and in 4.2(a) has added that the common model applicable to the relevant gas day must be used when determining DTS SP Uplift.

7.2.4. Clarification on payments by and to the DTS SP

The DTS SP noted that it was not clear that the DTS SP would need to pay only the net of DTS SP Uplift charges and DTS SP Liability Cap Exceedance payments.

AEMO has added a new clause 4.3.(d) to clarify this.

4.3.(d) For the avoidance of doubt, the total payment to be made by the DTS SP will be the sum of the DTS SP uplift amount (if any) to be paid by the DTS SP and the sum of DTS SP event liability cap exceedance amount (if any) plus the DTS SP annual liability cap exceedance amount (if any) to be paid to the DTS SP.

7.2.5. Unexpected change to surprise uplift summary

A market participant noted there was an unexpected change to section 2.4.4 – Surprise Uplift category, in that additional words "...for the upcoming scheduling horizon..." and asked for the rationale for this.

The addition was made for clarity in the short description of surprise uplift, as this gives a more complete description and accurately reflects the current approach.

The detailed formulation for surprise uplift later in the procedure includes changes in effective demand forecast and controlled withdrawals for the upcoming scheduling horizon as compared with the same period in the previous schedule, and is unchanged (apart from numbering) between current and previous versions of the procedures.

- 5.2 in current version; and
- 7.2.5 in new version



7.3. Wholesale Market Ancillary Payment Procedures

A market participant noted some proofing issues – particularly in the change marked version of the Procedure. AEMO has corrected these but has not identified any issues in the ‘clean’ draft version of the Ancillary Payment Procedures.

7.4. Capacity Certificate Auction and Transfer Procedures

7.4.1. Auction Participation Agreement not required

A market participant considered an Auction Participation Agreement should be required as the Capacity Certificate auction would be based on that used for the Day Ahead Auction (DAA) which does require an Auction Participation Agreement.

AEMO considers that while the approach is similar to that used for the DAA, there is no legal requirement for the agreement in the context of the declared wholesale gas market.

7.4.2. Publication of auction notices

A market participant noted that AEMO is required to publish auction notices but would prefer that a Market Notice was also sent.

AEMO notes that ‘publish’ is a defined term in the NGR (meaning MIBB or website), and that NGR 328B(8) requires AEMO to publish the auction notice. AEMO has added the requirement to publish a DWGM Market Notice when an auction notice has been published.

6.2(e) AEMO must publish a DWGM Market Notice with details of the notice for each capacity certificates auction.

Market participants should note that they may subscribe to receive notifications when a DWGM Market Notice is published using AEMO’s website <https://www.aemo.com.au/subscribe>

7.4.3. Definition of Common Model incorporated

A market participant noted that the term ‘Common Model’ was used in several procedures but was not defined.

7.4.4. AEMO has added the definition of ‘Common Model’ to these Procedures. Timing for transitional and initial auctions of capacity certificates

A market participant noted that the initial auctions were only required to be completed by 31 December 2022, but that would be unworkably late.

Another market participant noted that a significant gap was not needed between transitional auctions, so two transitional auctions could be mandated.

AEMO will be liaising with market participants in 2022 over the number and timing of transitional auctions to ensure that the transitional and initial auctions are held as soon as possible after completion of market systems. The procedures require AEMO to set these dates by no later than 1 July 2022.

7.4.5. Secondary trading platform for capacity certificates

A market participant asked if AEMO was intending to set up a secondary trading platform for capacity certificates.

AEMO notes that the AEMC did not consider a secondary trading platform was warranted at the time of making the rules, and so it is out of scope for this DWGM project.



While it would be possible to implement a capacity certificate trading platform using the Gas Supply Hub (GSH), this would require a clear cost benefit. Market participants who are members of the GSH could consider making the case to add trading in capacity certificates.

7.4.6. Transfers of part of capacity certificates

A market participant noted that the procedure allowed for the bilateral transfer of the whole or part of a capacity certificate, and considered that the use of part of a capacity certificate could be ambiguous as to whether it related to part of the volume, or of the time or both.

AEMO notes that the working group considered that a GJ quantity for a full calendar month would be tradeable, and has added further detail to clause 12(a) as follows:

12(a) A Market Participant that is the current holder of a capacity certificate may transfer the whole or part of the certificated right, measured in GJ per gas day, in respect of the auction product for that capacity certificate to another Market Participant by submitting an application to transfer to AEMO via the Capacity Certificates transfer system containing the details specified in the electronic communication procedures.

For the avoidance of doubt, an auction product applies to a calendar month of capacity certificates.

7.4.7. Concern over wording for determining auction results

A market participant suggested that the wording in 9.5(c) "...maximise the total capacity certificates auction revenues at bid prices..." may imply an inherent advantage for linked bids over non-linked bids.

AEMO understands the concerns, but notes that NGR 328C(5)(b)(i) requires that the capacity certificates auction procedures provide for the winning bids to be the combination of one or more bids that that maximise the total capacity certificates auction revenue at bid prices.

A similar rule is also in place for the Day Ahead Auction and AEMO expects that the solver for the Capacity Certificates Auction will operate in the same way as Day Ahead Auction. The rule means that AEMO's auction must not allocate quantities of capacity certificates above bid prices i.e. at a price greater than the bidder is willing to pay for the capacity certificates. The rule also requires AEMO to maximise profit to the auctioneer across all products.

The auction will not discriminate between linked and unlinked bids and will optimise for the solution that maximises revenue across all auction products at a given auction and this will ultimately depend on which products are relatively scarce.

7.4.8. Allocation of capacity certificates to RoLR

A market participant questioned the way a failed retailer's capacity certificates would be split between RoLR on the basis of customer numbers transferred, as this would not necessarily align with how the RoLR will supply their new customers.

AEMO considers that the main purpose of the RoLR transfer of CC is to cover the period from the RoLR event until the CC relinquished by the failed retailer can be auctioned. It is considered possible that customers of the failed retailer may transfer away from the RoLR during this period – particularly if high RoLR tariffs are set.

As the RoLR is likely to be a host retailer, AEMO has made the assumptions that they will have:

- good coverage of contracts across most CC zones
- failed retailer's customers will be relatively a small proportion of the host retailer's load.



In view of the limited time frame to take RoLR actions, AEMO has proposed using a simple approach to do a pro rata split of the CC holdings of the failed retailer between all RoLR despite the possibility that the CC allocated will not equate to how the RoLR will supply their new customers.

The RoLR's may also transfer the acquired CC between themselves using the transfer facility.

7.4.9. Extend allocation of capacity certificates to RoLR beyond next auction

A market participant considered that all the failed retailer's capacity certificates should be transferred to the RoLR rather than only those up until the start of the next auction period.

AEMO considers that it is appropriate to auction CC held by the failed retailer at the next possible auction because:

- NGR 332 requires that CC held by a de-registered market participant is revoked and made available for reallocation on the basis of a capacity certificates auction (which can only happen at the next auction)
- Auctioning the CC allows current retailers to acquire the CC that suit their supply sources



IMPACT & IMPLEMENTATION REPORT – RECOMMENDATION(S)

8. SHOULD THE PROPOSED PROCEDURES BE MADE?

AEMO recommends that the Procedures should be amended as set out in the draft Procedures published with this IIR.

9. PROPOSED TIMELINES

- IIR stage of consultation closes 14 April 2021
- Decision published 6 May 2021