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| IMPACT & IMPLEMENTATION REPORT – SUMMARY SECTION  ***(For AEMO to complete and administer)*** |

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| Issue Number | DWGM IIR 15-003 | | | |
| Proponent | AEMO | Date of submission | NA | |
| Affected gas markets | DWGM | Consultation process (Ordinary or Expedited) | Ordinary | |
| Industry consultative forums used | Gas Wholesale Consultative Forum | Date industry consultative forums consultation concluded | 11 August 2015 | |
| Short description of change | Amend the formula for the average volume weighted market price in Wholesale Market Distribution UAFG Procedures (Victoria). | | | |
| Procedures or documentation impacted | Wholesale Market Distribution UAFG Procedures (Victoria) | | | |
| Date I&IR published | 1 October 2015 | Date consultation under 135EE concludes | | 30 October 2015 |
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| **IMPACT & IMPLEMENTATION REPORT – DETAILED REPORT SECTION** |

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| **ASSESSMENT OF PROPOSAL** | |
| Summary and rationale for the changes  (see Attachment A for the full set of changes) | The proposed changes are to:   * Require AEMO to determine the formula for the Average Volume Weighted Market Price (AVWMP) using deviation prices and net injections into declared distribution systems.   AEMO uses the AVWMP to determine the unaccounted for gas (UAFG) reconciliation amounts to be paid between retailers and distributors.  If AEMO follows the current Wholesale Market Distribution UAFG Procedures (Victoria) (the Procedure), several possible AVWMP could be determined for each year. Each would be compliant but not reasonable, meaning that the reconciliation price would not reflect an appropriate mix of contract and spot prices.  Following a workshop with participants in June 2015 to review AVWMP options, AEMO proposed to the 11 August 2015 Gas Wholesale Consultative Forum (GWCF) that the AVWMP should be determined using injection weighted deviation prices.   * Align the formula for AVWMP with the formula for the Unaccounted for Gas reconciliation amount in item C2 of Part C of Schedule 1 of Victorian Gas Distribution System Code (the Code).   After the June 2015 workshop, Multinet Gas expressed concerns over the alignment of the Procedure and the Code – particularly during a current access period.  The proposed changes would ensure that there was no doubt that the Procedure was aligned with the Code.   * Allow a DUAFG year to be split into DUAFG periods with the same benchmark values for a supply point class and distributor.   The current Procedure is based on a reconciliation for a calendar year only. AEMO has previously sought a letter of no action from the Australian Energy Regulator when unaccounted for gas benchmark rates were changed during a calendar year.  The proposed changes will allow AEMO to apply the same formula in determining reconciliation amounts for DUAFG periods with the same benchmark values within a DUAFG year, and determine the total reconciliation amount as the sum of the reconciliation amounts for each period. |
| Cost estimate (and/or cost/benefit analysis) | The cost of implementing these changes is nominal, as AEMO will only need to update internal processes to extract currently available data from market systems. Market Participants and Distributors will continue to use the same processes.  As a reasonable AVWMP cannot be determined using the current Procedure, AEMO is unable to determine reconciliation amounts without this change. |
| The likely implementation effect of the change(s) on stakeholders | The change to a deviation price based formula aligns with the impact on market participants if actual UAFG is different to benchmark UAFG.  Under NGR rule 211 market participants must forecast their UAFG adjusted consumption, and under NGR rule 235 are subject to a deviation payment for differences (or deviations) between their forecast uncontrollable demand and actual UAFG adjusted uncontrollable consumption.  Some distributors have concerns that an AVWMP determined using deviation prices will be more volatile and less predictable than under AVWMP formulae used to date. This may impact on their ability to determine pricing accurately while setting access arrangements.  If the variation results in the distributor’s revenue requirement exceeding the the maximum approved by the AER, distributors may apply to vary their access. |
| Testing requirements | None |
| AEMO's preliminary assessment of the proposal's compliance with section 135EB: | **Consistency with NGL**  Section 91BL of the NGL allows AEMO to make Wholesale Market Procedures.  Section 91BM(2)(a) allows Wholesale Market Procedures to deal with matters specified by the Rules.  **Consistency with NGR**  Part 15B rule 135EA(2)(k) allows Wholesale Market Procedures to deal with unaccounted for gas.  Part 19 rule 317 requires AEMO to make Distribution UAFG Procedures that calculate gas unaccounted for in a declared distribution systems and determine the payments to be made between a Retailer and a Distributor. This rule does not set out any other requirements applicable to the Procedure.  **Appropriate having regard to the National Gas Objective**  NGL Part 3 Division 1 section 23 states the National Gas Objective as being:  *“… 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.”*  These changes promote the efficient operation and use of natural gas services by allowing AVWMP to be determined in a way that reflects the costs to market particpants in the declared wholesale gas market when actual UAFG is different to benchmark UAFG.  **Appropriate having regard to any applicable access arrangements**  As the procedure is a Wholesale Market Procedure, rule 135EB(2) requiring AEMO to have regard to applicable access arrangements does not apply.  However, the amended Procedure will align with the Victorian Gas Distribution System Code applicable to declared distribution system access arrangements. |
| Consultation forum outcomes | In relation to this change to the Procedure, the 11 August 2015 GWCF minutes noted concerns on:   * Price volatility of a deviation price based AVWMP * Alignment between the Procedure and the Code   Both are addressed in this Impact & Implementation Report. No further concerns were noted. |

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| **RECOMMENDATION(S)** | |
| Should the proposed Procedures be made, (with or without amendments)? | Taking into account the consultation that has occurred, AEMO recommends the proposed Procedures change should be made as described in Appendix A. |
| Proposed effective date for the proposed change(s) | During the GWCF consultation, AEMO recommended that the new Procedure be used to determine UAFG reconciliations for the 2015 calendar year, which commences once the revision settlement statement is issued for December 2015 in June 2016.  AEMO proposes that the effective date is 1 January 2016, to apply to all determinations of AVWMP for DUAFG periods to be issued from that date. |

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| **APPENDIX A – DOCUMENTATION CHANGES (SEE SECTION 3)**  **Blue represents additions Red and strikeout represents deletions – Marked up changes**  **Comments may be used to explain changes to the document** |

1. **Definitions**

In clause 1 under the heading ‘Definitions’, immediately before **Market Participant**, insert:

“DUAFG period means a DUAFG year or part of a DUAFG year during which a single UAFG benchmark value applied to a supply point Class and Distributor.

DUAFG year means a calendar year.”

1. **Clause 2.1.1**

Delete clause 2.1.1, substitute:

**2.1.1 Average Volume Weighted Market Price (“AVWMP”)**

In respect of each DUAFG period, AEMO must determine the AVWMP in in accordance with the following formula:

Where:

n = Days in DUAFG period

D = Gas day in DUAFG period

S = Scheduling interval

PD,S  = Deviation price for gas day D, scheduling interval S (in $/GJ). In accordance with rule 235(5)(b) of the Rules, this is the market price determined for the commencement of the next scheduling interval after interval S)

VD,S = Total quantity of custody transfer meter (“CTM”) injections from the declared transmission system into all declared distribution systems during scheduling interval S on gas day D, as at the most recent revision prior to the date AVWMP is determined, (net of any withdrawals from declared distribution systems to the declared transmission system at bi-directional meters) (in GJ).

The AVWMP represents the price referred to as ‘X’ in the Reconciliation Amount formula in item C2 of Part C of the Victorian Gas Distribution System Code.

1. **Appendix C**

Delete Appendix C, substitute:

The reconciliation amount for a DUAFG year is the sum of the reconciliation amounts for each of the DUAFG periods in that DUAFG year.

The reconciliation amount for a DUAFG period is:

**( X + Y ) \* ( B – A )**

Where:

X = AVWMP as determined by AEMO under clause 2.1.1 for the DUAFG period;

Y = the average transmission tariff for the DUAFG period expressed in $ per gigajoule as calculated under the declared transmission system service provider’s prevailing reference tariffs;

A = D = (E/(1-G))

D = Amount determined by AEMO for declared wholesale gas market settlement purposes as quantity of gas withdrawn from the declared transmission system by the Distributor for Market Participants at the connection points for the DUAFG period;

E = the quantity of gas withdrawn by Distributor for Market Participants at all Class A supply points for the DUAFG period;

G = the benchmark flow rate of gas for class A supply points set out in clause 2.1.6 for that DUAFG period;

B = H (1-F)

H = the quantity of gas withdrawn by Distributor for Market Participants at all Class B supply points for the DUAFG period;

F = the benchmark flow rate for gas for class B supply points set out in clause 2.1.6 for that DUAFG period.

1. **DUAFG year and DUAFG period**

Replace “DUAFG year” or “DUAFG Year” with “DUAFG period” where it appears in the following clauses:

* clause 2.1.5 (heading and first paragraph)
* clause 2.2.3 (heading and first paragraph)

Replace “DUAFG period” or “DUAFG Period” with “DUAFG year” where it appears in the following clauses:

* clause 2.1.4