

Australian Energy Market Operator (AEMO)

Submitted via email: GWCF_Correspondence@aemo.com.au

15 May 2023

Submission to AEMO's DWGM Trade-weighted Cumulative Price Threshold Proposal

The Australian Energy Council welcomes the opportunity to make a submission to AEMO's Victoria Declared Wholesale Gas Market (DWGM) Trade-weighted Cumulative Price Threshold Proposal (**Proposal**).

The Australian Energy Council (**AEC**) is the peak industry body for electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. AEC members generate and sell energy to over 10 million homes and businesses and are major investors in renewable energy generation. The AEC supports reaching net-zero by 2050 as well as a 55 per cent emissions reduction target by 2035 and is committed to delivering the energy transition for the benefit of consumers.

With respect to this consultation, the AEC would like to express its concern that this issue is not receiving the level of attention commensurate with such a significant issue. A simple internet search using, "aemo dwgm cpt consultation" yields no results with respect to this consultation. Nor can it be found on AEMO's consultation page. The only ways to have been aware of this consultation are attendance at the relevant GWCF, reading the GWCF papers or someone informs you. One would have thought stakeholders would have been made aware of this consultation in the broadest manner possible. At the very least those that submitted to the Gas Market Parameter Review 2022 should have been contacted. Thankfully, the AEC has been made aware of this consultation through one of the ways described above.

The AEC welcomes AEMO's decision to consider options to improve the DWGM CPT calculation method to align more closely with the costs incurred by DWGM participants and with the STTMs more closely. The AEC agree with and support the proposal that the CPT in the DWGM should be calculated based on the average settlement costs to market participant purchases across the rolling CPT measurement period as opposed to the current simple time weighted averaging method. However, the AEC is not convinced that the calculation methodology as proposed would achieve this due to some factors in the proposed calculation.

The AEC understands that the scheduled imbalance quantity (IQ) represents at the time of publication of each schedule, AEMO's best estimate, (forecast), of the sum of imbalances for each individual market participant compared to each market participants nominated withdrawal volumes of gas for the balance of the gas trading day. We note this value does not include netting for any adjustments to a participants injection schedule. As such these values represent AEMO's best assessment of the final volumes, based on withdrawal volumes only, that will be subject to intra-day settlement exposure. The IQ values are updated by AEMO at each subsequent schedule update publication during the day.

The AEC also understands that the proposed calculation methodology as provided by AEMO would apply the price for the 06:00 schedule as published but then adjusts the subsequent schedule prices by the difference in IQ values between schedules. As such the calculation appears to be a combination of a TWA price based on the 06:00 schedule and a LWA price based on the remaining schedules during the gas day. The AEC considers that the calculation should be based on the LWA price across the entire gas trading day, including the IQ value and price at the 06:00 schedule.

The AEC notes that whilst the IQ values are not used in price setting, these values are representative of the values that market participants will be exposed to at settlement.

The AEC encourages AEMO to conduct a workshop to work through and discuss how the values presented in the worked example reasonably reflect the settlement values for consumers.

We acknowledge that to be perfectly accurate, the framework would require data containing the price that each GJ of gas settled at in a gas trading day. That is, settlement data, however this is produced with a lag of three days which renders it unsuitable for the CPT calculation. We agree that in this case the best alternative data needs to be used.

Notwithstanding, we recommend that AEMO publish on a monthly basis for each schedule the IQ values as used in the CPT calculation and the actual values on which the DWGM is settled. Such a report should facilitate improvements in AEMO's IQ value forecasts such that these closely align with settlement values.

The AEC also recommends that the publication of the 06:00 schedule and other progressive schedules during the day include updates to the IQ values as these are determined by AEMO to facilitate market participants tracking of the CPT.

Lastly, the AEC would like to confirm with AEMO if there is any alternative data available to that proposed that would provide a relatively robust estimate of settlement outcomes in a timely manner.

The AEC encourages AEMO to continue with this workstream and engage directly with stakeholders to achieve an outcome that results in a more accurate CPT calculation for the DWGM that reasonably reflects the market costs that will be paid at settlement. It would be a poor outcome for the market if this work is not progressed to successful implementation of an approach that achieves better alignment across gas markets. Failure to do so will continue the risk of the market dysfunction that occurred in mid-2022 happening again. Hence, the AEC reiterates its view that this work must continue as a priority.

Any questions about our submission should be addressed to Peter Brook, by email to peter.brook@energycouncil.com.au or by telephone on (03) 9205 3103.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'P Brook', is placed on a light yellow rectangular background.

Peter Brook

Wholesale Policy Manager
Australian Energy Council