

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

<b>Issue Number</b>			
Impacted Jurisdiction(s)	Victoria		
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Affected Gas Market(s) <ul style="list-style-type: none"> <li>▪ Retail</li> <li>▪ Wholesale</li> <li>▪ Bulletin Board</li> <li>▪ STTM</li> </ul>	Declared Wholesale Gas Market	Date proposal sent to AEMO	4 November 2013
Short Title	Wholesale Administered Pricing Procedure (Victoria)		
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## PROPOSED PROCEDURE CHANGE (PPC) – DETAILED REPORT SECTION

<p><b>1. Description of change(s) and reasons for change(s)</b></p>	<p>This PPC proposes changes to the Wholesale Market Administered Pricing Procedure (Victoria).</p> <p>A review of the Cumulative Price Threshold (CPT) Mechanism was requested following the Gas Wholesale Consultative Forum’s (GWCF) proposal to remove the Force Majeure provisions from Part 19 of the National Gas Rules (NGR). The GWCF was concerned that this left limited scope to offer protection to Market Participants when market prices were being set at a very high level, and no further market response was possible, and asked for this issue to be examined.</p> <p>The Declared Wholesale Gas Market (DWGM) CPT review was led by AEMO with guidance from the GWCF. Two key findings were distilled from the review. Firstly, the analysis showed that the current CPT settings may not provide sufficient wholesale market price risk mitigation for new entrant and rapidly growing retailers. Secondly, the level of residual risk implied by the current CPT settings was found to be out-of-step with other markets, therefore imposing an excessive and onerous management cost. AEMO concluded that these factors can create a barrier to entry and may discourage new retailers from entering the DWGM.</p> <p>Due to these findings, AEMO recommended a change in the CPT setting from \$3700 to \$1800. This will lower the level of risk that is resultant from the CPT mechanism, and in doing so, prevent barriers to entry. This works to improve the competitiveness of market and that the long-run interests of consumers are protected in alignment with the National Gas Objective.</p> <p>The GWCF has generally endorsed this recommendation.</p> <p>This PPC aims to implement the recommendation from the DWGM CPT review.</p>
<p><b>2. Reference documentation</b></p> <ul style="list-style-type: none"> <li>▪ Procedure Reference</li> <li>▪ GIP/Specification Pack Reference</li> <li>▪ Other Reference</li> </ul>	<p>The following reference documents should be considered:</p> <ul style="list-style-type: none"> <li>• Wholesale Market Administered Pricing Procedure (Victoria) – version NGR 1.0;</li> <li>• National Gas Rules Part 19: Declared Wholesale Gas Market. Rules Sections 216 and 346; and</li> <li>• DWGM CPT Review Final Report.</li> </ul>

<p><b>3. The high level details of the change to the existing Procedures</b></p> <p>This includes:</p> <ul style="list-style-type: none"> <li>▪ A comparison of the existing operation of the Procedures to the proposed change to the operation of the Procedures.</li> <li>▪ A marked up version of the Procedure change (see Attachment A).</li> </ul>	<p>The amendment to this Procedure incorporates the recommendation from the DWGM CPT review. This leads to an editorial change in the CPT value of \$3700 to \$1800.</p> <p>Additionally, the format of the Procedure has been updated to reflect the new corporate template.</p>
<p><b>4. Consequences for making or not making the change(s)</b></p>	<p>Not implementing the changes to this PPC may reduce the long run competitiveness of the market, which can consequently lead to less efficient outcomes for consumers.</p> <p>Implementation of the proposed changes in this PPC will provide the benefits as described in section 6 of this PPC.</p>
<p><b>5. Explanation regarding the order of magnitude of the change(s)</b> (eg: material, non-material or non-substantial)</p>	<p>The proposed changes are material as demonstrated by the required implementation effects on AEMO and Market Participants, as explained in Section 7 of this PPC.</p>
<p><b>6. Likely benefits for industry as a whole</b></p>	<p>The likely benefits from the proposed were discussed in Section 6.4 of the DWGM CPT Review Final Report 2013. The relevant details are given below:</p> <ol style="list-style-type: none"> <li>1. <i>We recommend that the CPT is lowered from \$3700 to \$1800. Based on our measure of excessive and/or unmanageable risk, this reduces the level of residual wholesale market risk to a level that better addresses the needs of new entrant and rapidly growing retailers. We understand that in the case of the Declared Transmission System, access to injection capacity from the Dandenong LNG facility will often be required to maintain the security of the system during possible CPT events. AEMO understands that the bilateral market for LNG capacity is not liquid, and is mostly contracted by the larger established retailers. It follows that new entrant and rapidly growing retailers may therefore experience difficulty in procuring sufficient LNG capacity to address optimal risk management needs. This could present a barrier to entry, affecting competition and price outcomes, and may create a possible insolvency risk during major CPT events. Our assessment has also shown that the risk mitigation power of the current settings is weaker than those of the CPT mechanisms of the NEM and STTM; and</i></li> <li>2. <i>A CPT setting of \$1800 will not deny sufficient cost</i></li> </ol>

	<p><i>recovery for the fixed and variable costs of the LNG facility, which is also the most expensive source of supply in the Victorian system on a total average cost basis.</i></p>
<p><b>7. The likely implementation effect of the proposal on Industry in general and/or any identified parties</b> (e.g. end-users)</p>	<p>From the AEMO perspective, the implementation of the proposed change will lead to a reconfiguration of the CPT value in the Transportation and Market Manager. The revised value will be used as part of the scheduling inputs for the Market Clearing Engine.</p> <p>The proposed change will benefit the market as outlined in Section 6 of this PPC.</p> <p>Market Participants need to take into account the effective date for this proposed change and make any required adjustments.</p>
<p><b>8. Testing requirements</b></p>	<p>There are no testing requirements.</p>
<p><b>9. Supporting Documentation</b></p> <p>(attach if necessary)</p>	<p>The GWCF Papers and supporting documents for the DWGM CPT review can be found at:</p> <p><a href="http://www.aemo.com.au/Gas/Market-Operations/Declared-Wholesale-Gas-Market-Cumulative-Price-Threshold-Review">http://www.aemo.com.au/Gas/Market-Operations/Declared-Wholesale-Gas-Market-Cumulative-Price-Threshold-Review</a></p>
<p><b>10. If applicable, a proposed effective date for the proposed changed Procedures to take effect and justification for that timeline.</b></p>	<p>The effective date for the proposed procedure change is estimated as 5 February 2014.</p>