

September 2010

Mr John Pierce
Chairman
Australian Energy Market Commission
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Sydney South NSW 1235

FROM THE OFFICE OF THE
CHIEF EXECUTIVE OFFICER

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By online submission

Dear Mr Pierce

Re | Rule Change Request – Timetable for prescribed reviews of the STTM

On 20 May 2010, the Australian Energy Market Operator (AEMO), following consultation with relevant stakeholders, changed the Short Term Trading Market (STTM) commencement date from 4 June 2010 to 1 September 2010. This decision was made following enactment of the National Gas Rules (NGR) to establish the STTM. As you may be aware, the STTM went live on 1 September 2010.

A review of the STTM provisions of the NGR has been conducted to ascertain whether any changes to those rules are required following the AEMO decision to change the STTM commencement date. An issue has been identified with respect to the timetable for completion of a number of prescribed reviews as set out in Part 20, Division 11. Part 20, Division 11 of the NGR prescribes six reviews, to be conducted by AEMO, on various elements of the STTM.

On the basis that the STTM was originally due to commence on 4 June 2010, the first review (a review of the operation of the STTM including the operation of the Market Operator Services arrangements) was intended to follow the 2010 winter period, with a rule requirement for the review to be completed by 31 December 2010. With the change in the STTM commencement date to 1 September, it is not possible to achieve this date. Two further reviews are currently prescribed in the NGR for completion by 30 June 2011 and 31 December 2011, respectively. The changed STTM commencement date means that the market will experience its first winter period in June-August 2011.

In this context and recognising the requirements of the extended consultative procedure, the proposed Rule change seeks to integrate and complete the first three reviews (the prescribed review in rule 489(1), rule 489(2) and rule 490) by 31 March 2012. This allows six months for a comprehensive review after the first winter's operation, provides AEMO sufficient opportunity to conduct these reviews in the context of live STTM operations and enables AEMO to streamline the consultation process to ensure that overlapping issues can be considered together.

AEMO requests that the Australian Energy Market Commission (AEMC) consider making a Rule under section 304 of the National Gas Law (NGL). AEMO considers that the proposed Rule change is non-controversial as it is unlikely to have a significant effect on the market, as is required for an expedited consultation process under section 304 of the NGL.

In developing the proposed rule, AEMO consulted with the STTM Consultative Forum, the Gas Market Leaders Group and the Ministerial Council on Energy Standing Committee of Officials, whom were directly involved in the establishment of the STTM, including the development of the NGR amendments to establish the market.

A description and drafting of the proposed Rule, a statement of the issues concerning the existing NGR requirement, and how the proposed Rule contributes to the achievement of the National Gas Objective is provided at Attachment A.

AEMO would be pleased if you could have these matters considered by the AEMC. For further details, please do not hesitate to contact Terry Grimwade, Executive General Manager - Market Performance, on (03) 9609 8520.

Yours sincerely



Graeme Cook

Acting Chief Executive Officer

Attachment A: Request for Rule Change

Attachment A: Rule Change Proposal

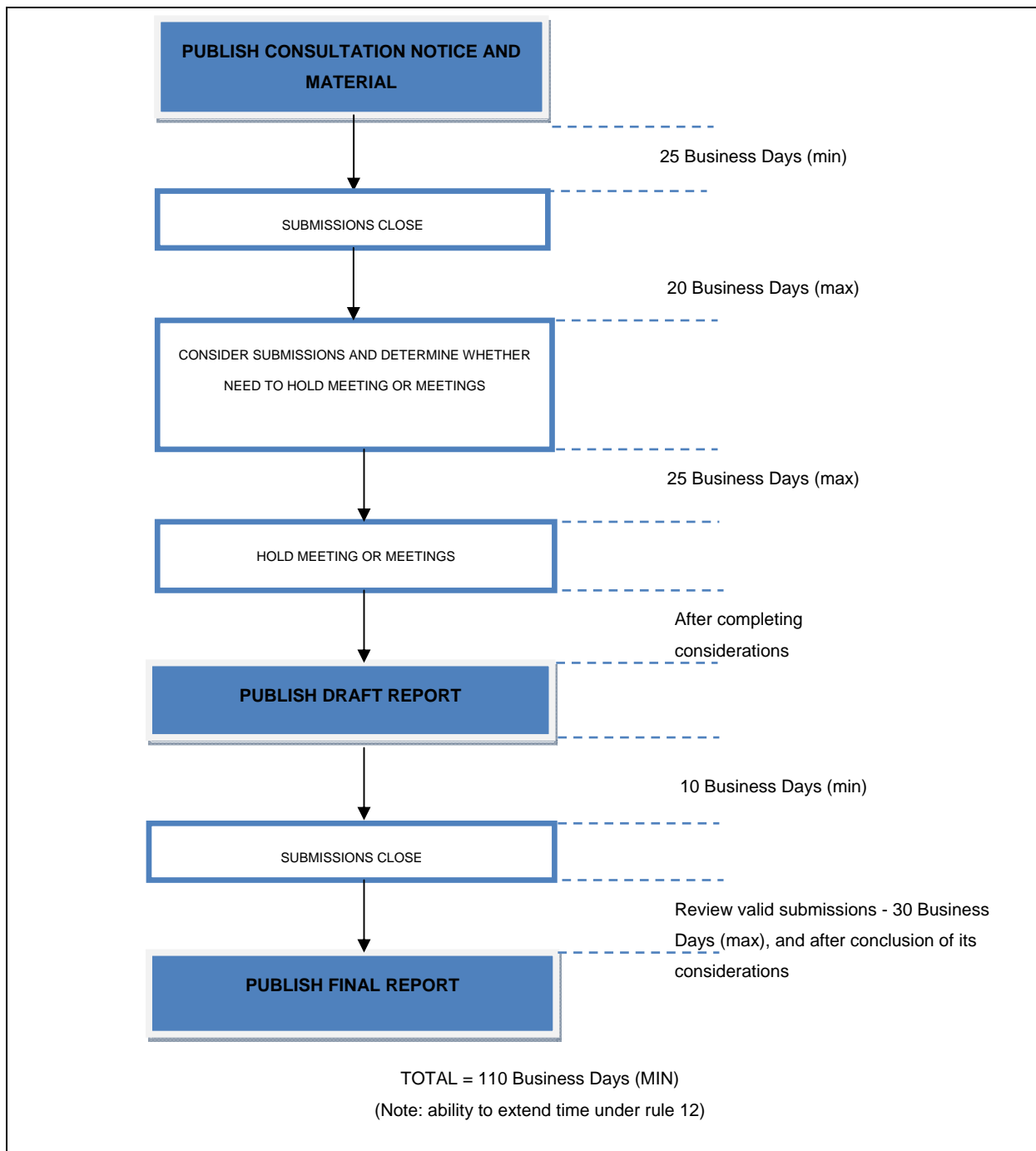
1. Background

Under the National Gas Rules (**NGR**), the Australian Energy Market Operator (**AEMO**) is required to conduct a number of market reviews for the Short Term Trading Market (**STTM**). In particular, Part 20, Division 11 of the NGR requires AEMO to:

- by 31 December 2010, review the operation of the STTM including considering the Market Operator Services (**MOS**) arrangements contained in Part 20 Division 6 of the NGR and identify any improvements to the operation of the STTM that can be implemented by 31 May 2011, May 2012 or in a longer time period (Rule 489(1));
- by 30 June 2010, review the potential for the STTM to operate at prospective hubs including the identification of options to integrate scheduling of hubs and prospective hubs that are connected by the same pipeline (Rule 490);
- by 31 December 2011, review the operation of the STTM, including reviewing various market parameters, the operation of the MOS arrangements contained in Part 20 Division 6 of the NGR, and identify options for the allocation of settlement surpluses and shortfall on a daily basis (Rule 489(2));
- by 31 December 2012, review options for additional or alternative STTM market processes that would operate within a gas day (Rule 491);
- conduct periodic reviews, with the first to be completed by 31 December 2012, of various market parameters (Rule 492); and
- after the first time Contingency Gas is triggered and scheduled, review the operation of the Contingency Gas provisions contained in Part 20 Division 8 of the NGR.

For each of the reviews outlined above, AEMO is required to follow the extended consultation procedure. Rule 9A of the NGR sets out the requirements for the extended consultative procedure, which are summarised in Figure 1.

Figure 1: Extended Consultation Procedure (RULE 9A)



The NGR amendments to establish the STTM were developed as part of the governance arrangement for the STTM Establishment Project. The Ministerial Council on Energy (**MCE**), in consultation with the Gas Market Leaders Group (**GMLG**), associated industry forums and through public consultation, developed changes to the National Gas Law (**NGL**) and NGR to establish the regulatory arrangements for the STTM. AEMO used the same process to develop the initial STTM Procedures.

Through the design phase of the STTM, it was considered appropriate that the rules for the STTM prescribe reviews to be conducted by AEMO, once the market commences, to extend and improve the operation of the market, consistent with the National Gas Objective (**NGO**).

The prescribed reviews were based on the scope, timing and priority as determined at the April 2009 GMLG meeting on the understanding that these may change in future. In addition, the scope and timetable established for the prescribed reviews was on the premise that the:

- STTM commence on 4 June 2010.
- Reviews would be conducted in the context of live market operational experience.
- Policy context behind the first review, currently required to be completed by 31 December 2010, was to be conducted after experience during a winter period.

Before prescribing these reviews into the NGR, limited assessment was undertaken to map out the review requirements, consider whether they met the objective as outlined above or determine how these various reviews could be consolidated where appropriate.

Following approval of the NGR amendments by the MCE, the SA Minister proclaimed those rules on 7 May 2010. From this date, the Australian Energy Market Commission (**AEMC**) became responsible for considering changes to those rules pursuant to the requirements of the NGL.

In accordance with section 364 of the NGR and following consultation with relevant stakeholders, on 20 May 2010 AEMO published its determination that the STTM commencement date be changed from 4 June 2010 to 1 September 2010. This means that the STTM Market Trial was extended from 3 June 2010 to 31 August 2010 and as per that determination, the STTM commenced on 1 September 2010.

2. Statement of Issues

Following the decision to change the STTM commencement date, AEMO undertook a review of the STTM provisions of the NGR. AEMO has identified the following issues with the current requirements contained in Part 20, Division 11, specifically relating to rule 489, rule 490 and rule 492, as follows:

- The change in the STTM commencement date from 4 June 2010 to 1 September 2010 means that AEMO would have had to commence a review of the operation of the STTM, as per rule 489(1), prior to the commencement of the STTM in order to meet the requirements of the extended consultation procedure and complete the review by 31 December 2010.
- There is insufficient opportunity for AEMO, or external parties participating in the consultation process, to examine STTM live operations, including operation during a winter period, before the commencement of the first review. The current requirement to complete the first review by 31 December 2010 does not enable AEMO to fulfil the original intent of the first prescribed review. The same issue applies for the third review, currently due to be completed by 31 December 2011.

- There is overlap between timing for completion, and content and scope, of the first three reviews prescribed in rule 489 and rule 490 and between rule 490 and rule 492.

See further Table 1 and Figure 2 (presented at Attachment A.1). Table 1 presents the scope of the prescribed reviews and Figure 2 maps out the timetable for the reviews under rule 489(1), rule 489(2) and rule 490.

Each issue raised above is discussed in turn.

Change in STTM commencement date and live market operations

As previously explained, rule 489(1) requires AEMO to complete its first review of the operation of the STTM by 31 December 2010 and conduct this review in accordance with the extended consultative procedure.

As presented in Figure 1, the consultation requirements of the extended consultative procedure can take at least five months depending on the complexity of the issues considered by AEMO, and raised by stakeholders, during the review consultative processes. Under the current rule requirements and as presented in Figure 2, AEMO would have needed to commence the first review before market commencement. AEMO considers that reviewing and proposing changes to a market prior to its commencement raises a number of issues and risks. Such an approach would preclude participants and AEMO observing activities in the STTM and ensuring the review is appropriately targeted to addressing issues observed in the live market rather than focusing on market trial outcomes, which may not be representative of outcomes in live market operations. Furthermore, in the lead in to STTM commencement, it was important to enable AEMO and participants to focus on readiness rather than reviewing a market that had yet to commence.

AEMO considers that it is prudent that a review of STTM operations should be conducted in the context of an appropriate period of live market operations. This allows AEMO and interested stakeholders to examine and assess activities in the live market, identify issues and consider ways to address any issues to enable efficient development of the STTM.

Furthermore, in the context of the change to the STTM commencement date and recognising the practicalities of completing a complex review within the requirements of the extended consultative procedure, AEMO considers that the current rule requirement to complete the first review by 31 December 2010 is not feasible and cannot be currently achieved.

Commencement of Reviews following winter period

One of the key drivers for the timing of the first review (due to be completed by 31 December 2010) and the third review (due to be completed by 31 December 2011), was that these reviews were to be undertaken following the June-August 2010 and June-August 2011 winter periods, respectively. This was the reason why the rules prescribed a review completion date rather than specifying a timeframe from STTM commencement for the completion of the prescribed reviews.

As a result of the change in the STTM commencement date, the market will now not experience its first winter period until June-August 2011. This means that the current requirement to complete the first review by 31 December 2010 does not enable AEMO to fulfil the original intent of the first prescribed review. This would have also been difficult had the STTM commenced on 4 June 2010. In addition, the intent of the third review, due to be

completed by 31 December 2011, was that the review would commence following the June-August 2011 winter period. The intent of this review cannot be met recognising the requirements of the extended consultative procedure.

In addition to commencing these reviews after a winter period, the aim was to implement changes before the following winter. There was limited recognition of the process and timing required for AEMO to conduct and complete the review using the public consultation process as provided under the extended consultative procedure and the time that it would take through the implementation process including any resulting changes to the IT systems, the AEMC's rule change process and AEMO's Procedure change process.

STTM reviews scope and timing

Table 1 and Figure 2 present the potential timing and scope of the prescribed reviews as per the requirements of Part 20, Division 11.

There is considerable overlap between the scope and process of Review 1 (rule 489(1)), Review 2 (rule 490) and Review 3 (rule 489(2)). Under the current rule requirements, there are three reviews occurring concurrently with the issues being considered in each influencing and overlapping with the other. As evident in figure 2, as Review 1 draws to an end AEMO would need to commence Review 2, and midway through Review 2, AEMO is required to commence Review 3, which covers the same issues (with additional scope) as the matters for consideration by AEMO under Review 1.

The current rule limits the ability for AEMO to consolidate these reviews into one to enable effective consultation and utilisation of stakeholder time and AEMO and external stakeholder resources through the consultation process. Concurrent reviews which have overlapping scope may create uncertainty for participants about what changes may eventuate from each of the reviews, may create instability for a new market as development of the STTM would be in constant flux, and may result in inefficient use of resources.

In addition to the prescribed reviews, AEMO has been requested by MCE to implement the STTM in Brisbane by the second half of 2011 and consider the potential for development of the concept of an STTM Supply hub. Aligning the prescribed reviews, where appropriate, would better enable AEMO, and external stakeholders, to manage the various workstreams relating to extending and reviewing the operation and development of the STTM.

Review 3 (rule 489(2)) requires AEMO to review the Minimum Market Price (**MMP**) in isolation of the other STTM price caps, which are scheduled to be reviewed as part of Review 5 (rule 492). AEMO considers that the MMP should be reviewed and considered alongside the other STTM parameters (i.e. the Market Price Cap, Administered Price Cap, Cumulative Price Threshold (**CTP**), and the CTP horizon) to ensure these market settings are considered holistically to achieve the NGO.

3. Proposed Rule

3.1 Description of the Proposed Rule

The intent of the proposed Rule is to enable AEMO to align the first three reviews of the STTM (i.e. the review under rule 489(1), rule 489(2) and the review under rule 490) and complete these reviews by 31 March 2012. This provides AEMO sufficient opportunity to conduct these reviews in the context of live STTM operations, following the June-August 2011 winter period and meeting the requirements of the extended consultative procedure.

Given the overlap in content between the review under rule 489(1) and rule 489(2), the proposed Rule seeks to delete rule 489(1) and appropriately amend rule 489(2) to cover requirements that exist in rule 489(1). In this regard, the proposed Rule seeks to amend rule 489(2) to include a new subrule that requires AEMO to “identify any improvements in the operation of the STTM and the time period for implementation of those identified improvements”. AEMO considers the other matters to be covered by AEMO in the rule 489(1) review are already covered by rule 489(2).

The proposed Rule also seeks to delete the requirement for a review of MMP in rule 489(2) and include this with the other STTM market price settings contained in rule 492.

AEMO’s draft Rule is provided at Attachment A.2.

For comparative purposes, Table 2 and Figure 3 (see Attachment A.1) presents the potential timing and scope of the prescribed reviews under the proposed Rule.

3.2 How the Proposed Rule addresses identified Issues

AEMO considers that the proposed Rule addresses the issues as outlined in section 2 of this rule change request, as follows:

- Aligning the first three reviews of the STTM (i.e. the review under rule 489(1), rule 489(2) and the review under rule 490) so that they are completed by 31 March 2012 ensures the reviews do not commence prior STTM live market operations, which enabled AEMO and participants to focus on readiness.
- The proposed Rule provides AEMO and interested stakeholders with an opportunity to undertake, and participate in, the review in the context of live market operations. As presented in Figure 3 (see Attachment A.1), the change in date will enable AEMO to examine the market during the summer period (which is relevant to the South Australian market) and during a winter period (which is relevant to the New South Wales market). Further, the proposed Rule enables AEMO to meet the original intent of reviews 1 and 3 by commencing these reviews after a winter period.
- As discussed in section 2 of this rule change request, there is overlap in the content and timing for the first three reviews to be undertaken by AEMO (i.e. the review under rule 489(1), rule 489(2) and the review under rule 490). Aligning these reviews to be completed by 31 March 2012, would enable effective consultation and utilisation of stakeholder time and AEMO and external stakeholder resources through the consultation process.

In developing this rule change request, AEMO considered a number of options. These are presented in Attachment A.3. AEMO considers that of the options assessed, the proposed Rule is best able to address the issues identified with the current rule requirements.

3.4 Request for a Non-Controversial Rule

AEMO requests that the AEMC consider reviewing this Rule change proposal in accordance with section 304 of the NGL. Section 304 applies if the AEMC considers that a request for a Rule is a request for a non-controversial Rule. A non-controversial Rule means a Rule that is unlikely to have a significant effect on the natural gas markets.

AEMO considers that section 304 applies to this proposal because the proposed Rule is unlikely to have a significant effect on the market. The proposed Rule seeks to align reviews of the STTM, which have yet to commence, as a result of the change in commencement date from 4 June 2010 to 1 September 2010. As such, the proposed Rule will not have any effect on the ongoing operation of the market, since any such effects would only result from subsequent decisions to amend Procedures or Rules.

Further, amending the review completion date as sought by the proposed Rule does not limit progression of any changes to the STTM outside the prescribed review process, including those considered urgent or with clear efficiency gains/reductions in costs. For example, changes to the STTM provisions of the NGR can be progressed through the rule change process, changes to the STTM Procedures via the procedure change process, and changes to AEMO systems via the change management process established by AEMO. Changing the completion date for the prescribed reviews is not intended to limit the ability for the STTM to change but to ensure that sufficient opportunity for AEMO is given to ensure the reviews are comprehensive, are conducted in the context of live market operations and stakeholders are given sufficient opportunity to participate in the consultation process.

As presented previously, the proposed Rule does not change the policy intent for the timing or scope of the prescribed reviews. This has been confirmed with the STTM Consultative Forum (STTM CF), the GMLG and the Ministerial Council on Energy Standing Committee of Officials (SCO).

3.5 Stakeholder consultation

In developing the proposed rule, AEMO consulted with the STTM CF, the GMLG and the SCO, whom were directly involved in the establishment of the STTM, including the development of the NGR amendments to establish the market.

The STTM-CF unanimously supported the proposal to combine the first three reviews noting that the purpose of the first review was to undertake this in the context of live market operation following a winter period. There was discussion from attendees that reporting by December 2011, as was presented to the STTM-CF, would still leave very little time to adequately review the operation of the market through its first winter and suggested that the completion date for the first three reviews should be March 2012, to ensure there was adequate time to analyse the outcomes of the 2011 winter period. The STTM-CF also supported that the proposed Rule should be non-controversial in its nature. Refer to extracts from the minutes of the 15 July 2010 STTM-CF (see Attachment A.4).

The GMLG also supported the proposal to combine the first three reviews of the STTM and changing the completion date to March 2012, confirming that the objective for the timing of the reviews was to ensure operational experience during a winter period was gained to feed into the review process. Refer to extract from the minutes of the 20 July 2010 GMLG meeting (see Attachment A.5).

Noting that the MCE made the initial rules for the STTM, AEMO also consulted the SCO. The SCO noted its support to combine the first three STTM reviews to be completed by 31 March 2012, confirming that the rule change does not change, but fulfils the original policy intent of the reviews which were designed to evaluate market performance following a winter period. AEMO understands that SCO has written to the AEMC in this regard.

4. How the Proposed Rule Contributes to the National Gas Objective

Before the AEMC can make a Rule change it must apply the rule making test set out in the NGL, which requires it to assess whether the proposed Rule will or is likely to contribute to the NGO. No other factors, including MCE statements of policy principles, form of regulation factors or revenue and pricing principles are relevant to these considerations.

Section 23 of the NGL states the NGO is:

“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.”

AEMO considers that the proposed Rule is likely to contribute to the NGO for the following reasons:

- As evident in Figures 2 and 3, the proposed Rule seeks to streamline the consultation process, through aligning the first three reviews of the STTM, enabling overlapping issues to be considered holistically. This reduces the regulatory burden on AEMO, registered participants and other interested stakeholders, and minimises inefficient use of resources that would eventuate through the progression of a review of the operation of the STTM without sufficient observation of live market operations.
- Consolidating the first three reviews and extending the review completion date to 31 March 2012 enables AEMO to undertake comprehensive and effective consultation which takes into account observations in the live market over both a winter and summer period. This will enable AEMO and stakeholders wishing to participate in the review process, to consider issues and options in the context of the live market, rather than market trial outcomes which may not be representative of live market operations, and progressing development of the STTM which drives efficient operation of the market and signals for efficient investment. The proposed Rule would minimise inefficient changes to the STTM framework.
- Including the review of the MMP as part of the review of the other STTM market parameters would enable AEMO to review these market settings together and ensure

the price settings are established to provide appropriate signals for network and pipeline investment, market entry, market operations and incentives and ensure appropriate risk mitigation measures, including triggers for market administrations, are appropriately put in place.

5. Expected Benefits and Costs of the Proposed Rule

AEMO considers that the persons likely to be affected by the proposed Rule include registered participants, gas network and pipeline owners and operators, intending participants, participants at prospective hubs, large and small users and other interested person in the gas industry.

AEMO expects that the proposed Rule would benefit registered participants, network and pipeline owners/operators in the STTM and other affected persons as the proposed Rule would enable streamlining of the consultation process by consolidating three reviews into one. As noted previously this enables effective consultation and utilisation of stakeholder time and AEMO and external stakeholder resources through the consultation process.

The consolidation of the first three reviews also addresses the issue associated with having concurrent reviews with overlapping scope, including minimising uncertainty for participants about what changes may eventuate from each of the reviews and reduces instability for a new market. Furthermore, by not commencing the market review prior to the revised STTM commencement date of 1 September 2010, would enable AEMO and participants to focus on preparation for market start rather than commencing a review on the operation of the market before the market has commenced.

As noted previously, AEMO considers that the proposed Rule would not limit progression of any changes to the STTM outside the review process, or earlier commencement/completion of the prescribed reviews, if it is considered appropriate to do so. This enables urgent changes to be progressed through the relevant change process, including the rule change process, STTM Procedure change process, and AEMO system change process. Changing the completion date for the prescribed reviews is not intended to limit the ability for the STTM to change but to ensure that sufficient opportunity for AEMO is given to ensure the reviews are comprehensive, are conducted in the context of live market operations and stakeholders are given sufficient opportunity to participate in the consultation process.

GLOSSARY

Term or Abbreviation	Explanation
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
CPT	Cumulative Price Threshold
GMLG	Gas Market Leaders Group
MCE	Ministerial Council on Energy
MMP	Minimum Market Price
MOS	Market Operator Services
MPC	Market Price Cap
NGL	National Gas Law
NGO	The National Gas Objective as stated in section 23 of the NGL
NGR	National Gas Rules
STTM	Short Term Trading Market

Attachment A.1: Tables and Figures

Table 1: Table and Scope of prescribed reviews in Part 20, Division 11.

Prescribed Review	Review 1	Review 2	Review 3	Review 4	Review 5	Review 6
Current Rule Completion Date	31 December 2010	30 June 2011	31 December 2011	31 December 2012	31 December 2012 (every 5 years thereafter)	Trigger
Scope of Review	<ul style="list-style-type: none"> • Operation of STTM • Whether Market Operator Services (MOS) is operating efficiently and effectively • Identify improvement that can be implemented by 31 May 2011, May 2012 or in a longer time period. 	<ul style="list-style-type: none"> • Potential for STTM to operate at prospective hubs, including identification of options to integrate scheduling for hubs/prospective hubs that are connected by the same pipeline. 	<ul style="list-style-type: none"> • Operation of STTM • Whether MOS is operating efficiently and effectively • Graduated deviation and variation parameters, Minimum Market Price, MOS cost cap. • Options for allocation of settlement surplus and shortfall on daily basis. 	<ul style="list-style-type: none"> • Options for additional or alternative STTM market processes that would operate within a gas day. 	<ul style="list-style-type: none"> • Review of market parameters – Market Price Cap, the Cumulative Price Threshold (CPT), and the administered Price Cap. 	<ul style="list-style-type: none"> • Review of Contingency Gas after the first time it is triggered and scheduled.

Figure 2: Timetable for Review 1, Review 2 and Review 3

ACTIVITY	2010							2011											
	JUNE	JULY	AUG	SEPT	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUNE	JULY	AUG	SEPT	OCT	NOV	DEC
STTM commence				01-Sep															
Review 1 (31 December 2010)		Yellow	Orange	Green	Blue	Dark Blue	Red												
Review 2 (30 June 2011)					Yellow	Orange	Green	Blue	Dark Blue	Red	Red								
Review 3 (31 December 2011)											Yellow	Orange	Green	Blue	Dark Blue	Dark Blue	Red	Red	

Key:	
Scoping of Review (inc consultation on scope)	Yellow
release issues paper/submissions on issues/discussion paper	Orange
consider submission and determine hold meetings	Green
hold meetings	Blue
consideration for draft report/publish draft report	Dark Blue
submissions on draft report	Red
consideration for final report/publish final report	Red

Table 3: Table and Scope of prescribed reviews as proposed by Rule Change.

Prescribed Review	Review 1	Review 2	Review 3	Review 4	Review 5	Review 6
Current Rule Completion Date	31 March 2012			31 December 2012		Trigger
Scope of Review	<p><u>PART 1</u></p> <ul style="list-style-type: none"> • Operation of STTM • Whether MOS is operating efficiently and effectively • Graduated deviation and variation parameters, MOS cost cap. • Options for allocation of settlement surplus and shortfall on daily basis. • Identify improvement to be implemented in short and longer term. <p><u>PART 2</u></p> <ul style="list-style-type: none"> • Potential for STTM to operate at prospective hubs, including identification of options to integrate scheduling for hubs/prospective hubs that are connected by the same pipeline. (ACT and expanding hub definition). 			<ul style="list-style-type: none"> • Options for additional or alternative STTM market processes that would operate within a gas day. 	<ul style="list-style-type: none"> • Review of market parameters – MPC, MMP, administered price cap, CTP horizon, the cumulative price threshold. 	<ul style="list-style-type: none"> • Review of Contingency Gas after the first time it is triggered and scheduled.

Figure 3: Timetable for combined reviews, as per proposed Rule

COMBINED REVIEW 1, 2 AND 3	2011												2012			
	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	
TIMETABLE FOR REVIEW							Yellow	Orange	Orange	Orange	Green	Blue	Blue	Blue	Red	Red
OBSERVE LIVE MARKET OPERATIONS FOR REVIEW	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow							

Key:	
Scoping of Review (inc consultation on scope)	Yellow
release issues paper/submissions on issues/discussion paper	Orange
consider submission and determine hold meetings	Orange
hold meetings	Green
consideration for draft report/publish draft report	Blue
submissions on draft report	Blue
consideration for final report/publish final report	Red

Attachment A.2: Draft Rule

This draft is based on version 4 of the National Gas Rules.

Part 20, Division 11

489 Review of STTM operation

- (1) ~~delete AEMO must conduct a review of the operation of the STTM, to be completed by 31 December 2010, that:~~
 - ~~(a) considers whether Division 6 (Market Operator Service) is operating effectively and efficiently; and~~
 - ~~(b) identifies any improvements in the operation of the STTM that can be implemented;~~
 - ~~(i) by 31 May 2011;~~
 - ~~(ii) by May 2012; or~~
 - ~~(iii) in a longer time period.~~
- (2) AEMO must conduct a review of the operation of the STTM, to be completed by 31 March 2012, that:
 - (a) considers whether the graduated deviation parameters, the graduated variation parameters, ~~the MMP~~ and the MOS cost cap are set at appropriate levels; and
 - (b) considers whether Division 6 (Market Operator Service) is operating effectively and efficiently; and
 - (c) identifies options for the allocation of settlement surpluses and shortfalls on a daily basis; and
 - (d) identifies any improvements in the operation of the STTM and the time period for implementation of those identified improvements.

490 Review of hubs

AEMO must conduct a review, to be completed by 31 March 2012, ~~30 June 2011~~, that examines the potential for a short term trading market to operate at prospective additional hubs, including the identification of options to integrate scheduling for hubs and prospective hubs that are connected by the same pipeline.

492 Review of market parameters

(1) AEMO must conduct periodic reviews of:

- (a) the MPC; and
- (b) the administered price cap; and
- (c) the CPT horizon; and
- (d) the cumulative price threshold, and
- (e) the MMP

to be completed:

~~(e)~~ (f) in the case of the first review under this rule, by 31 December 2012; and

~~(f)~~ (g) for each subsequent review, no later than 5 years after the last review was completed.

Attachment A.3: Options for prescribed reviews

In considering the requirements of Part 20, Division 11, AEMO considered the following options:

Option 1: No change to the rule

Under this option, AEMO would proceed with the requirements to undertake the STTM reviews consistent with the requirements of Part 20 Division 11. As identified in the rule change request, this option raises the following issues:

- The change in the STTM commencement date from 4 June 2010 to 1 September 2010 would require AEMO to commence a review of the operation of the STTM, as per rule 489(1), prior to the commencement of the STTM to meet the requirements of the extended consultation procedure. Given the timing requirements of the extended consultative procedure, AEMO considers that the completion of the first review by 31 December 2010 is not feasible.
- There is insufficient opportunity to observe and review STTM live operations before the commencement of the first review, which is a review of the how the STTM is operating. Therefore it is unlikely that AEMO will be able to fulfil the requirements of the NGR and the intent for the review to be conducted after the first winter period.
- There is overlap between timing for completion, and content and scope, of the first three reviews prescribed in rules 489 and 490. This would result in AEMO undertaking three separate reviews, with overlapping scope, under three different but overlapping timelines.

Option 2: Change review completion date

Option 2A –extend completion date of review in rule 489(1) by three months

Under this option, AEMO would seek a rule change to amend the completion date of the review under rule 489(1) from 31 December 2010 to 31 March 2011, noting that there are three months between the previous commencement date of 4 June 2010 and the current STTM commencement date of 1 September 2011. This option raises the following issues:

- While this option would enable the review to commence after the STTM commencement date of 1 September 2010, it does not provide AEMO or external stakeholders with an opportunity to sufficiently examine live STTM market operations. Providing AEMO an ability to sufficiently examine live market operations is important given the review under rule 489(1) is a review of the operation of the STTM, including whether MOS is operating efficiently and effectively. AEMO considers that the market trial outcomes are not appropriate to use as they may not be representative of the live market, especially in the context of MOS.

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- Under this option, AEMO would not be able to undertake the first review after experience during a winter period.
 - Extending the review under rule 489(1) to 31 March 2011 results in overlap between timing for completion, and content and scope, of the first three reviews prescribed in rules 489 and 490. As with Option 1, this would result in AEMO undertaking three separate reviews, with overlapping scope, under three different timelines.

Option 2B - Align review in rule 489(1) with review in rule 490

Under this option, AEMO would seek a rule change to amend the completion date of the review under rule 489(1) from 31 December 2010 to 30 June 2011. This option raises the following issues:

- As with option 2A, this option would enable the review to commence after the STTM commencement date of 1 September 2010. While it provides AEMO and external participants with a period of live market operations, compared to the proposed Rule, it does not provide AEMO or external stakeholders with sufficient opportunity to examine live STTM market operations, as AEMO would need to commence this review by November 2010. In addition, AEMO would not be able to undertake the first review after experience during a winter period.
- Extending the review under rule 489(1) to 30 June 2011 enables AEMO to align the review under rule 489(1) with the review under rule 490 into one review. However, there would be overlap in the scope and timing for completion of the consolidated review as per option 3B and the review under rule 489(2) noting that the matters for consideration under rule 489 (1) are largely the same as rule 489(2).

Option 2C - Align review in rule 489(1) with review in rule 489(2) and rule 490

Under this option, AEMO would seek a rule change to align the first three reviews to be completed by 31 December 2011. This option raises the following issue:

- the intent of review one and review three was that the reviews would commence following the June-August 2010 and June-August 2011 winter period, respectively. The intent of these reviews, to commence following the winter period, cannot be fulfilled recognising the requirements of the extended consultative procedure.

Attachment A.4: Extract STTM CF minutes of 15 July 2010 meeting

MINUTES – STTM CONSULTATIVE FORUM

MEETING No: 1
DATE: Tuesday 15 July 2010
TIME: 9.00 am – 11.00 pm
LOCATION: Melbourne Sydney Adelaide
 L 22, 530 Collins St L 22, 6 O’Connell St L12, 50 Pirie St
INVITEES: STTM CF Distribution List

1 ATTENDEES

Organisation	Representative	Organisation	Representative
Chair (AEMO)	Terry Grimwade	BP	Tam Pham
Secretary (AEMO)	Mark Riley	CS Energy	John Burrows
AEMO	Violette Mouchaileh	CS Energy	John Barbera
AEMO	Peter Ferretto	CS Energy	Steve Devlin
AEMO	Noel Murray	Country Energy	Karen Howarth
AEMO	Lindsay Gamble	Delta Electricity	Dat Vuong
AEMO	Paddy Costigan	Epic	John Perfremment
AEMO	Sarah Mckelvie	Esso	Brendan Champness
AEMO	Roger Shaw	Energy Australia	Sarah Kok
AEMC	Sacha Blumen	ESAA	Duncan Loydell
AEMC	Rory Campbell	Infratil	Justin Mulder
AER	Jeremy Llewellyn	International Power	Haseeb Sherer
AGL	George Foley	Jemena Networks	Alvin Lau
APA	Brad Evans	Origin Energy	Dave Grove
APG	Andrew Ioannou	SEAGas	Jaimee Coombs
APIA	Steve Davies	SGM Solutions	Brendan Dillon
BHPP	Tzyh Liu	TRUenergy	Don Vigilante

Item 3.2 STTM Prescribed Reviews – Proposed Rule Change

STTM 10-50-01 - STTM Prescribed Reviews - Proposed Rule Change

V. Mouchaileh spoke to the item, noting that the current National Gas Rules (NGR) prescribed six reviews to be undertaken by AEMO in the first two years of the live market, with the first review required to be completed by December 2010. It was noted that the underlying principle of this review was based on the market starting in June and would provide all parties with the operational experience of a winter period.

Following the AEMO decision to change the STTM commencement date to 1 September 2010, it is not possible to undertake the review under the current requirements of the rules with operational experience of a winter. There was also a significant amount of overlap between the first three reviews in terms of timing.

In considering all the prescribed reviews AEMO proposed that there be a consolidation of the first three reviews and that the reviews be completed by December 2011 in order to provide a more efficient and effective review of the market.

Meeting attendees supported the proposal to defer the first two reviews and combine them with the third.

There was also discussion from meeting attendees that reporting by December 2011 would still leave very little time to adequately review the operation of the market through its first winter. Meeting attendees suggested that this review not report back until March 2012, to ensure there was adequate time to analyse the outcomes of the 2011 winter.

It was noted that the change in timing of the reviews did not preclude other matters being dealt with as they arose.

The issue of being able to use these learnings prior to the implementation of a Brisbane hub was raised, and AEMO noted that with the likely timing of the Brisbane Hub this would be problematic under any feasible review timetable.

A question was also raised as to whether the standard or extended consultation procedure was required. AEMO advised that the standard process was 15 business days quicker than the extended process. Meeting Attendees also asked for additional time between the draft paper being released and the time to respond to it to be greater than the minimum (15 b/days). It was concluded that there was little difference so the extended process was suitable.

AEMO discussed the two paths that were available for submitting a rule change. The normal rule change process is unlikely to deliver a rule change prior to December 2010, which is when the first review is currently required to be completed.

The other path was to submit the rule change as 'non-controversial', on the basis that deferring the reviews would not of itself have a material impact on the market.. The estimated time to complete a 'non-controversial' rule change is 6 weeks after the AEMC starts the process, assuming no objections.

This was considered by meeting attendees who indicated they would support the approach.

AEMO confirmed with meeting attendees:

1. That there was general agreement on combining and deferring the completion date for the first three reviews targeting March 2012.
2. That the policy objective behind the reviews was to ensure operational experience of key periods (eg winter) was gained to feed into the review process.
3. That meeting attendees generally supported AEMO making a submission to the AEMC as a non-controversial rule change.

Attachment A.5: Extract GMLG minutes of 20 July 2010 meeting

Gas Market Leaders Group Final Minutes of Meeting

Purpose	Gas Market Leaders Group - Regular Meeting No. 32	
Date/Time	Tuesday 20 July 2010	10:00am – 11:00am
Location	By Teleconference	
Committee Members or (alternates) in attendance	Patricia McKenzie (Chair) Ashley Kellett (reps. transmission network owners and operators) Stephen Bell (reps. energy users) George Foley (reps. gas retailers) David Murphy (reps. generators)	Dennis Barnes (reps. gas retailers) Scott Martin, on behalf of Alf Rapisarda (reps. network owners and operators) David Headberry, on behalf of Shane Bewry (reps energy users) Sarah Kok, on behalf of Darryl Flukes (reps. gas retailers)
Others in attendance	Matt Zema (AEMO) Graeme Cook (AEMO) Craig Price (AEMO) Terry Grimwade (AEMO) Violette Mouchaileh (AEMO) Roger Shaw (AEMO)	Simon Gramp (DTEI) - SA Chris Locke (RET) – Commonwealth Daniel Hamill (RET) – Commonwealth Daniel Masters (DWE), NSW
Apologies	Shane Bewry (reps. energy users) Darryl Flukes (reps. gas retailers)	Alf Rapisarda (reps. network owners and operators)

Agenda Item 5 STTM Prescribed Reviews

Ms Violette Mouchaileh spoke to papers 5.1 and 5.2 tabled at this meeting. Members were asked for their views on a proposed rule change to amend the timetable for completing prescribed reviews of the STTM. The proposed changes would combine the first three reviews and amend the completion date of these reviews to March 2012.

Members noted advice that the timetable for the first review, to be completed by December 2010, was unworkable following the change to market start date. Members confirmed the original policy intent in determining the timing for these reviews was to ensure sufficient operational experience over peak periods as input to the review process. Members further noted advice that the STTM Consultative Forum (STTM CF) had unanimously supported these proposals.

Members unanimously supported the rule change proposals.