

Australian Energy Market Commission

RULE DETERMINATION

National Gas Amendment (Market Operator Service - Timing and Eligibility) Rule 2013

Rule Proponent

Australian Energy Market Operator

23 May 2013

For and on behalf of the Australian Energy Market Commission

**RULE
CHANGE**

Inquiries

Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

E: aemc@aemc.gov.au

T: (02) 8296 7800

F: (02) 8296 7899

Reference: GRC0016

Citation

AEMC 2013, Market Operator Service - Timing and Eligibility, Rule Determination, 23 May 2013, Sydney

About the AEMC

The Council of Australian Governments (COAG), through its then Ministerial Council on Energy (MCE), established the Australian Energy Market Commission (AEMC) in July 2005. In June 2011, COAG established the Standing Council on Energy and Resources (SCER) to replace the MCE. The AEMC has two main functions. We make and amend the national electricity, gas and energy retail rules, and we conduct independent reviews of the energy markets for the SCER.

This work is copyright. The Copyright Act 1968 permits fair dealing for study, research, news reporting, criticism and review. Selected passages, tables or diagrams may be reproduced for such purposes provided acknowledgement of the source is included.

Summary of final rule determination

The Commission has determined to make a final (more preferable) rule in relation of the Market Operator Service - Timing and Eligibility rule change request.

On 22 June 2012, the Australian Energy Market Operator (AEMO, the Proponent) submitted a rule change request to the Australian Energy Market Commission (AEMC, the Commission) to make a rule regarding Market Operator Service (MOS) arrangements in the Short Term Trading Market (STTM) for gas.

The rule change request sought to make a number of amendments to the National Gas Rules (NGR) primarily aimed at improving competition in the provision of MOS services in the STTM.

The key amendments outlined in the rule change request arose from AEMO's STTM Review which, under the NGR, it was required to complete by March 2012. The objective of the Review was to assess whether Division 6 (Market Operator Service) was operating effectively and efficiently. The Commission has assessed the issues raised by the rule change request and has determined to make a final rule. The final rule is unchanged from the draft (more preferable) rule.

Specifically, the Review recommended reducing the length of the MOS period from a three monthly to monthly schedule, and broadening the eligibility requirements for MOS providers to include 'trading right holders'.

The rule change request outlined amendments to the NGR to give effect to these recommendations. It also proposed moving the MOS offer process and associated time frames from the NGR to the STTM Procedures (Procedures). This amendment would result in all market parameters relevant to the MOS period being contained in a single regulatory instrument as the MOS period is determined by the Procedures.

The Commission's decision to make a final rule results from its assessment of the issues raised by the rule change request. In particular, the rule change request raised issues regarding competition in the provision of MOS services, and the extent to which a reduction in the MOS period could potentially increase such competition, as well as lead to greater liquidity in MOS. The rule change request also raised matters relating to the efficiency of having a single regulatory instrument dealing with interdependent market parameters, such as the MOS period and MOS offer process.

The final rule adopts the key elements of the amendments proposed by AEMO, in addition to creating a provision in the NGR that defines a monthly MOS period. This means that any future proposals to change the MOS period from a monthly schedule would be assessed through a rule change process, as opposed to the outgoing arrangements whereby the MOS period was determined through a Procedure change process.

In its assessment of the rule change request, the Commission considered that the MOS period is a critical market parameter that has the potential to impact on trading

participants both operationally and financially. For example, trading participants can use the provision of MOS services as a risk management tool whereby revenue derived from MOS can be used to at least partially offset any adverse financial impacts resulting from deviations from their daily gas market schedule.

The Commission considered that a monthly MOS period is an appropriate threshold to which the MOS period should be reduced at this point in time, with the potential for further reductions to the MOS period as the market matures. A monthly MOS period should provide trading participants with a degree of flexibility to better align MOS offers to their expectations of gas demand, yet provide new entrants to the MOS market with a degree of price certainty.

The final rule also broadens the eligibility requirements for MOS providers to include STTM shippers that are trading right holders to participate in the MOS market. Broadening the eligibility requirements reflects a similar set of arrangements that are in place for the ex-ante gas market.

The final rule moves the MOS offer process and associated time frames from the NGR to the Procedures. It also maintains a requirement in the NGR for AEMO to notify the market of upcoming MOS offers.

The final rule will commence on 1 April 2014, with transitional arrangements in place that will enable AEMO to seek MOS offers from a broader range of trading participants for a monthly MOS period commencing on 1 June 2014. The current three monthly schedule for the MOS period will continue until the end of May 2014.

Contents

1	AEMO's rule change request	1
1.1	AEMO's rule change request.....	1
1.2	Rationale for the rule change request.....	1
1.3	Solution proposed in the rule change request.....	3
1.4	Relevant background.....	4
1.5	Commencement of rule making process	7
1.6	Publication of draft rule determination and draft rule.....	8
2	Final rule determination.....	9
2.1	Commission's final rule determination	9
2.2	Commission's considerations.....	9
2.3	Commission's power to make the rule	9
2.4	Rule making test.....	10
2.5	More preferable rule.....	11
3	Commission's reasons.....	14
3.1	Assessment of issues.....	14
3.2	High level principles	16
3.3	Application of high level principles	19
3.4	Assessment of proposed rule	20
3.5	Transitional arrangements.....	20
3.6	Civil penalties and conduct provisions.....	20
4	Commission's assessment approach.....	21
4.1	Consideration of counterfactual arguments.....	21
4.2	Application of high level principles	21
4.3	Consideration of other relevant matters	21
5	The MOS period and MOS offer process.....	23
5.1	Rule proponent's view.....	23
5.2	Stakeholder views - consultation paper.....	24

5.3	Stakeholder views - draft rule determination	27
5.4	Commission's analysis	28
5.5	Conclusion	32
6	Broadening eligibility requirements for MOS provision	34
6.1	Rule proponent's view.....	34
6.2	Stakeholder views - consultation paper.....	35
6.3	Stakeholder views - draft rule determination	36
6.4	Commission's analysis	37
6.5	Conclusion	38
	Abbreviations.....	39
A	Summary of issues raised in submissions	40
A.1	First round of consultation - AEMC consultation paper	40
A.2	Second round of consultation - Draft rule determination	45
B	MOS supply curves, provided by AEMO	47

1 AEMO's rule change request

1.1 AEMO's rule change request

On 22 June 2012, the Australian Energy Market Operator (AEMO, the Proponent) submitted a request to the Australian Energy Market Commission (AEMC, the Commission) to make a rule regarding Market Operator Service (MOS) arrangements in the Short Term Trading Market (STTM) for gas. Specifically, in relation to the arrangements relating to MOS timing and eligibility requirements.

1.2 Rationale for the rule change request

The rule change request sought to amend specific provisions in the National Gas Rules (NGR) that govern MOS arrangements, in order to improve competition and efficiency in the provision of MOS to the STTM.

In its request, AEMO expressed concern regarding the current degree of competition in the provision of MOS, especially in the STTM's Sydney hub.¹ The request included an overview of the number of trading participants offering MOS on the pipelines servicing the Adelaide, Sydney and Brisbane hubs between September 2010 and May 2012.²

AEMO noted that while the number of trading participants offering MOS at the Adelaide and Brisbane hubs had increased since market commencement, there have been no new entrants in the MOS market at the Sydney hub since its commencement in 2010. AEMO noted that the lack of competition had resulted in instances where there had only been a single MOS provider on the Eastern Gas Pipeline (EGP) during the period September 2011-February 2012.³ Currently, there are only two MOS providers operating on the EGP.

AEMO contends that two specific elements of the STTM's current design have contributed to the lack of competition in MOS:

- the duration of the MOS period; and
- the provision of MOS is limited to 'eligible contract holders'.⁴

1 AEMO rule change request, page 5. Available on the AEMC website: www.aemc.gov.au .

2 See AEMO rule change request, page 14.

3 Ibid, page 5.

4 The NGR defines 'eligible contract holders' as shippers in the STTM who are contract holders in respect of a facility contract under which a registered facility service is provided by means of an STTM pipeline. Eligible contract holders differ from trading right holders in that a trading right holder does not directly hold the contract with the registered facility, and is allocated pipeline capacity via sub-contracted arrangements.

Duration of the MOS period

According to AEMO, the present three month MOS period, as determined under the STTM Procedures (the Procedures), contributes to a lack of competition in the provision of MOS. AEMO considers that this arises for two reasons:

- a three month MOS period is too long for eligible contract holders to commit pipeline capacity, thereby limiting their ability to participate in the MOS market; and
- eligible contract holders can become 'locked' into a particular MOS stack which, if they have priced their MOS offers too high, can result in their MOS offers not being utilised by the market and an inability for them to adjust their MOS offers until the next MOS period.

Eligibility to provide MOS

AEMO considers that the current arrangements limit competition in the provision of MOS by only allowing 'eligible contract holders' to supply the STTM. This arrangement prevents STTM shippers,⁵ who may be able to provide MOS services under a sub-contracted arrangement with an eligible contract holder, from competing in the provision of MOS services. In their rule change request, AEMO termed these potential MOS providers as 'MOS enabled trading right holders'.⁶

Given that it may not be possible, in all circumstances, for prospective MOS providers to contract with a facility operator directly (for example, due to capacity constraints or other contractual limitations), a sub-contracted arrangement with an eligible contract holder could provide an alternative means of entry into the MOS market.

Recommendations from AEMO's STTM Review

Under the NGR, AEMO is required to conduct a number of STTM market reviews. Amongst other matters, AEMO was required to review whether "Division 6 of the NGR (Market Operator Service)" was operating effectively and efficiently.⁷ AEMO's final report on this matter was published on 30 March 2012.⁸

⁵ The NGR defines an STTM Shipper for a hub as a person who is registered by AEMO in that registrable capacity under Part 15A. This definition captures a broader range of trading participants than eligible contract holders, and can include distributors, producers, and storage providers.

⁶ The NGR defines a trading right holder as a trading participant who is registered by AEMO as the holder of a registered trading right. A trading right in this respect means the trading right holder has the right of contract to use capacity with respect to a registered facility service.

⁷ Rule 489 of the NGR requires AEMO to conduct a review on the operation of the STTM, while rule 490 of the NGR requires AEMO to conduct a review that examines the potential for a STTM to operate at prospective additional hubs. Both reviews had to be completed by 31 March 2012. AEMO combined the two reviews and undertook a two-stage consultation with stakeholders, releasing a consultation paper on 16 August 2011, a draft report on 19 December 2011, and a final report on 30 March 2012.

⁸ See AEMO, *STTM Operational Review and Demand Hubs Review - Final Report*, 30 March 2012.

In its final report, AEMO recommended a number of changes to the MOS design to improve its operation. AEMO considered that some of the areas identified for improvement would require a more fundamental consideration of MOS, and the STTM more broadly, and that these issues should be addressed in the context of AEMO's Phase 2 Intraday Review of the STTM.⁹

1.3 Solution proposed in the rule change request

AEMO considers that issues identified in relation to the MOS period and eligibility requirements can potentially be resolved by making the following amendments:

- moving certain provisions that deal with the timing aspects of the MOS offer process and associated time frames from the NGR to the Procedures; and
- broadening the eligibility requirements in the NGR for MOS provision from 'eligible contract holders' to any STTM Shipper, provided there is an appropriate underlying agreement in place.

The rule change request included a proposed rule. For clarity, the request did not relate to 'overrun' MOS.¹⁰

Moving the MOS offer process and associated time frames from the NGR to the Procedures

AEMO proposed that provisions relating to the MOS offer process and associated time frames should be removed from the NGR, and they should instead be determined by the Procedures. These provisions include:

- the timing of the publication by AEMO of a notice inviting MOS offer submissions (NGR, rule 398 (1));
- the date by which submissions for MOS offers are due (NGR, rule 398 (2)(b)); and
- the timing of the publication of MOS stacks by AEMO (NGR, rule 401(2)).

Currently, the NGR requires AEMO to determine the MOS period in the Procedures. This means that a change to the MOS period could be implemented via a Procedure change process managed by AEMO. On the other hand, the NGR sets out the MOS

⁹ AEMO completed its Phase 2 Intraday Review of the STTM in December 2012. In its final report, AEMO considered that an intraday market was not warranted at that time. This view was supported by stakeholder submissions to the review. AEMO considered that in the longer term, an intraday market may be required. AEMO is planning to commence consultation with industry participants on the development of the gas markets operating across the eastern seaboard. AEMO considers that this strategic gas market direction will likely inform the future development of the STTM, including the viability of any move towards an intraday market. See AEMO, *STTM Intraday Review - Final Report*, 21 December 2012.

¹⁰ 'Overrun MOS' refers to a situation where there is no available MOS quantity on a certain pipeline to meet demand for MOS. This may, for example, occur when MOS needs to be provided in excess of the quantity that is included in the MOS stacks.

offer process and associated time frames that should apply, and which are intended to support a three monthly MOS period.¹¹

On this basis, AEMO considered the length of the MOS period, and the MOS offer process and associated time frames, are all interdependent and should consequently be dealt with in a single regulatory instrument, that being the Procedures. As a change to one of the MOS parameters necessitates a change to the other, containing the parameters in the same regulatory instrument would avoid the need to undertake two separate change processes. Overall, this would improve regulatory and administrative efficiency.

AEMO claimed that these amendments would be further enhanced through its proposed changes to automate the MOS offer submission and validation process. In combination with a reduced MOS period, these changes are expected to allow MOS providers to better respond to market, operational and seasonal conditions closer to the MOS period. This, in turn, would lead to a more efficient pricing of MOS offers.

Broadening the eligibility for MOS provision

To facilitate the potential new entry of MOS providers in the STTM, and thereby increase competition in the provision of MOS, AEMO proposed that the eligibility requirements for MOS providers should be broadened to include any STTM Shipper that has an appropriate agreement in place that enables them to supply MOS. MOS could then be provided by 'MOS enabled trading right holders', in addition to the current 'eligible contract holders'.

For information, the number of MOS providers in each STTM hub since commencement is outlined in Appendix B.

The proposed rule would also require a number of subsequent modifications to the NGR provisions dealing with MOS (Division 6 of the NGR).

1.4 Relevant background

MOS is an on-the-day mechanism by which capacity is provided to balance pipeline deviations.¹² Pipeline deviations occur when the total quantity of gas delivered on a pipeline on a particular gas day differs from the total quantity of gas as nominated in advance by shippers for that pipeline.

Pipeline deviations are determined on the basis of gas flow data which a pipeline operator measures for each pipeline after each gas day. A 'positive' pipeline deviation means more gas was delivered to the hub than nominated in advance (because demand at the hub was greater than expected), while a 'negative' deviation means less

¹¹ See AEMO website for STTM Procedures:
<http://www.aemo.com.au/Gas/Policies-and-Procedures/Short-Term-Trading-Markets/Rules-Procedures-and-Interface-Protocol>

¹² See NGR, rule 364.

gas was delivered than nominated in advance (because demand at the hub was less than expected).

MOS is calculated as the difference between final nominations made by STTM shippers to the pipeline operator (scheduled flows) and the actual quantity of gas supplied to the hub by that pipeline operator (actual flows). If this difference is not otherwise allocated by a pipeline operator to a shipper, MOS is deemed to have provided the gas. MOS is determined separately for each pipeline supplying a hub each day after the gas day has ended.

In the case of a positive pipeline deviation, 'increase MOS' is determined to have provided the additional gas that was needed at the hub, while in the case of a negative pipeline deviation, 'decrease MOS' is determined to have withdrawn excess gas from the hub.¹³

Under the current rules, only 'eligible contract holders' can supply MOS in the STTM.¹⁴ Eligible contract holders are shippers who hold a contract with an STTM facility operator that entitle the shipper to either withdraw ('loan') gas from the facility (in order to increase the quantity of gas in the pipeline), or store ('park') gas in the facility (in order to decrease the quantity of gas in the pipeline).¹⁵

Management of MOS

MOS is managed by AEMO through standing arrangements with eligible contract holders. Every three months, AEMO invites eligible contract holders to submit price-quantity offers for the provision of both increase MOS and decrease MOS for the next MOS period (the 'MOS service price'). Offers for the delivery of increase MOS and decrease MOS are capped by the NGR at \$50/GJ.¹⁶

To enable MOS providers to prepare offers, AEMO must publish estimates of the maximum quantities of increase MOS and decrease MOS it expects to be required for each STTM pipeline. This must be done by no later than 40 business days before the start of the next MOS period.¹⁷ AEMO must then also publish a notice inviting submissions for MOS offers. This notice must specify the date by which offers need to

¹³ Pipelines can be either flow controlled or pressure controlled. A flow controlled pipeline maintains a constant flow rate based on scheduled gas, while a pressure controlled pipeline's flow can vary in order to match changes in net demand at a hub. A pressure controlled pipeline will therefore be the primary source of gas for balancing supply and demand at a hub. Hence the requirement for MOS will be greater on a pressure controlled pipeline than on a flow controlled pipeline.

¹⁴ This follows, for example, from rule 399(1) of the NGR which states that "a person must not submit a MOS increase offer or MOS decrease offer unless that person is an eligible contract holder for the STTM pipeline to which the MOS increase offer or MOS decrease offer relates".

¹⁵ See NGR, rule 364.

¹⁶ This follows from the definition of the 'MOS cost cap' in rule 364, which states that the maximum price for a MOS increase or MOS decrease offer that AEMO may include in a MOS stack is \$50/GJ.

¹⁷ See NGR, rule 397.

be submitted, being a date no later than 15 business days before the start of the MOS period.¹⁸

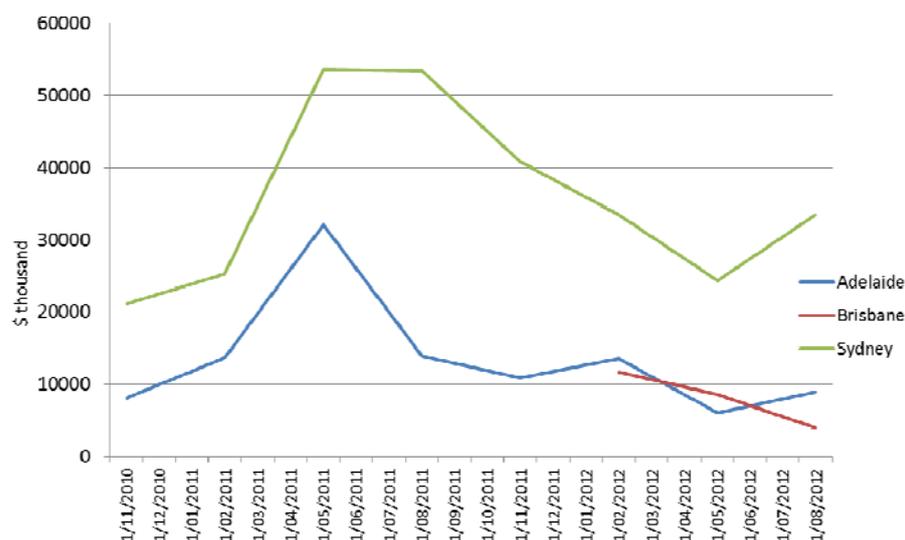
After receipt, AEMO lists the various MOS offers from lowest to highest prices and generates a 'MOS stack' for increase MOS and decrease MOS accordingly. These MOS stacks need to be published no later than 10 business days before the start of the next MOS period.¹⁹ Separate stacks are published for increase MOS and decrease MOS. AEMO provides these stacks to each pipeline operator who, in turn, allocates any pipeline deviations to the MOS providers in accordance with the stack order (from the lowest offer price to the highest offer price). Pipeline operators then inform AEMO of all MOS gas allocations.

MOS commodity charges

In addition to paying the MOS service price, AEMO pays or charges the MOS provider the 'MOS commodity charge' for the MOS gas supplied or withdrawn on the gas day. The MOS commodity charge is paid at the ex-ante market price two days after the gas day. The MOS provider can then choose to submit bids and offers for the gas it needs to replenish, or run down, its MOS gas allocation on the gas day.

The average total monthly MOS payments per STTM hub are depicted in the graph below:²⁰

Figure 1.1 Average daily MOS payments per quarter per STTM hub



For the 2012 calendar year, MOS costs as a proportion of total gas traded in all STTM hubs was approximately 1.5 per cent. For the Sydney hub, MOS costs as a proportion of gas traded was approximately 2.2 per cent.²¹

¹⁸ See NGR, rule 398.

¹⁹ See NGR, rule 401.

²⁰ Source: Australian Energy Regulatory website: <http://www.aer.gov.au/node/456>

²¹ Figures are approximate; figures provided by AEMO.

MOS settlement

Costs associated with MOS are settled as part of the market monthly settlement process. AEMO manages this process by settling the market for each individual gas day, but invoicing trading participants on a monthly basis.

MOS funding

Ideally, costs associated with MOS provision will be offset by those penalties trading participants incur when they deviate from their daily gas market supply/withdrawal schedules, as deviations are the primary reason MOS provision is triggered in the first place. Typically, however, payments and charges do not match, leading to either a settlement surplus (too much funds are collected) or a settlement shortfall (not enough funds are collected).²²

Over a billing period (i.e. each month), AEMO accumulates the daily settlement surpluses and shortfalls at a hub and distributes the net settlement surplus or shortfall to trading participants in order to ensure that for each month, the total market income balances the total market expenses.

Pipeline neutrality and MOS

The STTM is 'pipeline neutral' in that every transportation pipeline is free to offer MOS services over that pipeline. In practice however, there appears to be a difference in the level of MOS provided between flow controlled and pressure controlled pipelines. A flow controlled pipeline provides gas at a constant flow rate throughout the day, while a pressure controlled pipeline delivers gas to meet changes in the pressure at the hub.

This issue was recognised by AEMO during the STTM Review.²³ In its final report, AEMO considered that changes to the STTM could not address these issues without fundamental changes to the STTM design framework, including the potential for a centralised scheduling of gas across the pipeline servicing a hub. AEMO proposed that to address these issues in its Phase 2 Intraday Review.

1.5 Commencement of rule making process

On 13 September 2012, the Commission published a notice under section 303 of the National Gas Law (NGL) advising of its intention to commence the rule making process and the first round of consultation with respect to the rule change request. An

²² AEMO has submitted a rule change request (GRC0014) with the AEMC which proposes changes to the deviation pricing mechanism. The AEMC published a draft rule determination and draft rule regarding this rule change request on 28 March 2013. The closing date for submissions was 9 May 2013. The draft rule determination proposed a number of changes to the deviation pricing framework to better align the costs incurred by trading participants who deviate from their daily gas market schedules, with the prices that are charged by the market, or paid by AEMO in relation to their deviations (i.e. the costs of providing MOS as a balancing service in the market). The draft rule determination and supporting documents can be accessed via the AEMC website: www.aemc.gov.au.

²³ See AEMO *STTM Operational Review and Demand Hubs Review - Final Report*, page 25, 30 March 2012.

AEMC consultation paper identifying specific issues or questions for consultation, was also published with the rule change request.

The Commission received three submissions, a late submission and a supplementary submission on the rule change request as part of the first round of consultation, which closed on 11 October 2012. Submissions are available on the AEMC website.²⁴ A summary of the issues raised in submissions, and the Commission's response to each issue, is contained in Appendix A.

Due to the complexity of issues raised by the rule change request, in particular, issues relating to the MOS period and the appropriate regulatory instruments to determine the MOS period, the Commission extended the period of time for the draft rule determination to 28 February 2013 under section 317(1) of the NGR.

1.6 Publication of draft rule determination and draft rule

On 28 February 2013, the Commission published a notice under section 308 of the NGL to make a draft rule determination in relation to the rule proposed by AEMO. The draft rule determination included a draft (more preferable) rule.

The closing date for submissions to the draft rule determinations was 11 April 2013. The Commission received two submissions in response to the draft rule determination. They are available on the AEMC website.²⁵ A summary of the issues raised in submissions, and the Commission's response to each issue, is contained in Appendix A.2.

24 www.aemc.gov.au

25 www.aemc.gov.au

2 Final rule determination

2.1 Commission's final rule determination

In accordance with section 311 of the NGL, the Commission has made this final rule determination in relation to the rule proposed by AEMO. In accordance with section 313 of the NGL, the Commission has determined to make a final (more preferable) rule to that proposed by AEMO. The final rule adopts substantive elements of the rule proposed by AEMO.

The National Gas Amendment (Market Operator Service - Timing and Eligibility) Rule 2013 No 2 (final rule) is published with this final rule determination.

The final rule commences on 1 April 2014 to allow AEMO to transition from a three monthly MOS period (which shall end on 31 May 2014) to a one monthly MOS period (which shall commence on 1 June 2014). This will ensure that AEMO has a basis in the NGR for which to seek offers for the new monthly MOS period prior to its commencement on 1 June 2014.

The Commission's reasons for making this final rule determination are set out in Chapter 3, with the key features described in section 3.4.

2.2 Commission's considerations

In assessing the rule change request, the Commission considered:

- the Commission's powers under the NGL to make the rule;
- the rule change request;
- stakeholder submissions received during first and second round consultation; and
- the Commission's analysis as to the ways in which the proposed rule will or is likely to, contribute to the National Gas Objective (NGO).

There is no relevant Ministerial Council on Energy (MCE) Statement of Policy Principles relating to this rule change request.²⁶

2.3 Commission's power to make the rule

The Commission is satisfied that the final rule falls within the subject matter about which the Commission may make rules.

²⁶ Under section 73 of the NGL, the AEMC must have regard to any relevant MCE statement of policy principles in making a rule.

The rule falls within section 74 of the NGL. More specifically, it relates to:

- the operation of a Short Term Trading Market of an adoptive jurisdiction (s. 74(1)(a)(va)); and
- the activities of Registered Participants, users, end users and other persons in a regulated gas market (s. 74(1)(a)(vi)).

2.4 Rule making test

Under section 291(1) of the NGL, the Commission may only make a rule if it is satisfied that the rule will, or is likely to, contribute to the achievement of the NGO. This is the decision making framework that the Commission must apply.

The NGO is set out in section 23 of the NGL as follows:

“The objective of this Law 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.”

The Commission considers that the relevant aspect of the NGO for this rule change request is the efficient operation of, and efficient investment in, natural gas services for the long term interest of consumers of natural gas.²⁷

The Commission is satisfied that the final rule will, or is likely to, contribute to the achievement of the NGO by:

1. *Lowering barriers to entry for potential MOS service providers in the STTM, which can potentially lead to greater liquidity in the provision of MOS services as well as increased scope for competition in MOS services. In turn, this may place downward pressure on MOS service prices.*

The final rule lowers barriers to entry in two ways, as detailed below.

Firstly, the final rule broadens the eligibility requirements for MOS providers so that eligible trading right holders on a pipeline facility would be able to offer MOS services, in addition to eligible contract holders. Greater competition in the provision of MOS services can potentially lead to more efficient MOS service prices.

Secondly, the final rule reduces the MOS period from three months to one month through a new provision in the NGR. Reducing the MOS period has the potential to lead to greater liquidity in the provision of MOS services as a result of MOS providers being able to incorporate more accurate monthly demand forecasts (as opposed to

²⁷ Under section 291(2), for the purposes of section 291(1) the AEMC may give such weight to any aspect of the NGO as it considers appropriate in all the circumstances, having regard to any relevant MCE Statement of Policy Principles.

three month demand forecasts) to determine their potential allocation of pipeline capacity for MOS services.

In summary, enhancing MOS service offers by way of increasing the scope for competition in the provision of MOS services, as well as greater liquidity in the provision of MOS services, has the potential to result in more efficient provision of MOS services in the STTM. Ultimately, this has the potential to lead to a more efficient investment in, and operation of, natural gas services.

2. *Increasing administrative efficiency in the provision of MOS service offers for trading participants and AEMO, thereby increasing the potential for the efficient utilisation of investment infrastructure.*

The Commission considers that a monthly MOS period can potentially increase administrative efficiency in the provision of MOS services. A monthly MOS period enables MOS providers to use more accurate monthly forecasts that better align with seasonal changes in demand. A monthly MOS period also enables MOS providers to more frequently adjust their price-quantity MOS service bids, should any changes in pipeline capacity arise.

Overall, the combination of the two factors listed above should enable MOS providers to efficiently utilise their available pipeline capacity to optimise trading opportunities available in the STTM. More broadly, this has the potential to lead to a more efficient utilisation of investment infrastructure by trading participants more generally.

Therefore, in summary, the two factors outlined above - lowering barriers to entry and increasing administrative efficiency in the provision of MOS services - are likely to contribute to the efficient operation of, and efficient investment in, natural gas services.

Under section 295(4) of the NGL, the Commission may only make a rule that has effect with respect to an adoptive jurisdiction if it is satisfied that the final (more preferable) rule is compatible with the proper performance of AEMO's declared system functions. The final rule is compatible with AEMO's declared system functions because it is unrelated to them.

2.5 More preferable rule

Under section 296 of the NGL, the Commission may make a rule that is different (including materially different) from a market initiated proposed rule (a more preferable rule) if the Commission is satisfied that, having regard to the issue or issues that were raised by the market initiated proposed rule (to which the more preferable rule relates), the more preferable rule will, or is likely to, better contribute to the achievement of the NGO.

Having regard to the issues raised by AEMO's rule change request, the Commission is satisfied that the final (more preferable) rule will, or is likely to, better contribute to the achievement of the NGO for the following reason:

- Providing regulatory certainty to trading participants, and more specifically MOS providers, that any future changes to the MOS period, which is an important market parameter, should be undertaken through a rule change process and assessed against the NGO:
 - The MOS period is not simply an operational or technical matter, but rather, has the capability to influence operational processes and financial arrangements in the STTM, which can potentially impact all trading participants, as well as AEMO in its role as market operator. As a result, changes to the MOS period have the potential to lead to material and wide-ranging STTM market impacts and, in turn, the long term interests of consumers of natural gas.

The final rule creates a provision in the NGR for a one month MOS period. Under the current arrangements, this market parameter would be determined through a Procedure change process, with additional amendments required to the MOS offer process and associated time frames in the NGR. The final rule upholds AEMO's proposal in its rule change request to move the MOS offer process and associated time frames from the NGR to the Procedures.

However, the final rule creates a provision in the NGR to specify the MOS period. Changes to the MOS period may, in some circumstances, necessitate broader consideration of other supporting market parameters or matters that are dependent on, or are affected by, the provision of MOS services.

For example, if the MOS period were proposed to be changed to a daily schedule in the future, then it is likely that the current process for determining the clearing price for MOS services, or the parameters for valuing the commodity component of the MOS service price, amongst other issues, may also need to be reviewed. Further, issues surrounding counteracting and excessive MOS may warrant review.

The length of the MOS period also has important implications for the way in which trading participants use MOS services as a risk management tool, and therefore may have financial impacts. A trading participant can potentially use MOS services to at least partially offset any adverse financial impacts resulting from deviations from their daily gas market schedule. A change in the MOS period has the potential to substantively impact on a trading participant's risk management strategies and operational arrangements.

While the Commission notes that in submissions to AEMO's STTM Review, trading participants generally supported reducing the MOS period from three months to one month, a consistent view did not emerge as to the benefits of reducing the MOS period to less than a monthly schedule at this stage of the gas market's development. Rather, to minimise risks to the market, AEMO recommended a staged approach, with the potential to further reduce the MOS period as the market matures.

Therefore, any future proposal that seek to further reduce the MOS period to less than one month may require broader consideration of other market parameters and operational arrangements. The possible effects of such a proposal can be appropriately

assessed against the NGO during the rigour of a rule change process for their potential economic impact on the market and trading participants.

The Commission considers that the MOS offer process and associated time frames have less of a substantive impact on the efficiency of the market and on trading participants, as they are primarily influenced by the MOS period. For this reason, the Commission considered that the MOS offer process and associated time frames are more procedural in nature and should therefore be determined through a Procedure change process.

The Commission notes that the final rule creates two future change processes related to MOS - a rule change process to potentially amend the MOS period, and a Procedure change process to subsequently amend the MOS offer process and associated time frames. The Commission considers that the benefit to the market of a robust and thorough rule change process to consider any change to the MOS period, where matters can be assessed against the NGO, are more likely to outweigh the cost of having to undertake a subsequent Procedure change process to determine any associated process and time frames.

3 Commission's reasons

The Commission has analysed the rule change request and assessed the issues arising from it. For the reasons set out below, the Commission has determined that a rule be made. The Commission's analysis of the proposed rule is also set out below.

3.1 Assessment of issues

AEMO proposal

In March 2012, AEMO completed its review of the operation of the STTM. A key recommendation of the review, and relevant to this final rule, was to reduce the MOS period from three months to one month, which would also require amending the MOS offer process and associated time frames and the publication of the MOS stack. AEMO also recommended that the eligibility requirements to offer MOS in the market should be extended to any STTM shipper (i.e. trading rights holders), provided they have an agreement to do so, either directly from a pipeline operator or from a contract holder.

To give effect to these recommendations, AEMO submitted a rule change request to the AEMC. The rule change request proposed removing time frames associated with the MOS offer process and publication of the MOS stack from the NGR and for them to be dealt with in the Procedures.

AEMO considered that the relevant market parameters – the MOS period and MOS offer process and associated time frames - should be contained within a single regulatory instrument for two reasons:

- the two market parameters are interdependent, such that a change to one market parameter would necessitate a change to the other; and
- it would avoid the need for two separate regulatory processes to change either market parameter, and in particular, the MOS period.

In their rule change request, AEMO stated that removing all the relevant MOS offer process and associated time frames from the NGR, and introducing a shorter MOS period in the Procedures, is likely to lead to more efficient MOS pricing as it will allow trading participants to respond to market, operational and seasonal conditions closer to the MOS period, thereby improving the efficiency of MOS pricing.

AEMO's rule change request also proposed that the eligibility requirements for MOS service providers should be broadened to include trading right holders. AEMO considered that the current NGR provisions which limit the provision of MOS to eligible contract holders, potentially limits competition in the STTM and prevents parties that cannot access direct contracts with facility operators from adequately managing the risks associated with the cost of MOS.

AEMO contends that by broadening the eligibility requirements for MOS providers, this could potentially result in increased competition in the provision of MOS services,

more efficient MOS pricing, and more efficient investment in pipeline capacity and services.

Commission assessment

The Commission has assessed the issues raised by the rule change request.

The rule change request sought to amend the MOS offer process and associated time frames, as well as eligibility requirements. However, in doing so, it raised a broader range of issues associated with MOS, including:

- the design of MOS so far as it relates to the MOS period;
- how competition in the provision of MOS in the STTM can be increased;
- the extent to which reducing the MOS period can increase competition and place downward pressure on MOS prices; and
- the efficiency of having a single regulatory instrument deal with all timings and processes relevant to MOS.

In its rule change request, AEMO sought to address these issues by proposing the broadening of eligibility requirements for MOS providers and reducing the MOS period from three months to one month. The proposed reduction in the MOS period would be achieved through a Procedure change process.

The Commission is of the view that a key issue raised by the rule change request is the matter of potentially increasing competition in the MOS market by reducing the MOS period and broadening the eligibility requirements for MOS providers. The Commission has therefore assessed these issues in the context of the rule change request.

With reference to the arguments outlined in AEMO's rule change request, the issues for consideration by the Commission are:

- the level of competition in the provision of MOS services;
- whether the MOS period and MOS offer process and associated time frames need to be determined by a single regulatory instrument; and
- whether the Procedures are the most appropriate regulatory instrument for determining the MOS market parameters outlined above, noting that aspects of the rule change request seek to remove some of the market parameters from the NGR, the effect being to remove further consideration of them from the rule change process.

The Commission is required to assess whether the solution proposed by AEMO in the rule change request *best contributes* to achieving the NGO, or whether a different solution is more preferable.

The Commission has determined to make a final (more preferable) rule. The final rule is to commence on 1 April 2014 to accommodate AEMO's implementation tasks. AEMO have indicated that necessary IT system upgrades to give effect to the final rule will be completed by this date, with the new monthly MOS period to commence on 1 June 2014.

Transitional provisions have been included in the final rule to facilitate a smooth transition to the amended MOS requirements from 1 June 2014. That is:

- MOS offers and MOS stacks that are in place before the commencement of the amended MOS requirements on 1 June 2014, continue unaffected up until the amended MOS requirements take effect;
- AEMO will be able to issue MOS estimates, notices for MOS offers and prepare MOS stacks in anticipation of the amended MOS requirements taking effect; and
- the broadened eligibility of MOS providers (contained in the final rule), is in place ahead of the commencement of the new MOS period on 1 June 2014.

3.2 High level principles

The issue of whether a regulatory obligation more appropriately sits within the NGR or the Procedures, and defining the appropriate role for each regulatory instrument within the current energy market governance framework, has been previously considered in different contexts.

The Explanatory Material on the Draft Short Term Trading Market Rules provides a high level policy context as to the appropriate division of matters between the NGR and the Procedures for gas market arrangements:²⁸

“Under the conceptual framework for the STTM legislation the NGL will deal with a limited number of high level features of the regime, the NGR will contain the detail of the market operation and the STTM procedures will include the more detailed process requirements involved in NGR obligations and address lower level technical and administrative matters.”

The following table elaborates on these principles as outlined in the Explanatory Material.²⁹

²⁸ See *Explanatory Material on the Draft Short Term Trading Market Rules*, 2009, page 2. See: http://www.ret.gov.au/Documents/mce/_documents/2009%20Bulletins/NGR%20explanatory%20material%20%20July.pdf

²⁹ Ibid, page 3.

Figure 3.1 STTM regulatory frameworks

Instrument	Responsibility	Subject Matter
National Gas Law	Enacted by SA Parliament, as the lead legislator. Application Acts govern the extent to which the national gas legislation applies in the relevant jurisdiction.	The STTM will be authorised under the NGL, which will make high level provisions for: <ul style="list-style-type: none"> • STTM establishment; • the functions of AEMO in relation to the STTM; and • liabilities of AEMO and other participants (where appropriate) in relation to the STTM.
National Gas Rules	Made initially by the South Australian Minister, subject to MCE endorsement. Future amendments to be made by the Australian Energy Market Commission, in accordance with the rule change procedures outlined in the NGL.	The rules for the STTM will be incorporated in the NGR and will deal with issues such as registration, market operations, balancing arrangements via MOS, contingency gas and settlements.
STTM Procedures	Made by AEMO, in accordance with the NGL/NGR.	STTM Procedures will cover more detailed technical and administrative matters. The initial STTM Procedures will be developed and made by AEMO under the NGL. AEMO will then be able to amend STTM Procedures in accordance with the consultation process in the NGR.

These issues were also previously discussed by the AEMO Implementation Steering Committee (ISC) in the context of the transfer of the jurisdictional gas market rules to the national regulatory framework in 2009. The AEMO ISC proposed that the Procedures are more appropriate where the purpose is to provide for the "technical and procedural detail supporting the [day to day] operation of the gas market".³⁰

This issue was also reviewed by the Commission, in relation to the regulation of transmission services in the electricity market,³¹ and by the Expert Panel on Energy Access Pricing in its report to the MCE.³²

The Expert Panel considered that "the rules should address matters that have industry wide application or effects that are likely to change relatively infrequently over time and that do not rely on an assessment of individual market participant conditions or circumstances".

The Expert Panel also noted that in some circumstances it may be appropriate for the rules to avoid a high degree of prescription to allow regulators, for example, the ability to accommodate particular circumstances of individual market participants in regulatory decisions.

³⁰ See *Australian Energy Market Operator Establishment, Legislative framework: statement of proposed approach*, August 2008.

³¹ See AEMC, *Economic Regulation of Transmission Services*, final rule determination, November 2006.

Ultimately, the Expert Panel considered that these decisions are best made through the rule making process, which facilitates a full and transparent exchange of views and an approach tailored to meet the particular characteristics of each regulatory design issue.³³

While these previous policy statements should be viewed in their context, they are nevertheless useful in informing the Commission's current assessment approach. Taking them into account, the NGR may be viewed as more appropriate than the Procedures where the regulatory obligations:³⁴

- impose (or impact on the) substantive rights, obligations and duties on (of) participants;
- potentially have significant financial implications for trading participants;
- have a significant impact on the economic efficiency of the market and market design;
- have effects that are likely to change relatively infrequently over time and be subject to limited exceptions; and
- have industry wide application or impact.

In regard to this rule change request, the Commission considers that these principles provide a good framework for considering where an obligation should sit in the regulatory and institutional framework, consistent with the current governance arrangements.

At the same time, the Commission considers that each rule change request must be dealt with on a case by case basis and on its merits, for any particular circumstance that may apply. In addition, such principles should continue to be reviewed when necessary and in the context of a developing gas market.

It is noted that the Commission has previously considered the principles outlined in this section as part of the assessment process for past rule change requests, where the appropriateness of the regulatory instrument (NGR or Procedures) has been tested.³⁵

32 See Expert Panel on Energy Access Pricing 2006, *Report to the Ministerial Council on Energy*, April 2006.

33 Expert Panel on Energy Access Pricing 2006, *Report to the Ministerial Council on Energy*, page 26, April 2006.

34 This list is not exhaustive, and is derived from the discussion and principles set out separately by the AEMO ISC.

35 See AEMC, *Short Term Trading Market - Market Schedule Variation*, final rule determination, October 2011; and *Economic Regulation of Transmission Services*, final rule determination, November 2006.

3.3 Application of high level principles

In the context of this rule change request, and taking into account the high level principles outlined in the previous section, the Commission considers that the MOS period should be determined by the NGR for the following reasons:

- The MOS period is an important market parameter that impacts on the operation of the STTM. While participation in the MOS market is on a voluntary basis, a trading participant's actions can potentially impact a broad range of other trading participants as well as the efficient operation of the STTM.
- The length of the MOS period, which is being reduced to one month in the final rule, potentially impacts on the internal risk management strategies and operational arrangements of trading participants.
- Reducing the MOS period to less than one month may necessitate broader consideration of other market parameters, such as deviation pricing structures, MOS commodity prices, and contingency gas tendering processes.
- The MOS period is likely to change relatively infrequently.
- The MOS period has the potential to impact on the wider industry and the economy. For example, for some trading participants, MOS services need to be co-optimised with gas-fired electricity generation in the National Electricity Market (NEM). Also, large industrial end-users may be impacted by the MOS period through their use of gas supplies and participation in the STTM.

In applying the high level principles to the matter of the MOS period, the Commission considers that the MOS period is not an operational or administrative matter that should be dealt with in the Procedures. Rather, the MOS period is such that it may potentially have a financial or operational impact on market participants, which may, in turn, impact on the efficient operation of, and efficient investment in, natural gas services. On balance, the Commission considers that the nature of this market parameter is such that it should be provided for in the NGR and be subject to the rule change process.

Conversely, the MOS offer process and associated time frames are primarily influenced by the MOS period. To that extent, these market parameters are more procedural and technical in nature and should, therefore, be determined through a Procedure change process.

The Commission considers that there is no change to the level of regulatory certainty by having the MOS period in the NGR and the MOS offer process and associated time frames dealt with in the Procedures.

3.4 Assessment of proposed rule

The Commission has determined to make a final (more preferable) rule that largely adopts the rule change proposed by AEMO, with the exception of the following amendments:

- the final rule creates a provision for the length of the MOS period to be determined by the NGR (previously the Procedures);
- the final rule outlines that the MOS period is for a period of one month (previously three months) and that AEMO should determine any consequential MOS offer process and associated time frames through its Procedure change process;
- the final rule maintains an NGR requirement for AEMO to publish a notice inviting MOS offers in accordance with rule 398 of the NGR; and
- as an implementation consideration related to broadening the eligibility requirements for MOS providers, rule 402(1) is amended to only remove the affected price-quantity MOS steps from the MOS stack when managing an invalid MOS offer, rather than removing the full MOS offer.

The Commission's reasons for these amendments to AEMO's rule change request are set out in Chapters 5 and 6.

3.5 Transitional arrangements

The final (more preferable) rule includes transitional arrangements to facilitate the transition from a three monthly to monthly MOS period.

In particular, the transitional arrangements provide the legal basis for AEMO to seek monthly MOS offers prior to the introduction and commencement of the monthly MOS period on 1 June 2014. This is because MOS offers must be sought from trading participants prior to the conclusion of the final three monthly MOS period on 31 May 2014.

3.6 Civil penalties and conduct provisions

The provisions of the NGR which are classified as civil penalty and conduct provisions are listed in the *National Gas (South Australia) Regulations*. AEMO's proposed rule sought to amend rules 399(2), 399(5) and 399(6) which are currently classified as civil penalties and rules 399 (1), 399 (2), 399 (5), 399 (6), 421(1), 421(2), 421(3), 421(4) and 421(6) as conduct provisions.

The final (more preferable) rule amends these rules and the Commission will notify the Standing Council on Energy Resources (SCER) of these amendments.

4 Commission's assessment approach

This chapter describes the assessment framework that the Commission has applied to assess AEMO's rule change request in accordance with the requirements set out in the NGL (explained in Chapter 2).

The matters outlined below are considered in greater detail in the following Chapters 5 and 6.

4.1 Consideration of counterfactual arguments

In assessing any rule change request against the NGL criteria, the Commission's first step is to consider the counterfactual arrangements against which the rule change is being compared. In the present case, the counterfactual arrangements are:

- The MOS offer process and associated time frames for the provision of MOS services are contained in the NGR. Accordingly, any amendments to these timings would be required to go through a formal rule change process.
- The provision of MOS services is limited to eligible contract holders.

The Commission considered the extent to which the counterfactual arrangements support competition in the provision of MOS services, and therefore the efficient utilisation of, and investment in, natural gas services.

4.2 Application of high level principles

The Commission has assessed the rule change request against a number of high level principles, as outlined in Chapter 3.

4.3 Consideration of other relevant matters

The Commission considered the following relevant matters as they relate to the rule change request:

- the nature of MOS services, and the extent to which the MOS period impacts on the financial and operational arrangements of trading participants;
- the length of the MOS period, and the extent to which reducing the MOS period to less than a month impacts trading participants, and the market more generally;
- the extent to which reducing the MOS period can potentially increase competition in the MOS market;
- whether both market parameters (the MOS period and the MOS offer process and associated time frames) should be determined by a single regulatory instrument, including any impacts on administrative efficiency;

- the impact on trading participants of removing the requirement on AEMO to publish a notice inviting MOS offers;
- the requirement for additional parameters in the NGR in relation to the MOS offer process and associated time frames; and
- the extent to which broadening the eligibility requirements can lower barriers to entry in the provision of MOS services.

5 The MOS period and MOS offer process

AEMO's rule change request seeks to amend the NGR by removing specific provisions relating to the MOS offer process and associated time frames.

Currently, the NGR requires AEMO to determine an appropriate MOS period through the Procedures, yet provides guidance as to the MOS offer process and associated time frames. In effect, this limits AEMO's ability to reduce the MOS period through a Procedure change process, as the accompanying MOS offer process and associated time frames outlined in the NGR would also need to be amended through a rule change process.

To facilitate a Procedure change process to reduce the MOS period from three months to one month in its rule change request, AEMO proposed that the following rules, outlining specific time frames, should be removed from the NGR and, instead, be determined through a Procedure change process:

- rule 398(1), publication of the notice inviting MOS offer submissions;
- rule 398(2)(b), the due date for MOS offer submissions; and
- rule 401(2), publication of the MOS stack.

AEMO also considered that the NGR requirement placed on it to publish a notice inviting eligible contract holders to submit offers for the provision of MOS services (for the next MOS period) should be removed:

- rule 398, requires the notice to contain certain information, such as the date by which MOS offers must be submitted to AEMO.

5.1 Rule proponent's view

AEMO's rule change request sought to amend the MOS offer process and associated time frames outlined in the NGR.

The following arguments were outlined in AEMO's rule change request in support of its proposal:³⁶

- AEMO considers the length of the MOS period and the MOS process timings and associated time frames are interdependent and should consequently be dealt with in the single regulatory instrument, that being the Procedures. As a change to one of the parameters necessitates a change in the other, containing the parameters to the single regulatory instrument would avoid the need for two separate consultation change processes. Overall, this would improve regulatory and administrative efficiency in the gas market.

³⁶ AEMO rule change request (GRC0016), pages 7 and 8. See AEMC website www.aemc.gov.au.

- Given that the length of the MOS period is the more critical parameter, and the MOS offer process and associated time frames are determined by the MOS period, then it is appropriate that the MOS offer process and associated time frames are also moved to the Procedures.
- Moving both MOS parameters (i.e. the MOS period and the MOS offer process and associated time frames) to the Procedures would allow greater flexibility for AEMO, in consultation with trading participants, to undertake further changes to MOS arrangements that are deemed necessary.
- Given that Procedure change processes are subject to a high degree of consultation and review, the MOS parameters would receive a high degree of scrutiny, and therefore provide regulatory certainty, as they would under the current arrangements.
- Under the envisaged changes to reduce the MOS period from three months to one month, there is no longer a need for publication of the MOS offer invitation. This is because MOS offering will become a “more regular market activity” if the MOS period is reduced, especially when the MOS offering process is eventually automated.

5.2 Stakeholder views - consultation paper

The Commission received five stakeholder submissions (including one supplementary submission) to the AEMC consultation paper published on 13 September 2012.

Stakeholders had various views on AEMO’s proposal to locate the MOS offer process and associated time frames in the Procedures. Stakeholders were generally supportive of AEMO’s intention to reduce the MOS period from three months to one month. However, stakeholders also considered that if the MOS period were to be reduced to monthly, the requirements placed on AEMO with regard to notification requirements should remain, as it served as an important reminder to trading participants operating in the STTM market.

Origin Energy

Origin Energy (Origin) supported a regulatory framework whereby the NGR set out the high level principles and guidelines, while the Procedures specified the underlying details to support those policies. On that basis, Origin agreed that it was appropriate for the MOS process timings to be outlined in the Procedures. More generally, Origin considered that a prerequisite to any change in the MOS period should be an automated MOS submission and feedback process.³⁷

³⁷ See Origin Energy, consultation paper submission, pages 1-2. Available on the AEMC website, www.aemc.gov.au.

Stanwell Corporation Limited

Stanwell Corporation Limited (Stanwell) supported AEMO's intention to reduce the MOS period from three months to month, but noted that their preference would be to reduce the MOS period even further to daily, or weekly at the longest. Stanwell recognised that the MOS process timings and the MOS period were interdependent, and should therefore be dealt with in a single regulatory instrument, and that the Procedures was the more appropriate regulatory instrument.

However, Stanwell was also supportive of the NGR containing a maximum time window for MOS process timings which, if included, should be a period of one month. A time period ceiling of one month would provide sufficient flexibility to move to a reduced MOS period (for example, weekly or daily) at a later date.

Stanwell did not support amending the NGR to remove the requirement on AEMO to publish a notice inviting MOS offers if the MOS period was either unchanged, or reduced to one month. Stanwell considered if the MOS period were reduced to monthly, this was of sufficient duration to warrant a 'trigger' mechanism whereby the market is reminded to submit MOS offers. Stanwell was concerned that removing the notification period may result in potential oversight by trading participants.³⁸

Alinta Energy

Alinta Energy (Alinta) endorsed the view that a three monthly MOS period was excessive and worked to restrict MOS supply, create inflexibility, minimise competition and, therefore, is likely to increase costs to the market.³⁹

However, Alinta considered that the proposal for a one month MOS period was not subject to thorough analysis that weighed the costs and benefits. Alinta noted that many participants supported shortening the MOS period to weekly or daily. That said, Alinta considered that a monthly period was preferable to a three monthly MOS period, as a shorter MOS period was likely to reduce the impediments to competition by smaller participants, and reduce the risk to less experienced providers.

While Alinta understood the rationale for the proposed move of the MOS offer process and associated time frames to the Procedures, they did not consider that it should necessarily be the case that the two market parameters (i.e. the MOS period and the MOS offer process and associated time frames) were contained in the Procedures. Alinta considered that there is a strong case that the "AEMC should always be favoured as the entity to conduct assessments where changes to market parameters have an economic perspective and should be analysed consistent with the national gas objective".

³⁸ See Stanwell Corporation, consultation paper submission, pages 1 -3. Available on the AEMC website, www.aemc.gov.au.

³⁹ See Alinta Energy, consultation paper submission, pages 1-3. Available on the AEMC website, www.aemc.gov.au.

Alinta's preferred approach to this matter would be to amend the NGR to introduce maximum thresholds including:

- a MOS period of no greater than one month;
- submissions for MOS offers to be received no greater than five days ahead of the MOS period;
- the MOS stack to be published within 24 hours of the close of submissions; and
- AEMO to publish a notice inviting MOS offers no less than once per month where the MOS period is one month or greater.

AEMO

In its submission, AEMO outlined its reasons for recommending a monthly MOS schedule, as opposed to any shorter period. AEMO noted that in response to the *STTM Review Phase 1 – Discussion Paper*,⁴⁰ a range of views were expressed by stakeholders in support of the three potential MOS periods outlined for consultation (being monthly, weekly or daily).

Adelaide Brighton Cement and the Major Energy Users considered it premature to reduce the MOS period, given the low numbers of MOS providers in the market. In that review, Origin did not consider that changes to the MOS period were required. AGL, Alinta, Australian Power and Gas, BP, Infratil, and EnergyAustralia supported a shorter MOS period, ranging from one week to one month. International Power supported a daily MOS schedule, in order to support those who also participated in the NEM.

Based on its consultation and feedback from stakeholders, AEMO recommended the gas market initially transition to a monthly MOS period. The rationale for choosing a monthly schedule was to provide a balance between price certainty for the market, and the ability for STTM shippers to enter and exit the MOS market. Further, a “monthly MOS period should allow MOS providers the flexibility to make more MOS offers that align with seasonal demand changes and their capacity holdings. A move to daily MOS may require more fundamental changes to the way MOS operates and would require significant consideration”.

AEMO further noted that a staged approach to reduce the MOS period was preferred, to minimise the risk to the market, with the potential to further reduce the MOS period when the market has matured and gained more experience with a shorter MOS period.

AEMO responded to some of the issues raised by Alinta in their submission to the AEMC consultation paper. AEMO reaffirmed its point of view that the Procedures were the appropriate regulatory instrument for regulating the MOS offer process and associated time frames (in addition to the MOS period) in order to provide greater

⁴⁰ For more detail, see AEMO, *STTM Review Phase 1 – Discussion Paper*, 16 August 2011.

flexibility to make subsequent amendments when the market is ready to move to a shorter MOS period.

AEMO considered that if the AEMC were to maintain a requirement on AEMO to publish a notice inviting MOS offers, that it only does so where the MOS period is monthly. This means that where the MOS period is reduced to less than a month, further rule changes will not be required to reflect the new shortened MOS period.⁴¹

5.3 Stakeholder views - draft rule determination

The Commission received two submissions from Alinta and Stanwell in response to the draft rule determination that the Commission published on 28 February 2013.

Both submissions supported the amendments proposed in the draft rule determination, but reiterated their previously stated positions that the Commission should adopt a MOS period of less than one month in the final rule.

Alinta Energy

Alinta endorsed a reduction in the MOS period from three months to one month, as this change will lead to increased competition, improved risk management, more flexibility in the market place, and increased efficiency, as outlined by the AEMC in its draft rule determination.

Nonetheless, Alinta considered that there was an absence of "substantive analysis" as to why a shorter period should not be progressed at this time given the consultation processes already underway. Alinta supported a further reduction to the MOS period, as a prudent and appropriate market based approach. Alinta also noted that a shorter MOS period would not necessarily prohibit offers from market participants for longer periods.

Aside from a preference for a shorter MOS period, Alinta supported the amendments proposed in the draft rule determination, including the proposal to broaden eligibility requirements. On this issue, Alinta noted that this amendment will likely lead to increased market participation from various smaller gas shippers and wholesalers, increasing competition and market efficiency. Alinta also noted that new MOS providers are dependent on incumbent contract holders' willingness to sub-contract, and that the administrative and transaction costs of these voluntary contractual arrangements can be agreed and priced into the arrangements by the counterparties. Alinta also considered that this issue would be less problematic if the MOS period was further shortened.⁴²

⁴¹ See AEMO consultation paper submission, pages 1 -3. Available on the AEMC website, www.aemc.gov.au.

⁴² See Alinta Energy, draft rule determination submission, pages 1- 2. Available on the AEMC website www.aemc.gov.au.

Stanwell supported the Commission's decision in the draft rule determination to create a provision in the NGR that defines the MOS period, and also to reduce the MOS period from three months to one month.

With regard to the MOS offer process and associated time frames, Stanwell agreed that such matters have less of a substantive impact on the efficiency of the market and on trading participants. Stanwell, therefore, supported the amendment to transfer the MOS offer process and time frames from the NGR to the Procedures.

Stanwell also supported broadening the eligibility requirements to include eligible trading right holders.

Stanwell noted, however, that although they supported a reduction in the MOS period, they reiterated their previously stated position and urged the Commission to further consider reducing the MOS period to daily, or weekly at the longest. Stanwell considered that daily MOS would further improve the efficiency of MOS pricing and increase competition in the provision of MOS.⁴³

5.4 Commission's analysis

The MOS period

As outlined in Chapter 3, in assessing the AEMO rule change request, the Commission considers that a broader set of issues are being addressed through the rule change request, including:

- the design of MOS, so far as it relates to the MOS period;
- how competition in the provision of MOS in the STTM can be increased;
- the extent to which reducing the MOS period can increase competition and place downward pressure on MOS prices; and
- the efficiency of having a single regulatory instrument deal with all timings relevant to MOS.

A key issue to arise out of the rule change request, therefore, is the matter of how the length of the MOS period influences the extent of competition in the provision of MOS services in the gas market, given the market's state of development and maturity.

The Commission agrees with AEMO's proposition that a shorter MOS period can potentially result in greater competition in the provision of MOS services through increased competition in the number of MOS providers and greater liquidity in MOS services. Primarily, shortening the length of the MOS period provides trading

⁴³ See Stanwell Corporation, draft rule determination submission, page 1. Available on the AEMC website www.aemc.gov.au.

participants with the opportunity to adjust their MOS service offers more frequently to reflect market conditions.

For example, under the current arrangements, a trading participant must allocate pipeline capacity for MOS services based on a three month forecast. Their MOS service offer is likely to be based on the tightest supply conditions to accommodate a range of possible worst case scenarios over a three month period. In turn, this may result in pipeline capacity being underutilised for the purpose of allocating MOS services. A shorter MOS period may enable trading participants to more frequently update their expectations regarding gas demand and, therefore, available pipeline capacity that could be allocated to MOS. In general, progressive changes to the MOS period to make the schedule more frequent and, therefore, more flexible, are likely to result in a more efficient provision of MOS services in the STTM.

The Commission considers that the ability to update MOS service offers more frequently should lower barriers to entry into the gas market for smaller trading participants, for whom pipeline capacity is a greater consideration in their decision to offer MOS. The ability for smaller trading participants to offer MOS services potentially provides them with an additional source of revenue that could be used to at least partially offset any adverse impacts resulting from deviations from their daily gas market schedule. Given the limited number of MOS providers in the STTM currently, it is likely that only a limited number of trading participants currently benefit from this additional source of revenue and risk management tool. A table of the number of MOS providers in each STTM hub is provided in Appendix B.

The Commission notes that in response to the AEMC consultation paper and draft rule determination, stakeholders supported reducing the MOS period from its current three monthly schedule. Stakeholders noted that, for similar reasons outlined above, a shorter MOS period was likely to lead to a more efficient market outcome and enable participation by smaller trading participants. In response to the AEMC consultation paper, Origin Energy considered that the MOS offer process should be automated before giving consideration to the length of the MOS period.

In response to submissions received to the draft rule determination by Stanwell and Alinta, which both urged further reducing the MOS period, the Commission agrees with AEMO's key findings regarding the MOS period from their STTM reviews. In its STTM Review, AEMO found that a monthly MOS period should allow MOS providers the flexibility to align with seasonal changes, but also consider their commercial position and make MOS offers more frequently in response to changes in their own capacity or pipeline capacity.⁴⁴

In its Phase 2 of the STTM Review, AEMO concluded that various issues need to be resolved before any further substantive changes are made to the design of MOS pricing, including: counteracting and excessive MOS; intra-hub constraints; 'pay as bid'

⁴⁴ See AEMO, *STTM Operational Review and Demand Hubs Review - Final report*, page 21, 30 March 2012. More detailed information on stakeholder views in response to AEMO's STTM Review can be found on the AEMO website, www.aemo.com.au

pricing versus using a clearing price; and price separation between long and short deviations. AEMO reiterated its view that a reduction in the MOS period would require wider changes to the design of MOS arrangements and, as such, did not support a change to a daily MOS period on its own, without further changes to MOS arrangements.⁴⁵

On this basis, and reflecting the findings of the two AEMO STTM reviews, the Commission considers that reducing the MOS period to a monthly schedule represents a prudent and appropriate first step. The Commission considers that a further reduction in the MOS period may be considered appropriate in the future, and such a proposal would need to be assessed as a separate rule change request.

Further, the Commission considers that changes to the MOS period should also be viewed in the greater context of broadening the eligibility requirements for MOS providers. Broadening the MOS provider provisions means that potentially a new range of trading participants will have the opportunity to offer MOS services. In the context of this change to the STTM, it is more appropriate to introduce a monthly MOS period, thereby providing a degree of price certainty for new entrants into the market.

Regulatory instruments to determine the MOS period and MOS offer process

In assessing the issues raised by this part of the rule change request, the Commission has considered the extent to which the MOS period and the MOS offer process and associated time frames, should be determined by a single regulatory instrument. The Commission's approach to, and its rationale for, the assessment of this issue has been set out in Chapter 3 in greater detail.

In the context of this rule change request, the Commission considered that the MOS period is a critical market parameter, as it has the potential to impact on the operational and financial arrangements of trading participants and the operational functions of AEMO.

A trading participant can potentially use revenue earned from providing MOS services to at least partially offset any adverse financial impacts resulting from deviations from their daily gas market schedule. Accordingly, any change to the MOS period has the potential to substantively impact on the risk management strategies and operational arrangements of trading participants.

Depending on the change in length of the MOS period, such a change to the MOS period may necessitate broader consideration of other supporting market parameters or matters that depend on, or are affected by, the provision of MOS services. As noted by AEMO, "a move to daily MOS may require more fundamental changes to the way MOS operates and would require significant consideration".⁴⁶ Alinta noted in their

⁴⁵ See AEMO, *STTM Intraday Review - First State Consultation - Discussion Paper*, page 19, 3 August 2012.

⁴⁶ See AEMO consultation paper submission, supplementary paper, page 4. Available on the AEMC website, www.aemc.gov.au.

submission that changes to this market parameter, which have an economic perspective, should be analysed against the NGO.

For these reasons, and in line with the principles outlined in Chapter 3, the Commission considers that the MOS period should be contained in the NGR. This means that any future proposal to change the MOS period would be determined by a rule change process, whereby the impact of the change would be considered for a range of market participants and AEMO, and assessed in terms of the long term interests of natural gas consumers, as per the NGO.

In summary, the Commission considers that the MOS period should be specified by the NGR for the following reasons:

- The MOS period is an important market parameter that impacts on the operation of the STTM. While participation in the MOS market is on a voluntary basis, a trading participant's action can potentially impact a broad range of other trading participants, as well as the efficient operation of the STTM.
- The length of the MOS period, which is being reduced to one month in the final rule, potentially impacts on the internal risk management strategies and operational arrangements of trading participants.
- Reducing the MOS period to less than one month may necessitate broader consideration of other market parameters, such excessive and counteracting MOS, how the MOS price is determined, deviation pricing structures, MOS commodity prices and contingency gas tendering processes.
- The MOS period is likely to change relatively infrequently.
- The MOS period has the potential to impact on the wider industry and the economy. For example, for some trading participants, MOS services need to be co-optimised with gas-fired electricity generation in the NEM. Also, large industrial end-users may be impacted by the MOS period through their use of gas supplies and participation in the STTM.

The Commission considers that the MOS offer process and associated time frames have less of a substantive impact on the efficiency of the market and on trading participants, as they are primarily influenced by the MOS period. For this reason, the Commission considers the MOS offer process and associated time frames should therefore be determined by the Procedures. Further, should there be a future proposal to shorten the MOS period to less than one month, the need for a detailed MOS offer process in the Procedures may become redundant, and would need to be considered at such time. This may also apply to the case where MOS service offers become automated, as flagged in AEMO's rule change request.

The Commission does not consider that there will be a loss of administrative efficiency if these two market parameters are not consolidated in a single regulatory instrument. This is because the task of amending the MOS period has the potential for substantive impacts on the market and trading participants. The benefit to the market of a robust

and thorough rule change process, where matters can be assessed against the NGO, are likely to outweigh the cost of having to undertake a subsequent Procedure change process to determine any relevant MOS offer processes and associated time frames.

Notification requirements

The Commission considers that the current NGR requirement for AEMO to publish a notice inviting MOS offers serves an important market function, including serving as a reminder to trading participants.

Rule 398 determines, among other things, the date by which MOS offers must be submitted to AEMO. In regulatory terms, two requirements are established by this rule:

- (a) AEMO must specify the date by which MOS offers are due; and
- (b) the specified date must be a date that is no later than 15 business days before the start of the MOS period.

Even in a regulatory framework in which the exact time of this deadline is to be determined by the Procedures, the Commission considers that reference to a due date should be retained in the NGR. This provides trading participants with a regulatory 'anchor' that a deadline will have to be included in the Procedures, with the exact time to be agreed between AEMO and the trading participants in the context of a Procedure change process.

This view was generally accepted by AEMO in their submission to the AEMC consultation paper. AEMO considered that if the AEMC were to maintain a requirement on AEMO to publish a notice inviting MOS offers, that it only does so where the MOS period is monthly. This means that should the MOS period be reduced to less than a month, further rule changes would not be required to reflect the new shortened MOS period and AEMO would be able to amend the timing for the publication of a notice through a Procedure change process.

The Commission supports Alinta and Stanwell's contention that there is merit in retaining a notice publication requirement on the part of AEMO. Such a notice informs the market of any upcoming MOS offering process, invites trading participants to consider whether or not to submit an offer and provides the information trading participants need in order to prepare an offer (including the date by which MOS offers are due). It therefore serves an important 'trigger' function to the market.

5.5 Conclusion

The Commission supports AEMO's view that a monthly MOS period is an appropriate threshold to which the MOS period should be reduced at this point in time, with the potential for further reductions to the MOS period as the market continues to develop and matures. A monthly MOS period should provide trading participants with a

degree of flexibility to better align MOS offers to their expectations of gas demand, yet provide potential new entrants to the MOS market with a degree of price certainty.

The Commission also considers that because the MOS period is a critical market parameter, with the potential to impact on the financial and operational arrangements of trading participants, the MOS period should be specified in the NGR. This means that should there be a future proposal to amend the MOS period, this would be subject to a rule change process, where the merits of the proposal can be more broadly assessed against the NGO, as detailed in section 3.3 of Chapter 3.

Of the two market parameters under consideration in this rule change request - the MOS period and the MOS offer process and associated time frames - the Commission considers that the MOS period is the more critical market parameter, and is the basis for which the MOS offer process and associated time frames are made. The Commission considers that because the MOS offer process and associated time frames are more technical and procedural in nature, they should be determined by the Procedures.

Lastly, the Commission considers the current rules obligation on AEMO to notify the market of an upcoming MOS period and to seek MOS offers should be retained in the NGR. The obligation does not specify any time frames for the notification; this would be determined by AEMO through a Procedure change process. This is an important notice that informs the market of any upcoming MOS offering process and any related requirements to make an offer. It is especially important, in the context of this final rule, which seeks to lower barriers to entry to the MOS market for new entrants and promote greater competition in MOS services.

6 Broadening eligibility requirements for MOS provision

AEMO's rule change request seeks to amend the NGR in order to broaden the eligibility requirements for MOS providers. AEMO proposes that the provision of MOS services should not be limited to 'eligible contract holders' only and should be extended to STTM shippers that have an appropriate underlying agreement in place with an eligible contract holder.

6.1 Rule proponent's view

AEMO considers that the current arrangements, whereby MOS services can only be provided by eligible contract holders, potentially limits competition in the supply of MOS services. Consequently trading right holders with capacity to offer MOS are prevented from competing in the MOS market. AEMO does not consider there to be any particular reason for this limitation being in place, and draws parallels with the provision of contingency gas and gas in the ex-ante market, which is supplied by trading right holders under similar arrangements.

AEMO considers that allowing trading right holders to provide MOS services has the potential to increase liquidity in the MOS market. This is because pipeline capacity, which may currently be unavailable in the case where the facility contract holder has chosen not to actively trade in the STTM, could be sub-contracted to trading right holders for MOS services.

More generally, broadening the eligibility requirements for MOS providers is likely to result in increased competition in the provision of MOS services, which has the potential to place downward pressure on MOS service prices. Lower MOS service prices, enabled by greater competition between MOS providers, are likely to benefit all trading participants as it reduces the costs associated with MOS balancing services in the STTM.

AEMO supported its claim by demonstrating the effect of additional MOS providers on the Moomba to Adelaide Pipeline System (MAPS) and South East Australian Gas (SEAgas) gas pipelines. In both instances, additional MOS providers on each pipeline resulted in lower MOS prices, as greater quantities of MOS services were made available to the market. Graphs depicting MOS supply curves, provided by AEMO, are included in Appendix B.

AEMO recognises that the potentially positive effect from broadening eligibility requirements for MOS providers is dependent on incumbent contract holders agreeing to sub-contract with trading right holders. The extent to which such arrangements can be brought into effect depends on a number of conditions, including the terms of the original facility contract and/or the willingness of eligible contract holders to enter into such an arrangement. However, AEMO considers that the current regulatory barriers that prevent parties from transferring capacity for the provision of MOS should be removed.

Further, shippers considering a long term investment in the expansion of storage capacity on a pipeline could potentially benefit from broadening the eligibility requirements for MOS providers. Under AEMO's rule change request, shippers could transfer the right to supply MOS services under a commercial arrangement to other trading participant(s), thereby reducing the risk profile associated with the investment. AEMO considers this potential arrangement has the capacity to support efficient investment in natural gas pipeline services.

6.2 Stakeholder views - consultation paper

Submissions received in response to the AEMC consultation paper were generally supportive of broadening eligibility requirements for MOS providers, with the exception of Origin Energy.

Alinta Energy

Alinta Energy (Alinta) considered that the provision of MOS by a broader range of trading participants should increase the efficiency of the market, and reduce the costs of participation, ultimately resulting in reduced costs for natural gas customers.⁴⁷

Stanwell Corporation Limited

Stanwell Corporation Limited (Stanwell) considered that the current eligibility criteria unnecessarily limits the availability of, and competition in, MOS supply, thereby reducing the efficiency of the market. In this regard, Stanwell considered that the provision of MOS services should not be treated any differently to the provision of gas in the ex-ante gas market, or for the provision of contingency gas.⁴⁸

Origin Energy

Origin Energy (Origin) did not support the proposal to broaden eligibility requirements for MOS providers as it would necessarily entail a complex and costly process. Origin further contended that broadening the eligibility requirements may not necessarily result in increased MOS supplies. Origin recommended that the AEMC consider the net benefits of such a proposal, and specifically whether the suggested liquidity benefits outweigh the complexity to implement such change.⁴⁹

AEMO

In their submission, AEMO noted that the proposed implementation for broadening eligibility requirements is intended to be designed in such a way that there are no

⁴⁷ See Alinta Energy, consultation paper submission, pages 1-3. Available on the AEMC website, www.aemc.gov.au.

⁴⁸ See Stanwell Corporation, consultation paper submission, pages 1-3. Available on the AEMC website, www.aemc.gov.au.

⁴⁹ See Origin Energy, consultation paper submission, pages 1-2. Available on the AEMC website, www.aemc.gov.au.

changes to participants' systems for the preparation and submission of the STTM facility allocation, MOS step allocation or registered facility service allocation.

AEMO estimated that the total cost of reducing the MOS period and broadening eligibility requirements would be around \$200,000. Their cost benefit analysis indicated that the market would only need to see a 0.14 per cent reduction in the cost of MOS over a five year period to fully recover the cost of implementing the proposed changes.⁵⁰

AEMO also provided a supplementary submission outlining that, to give effect to the rule change request, a number of related amendments are required to the NGR with regard to the MOS stack. AEMO noted that, based on the current arrangements, should a registered facility cease to be available during the MOS period, under rule 402(1), AEMO would be required to remove the full MOS offer that belongs to the contract holder when revising the MOS stack.

Under AEMO's rule change request, a MOS offer submitted by an STTM shipper may consist of various MOS contract arrangements for each of the price-quantity MOS steps, where each MOS contract arrangement is linked to a registered facility. In the case where a registered facility service ceased to be available during the MOS period, removing the entire MOS offer that belongs to the STTM shipper might result in valid price-quantity MOS steps being removed from the MOS stack.

AEMO considered that rule 402(1) of the NGR should be amended to only remove the affected price-quantity MOS steps from the MOS stack when managing an invalid MOS offer, rather than the full MOS offer.

6.3 Stakeholder views - draft rule determination

Submissions received in response to the draft rule determination on this issue were supportive of the Commission's decision to broaden eligibility requirements for MOS service providers.

Alinta Energy

Alinta welcomed the broadening of eligibility requirements from the limited "eligible contract holder" to include "trading right holder". Alinta agreed with the Commission that this change will positively contribute to the NGO and will likely lead to increased market participation from various smaller gas shippers and wholesalers, increasing competition and market efficiency.

⁵⁰ See AEMO consultation paper submission, pages 1-3. Available on the AEMC website, www.aemc.gov.au.

Alinta noted that in relation to administrative and transaction costs, the Commission is correct in that the costs of these voluntary contractual arrangements can be priced into the arrangements by counterparties.⁵¹

Stanwell Corporation Limited

Stanwell strongly supported extending the eligibility criteria on the grounds that such an extension will increase market participation, increase competition and drive an economic price for gas.⁵²

6.4 Commission's analysis

The Commission considers that broadening the eligibility requirements for MOS providers will potentially benefit the market in a number of ways.

An increase in the number of MOS providers in the STTM is likely to increase competition amongst incumbent and new MOS providers. In combination with a monthly MOS period, this has the potential to result in greater liquidity of MOS services which, in turn, has the potential to place downward pressure on MOS service prices.

Broadening the eligibility requirements for MOS providers may benefit trading participants by providing them with the potential for an additional source of revenue, and more specifically, a way to at least partially offset any adverse financial impacts resulting from deviations from their daily gas market schedule. Providing trading participants with additional ways of managing the risks associated with participating in the STTM has the potential to lead to more efficient market operations and lower prices for all natural gas customers. Currently, potential opportunities to at least partially offset the financial impacts of deviations from daily gas market schedules are limited to eligible contract holders.

The Commission recognises that broadening eligibility requirements may not address the fact that a prospective MOS provider would, in practice, be dependent on an incumbent contract holder agreeing to sub-contract for the purpose of providing MOS services. Whether such an arrangement could be put in place may be dependent on a number of factors, such as the terms of the original facility contract and/or the willingness of the contract holder. Notwithstanding this, the Commission agrees with AEMO's assertion that there should not be a regulatory barrier preventing parties wishing to transfer capacity for MOS services.

In response to the issues raised by Origin, the Commission recognises that enabling MOS services to be provided by trading right holders may incur some additional administrative costs for eligible contract holders. For example, where contract terms

⁵¹ See Alinta Energy, draft rule determination submission, pages 1-2. Available on the AEMC website, www.aemc.gov.au.

⁵² See Stanwell Corporation, draft rule determination, page 1. Available on the AEMC website, www.aemc.gov.au.

and conditions need to be amended to reflect the new arrangements, and to ensure that any perceived risks are managed. However, the Commission considers that because the arrangements are voluntary, an eligible contract holder has the ability to price in such additional administrative costs as part of the contractual arrangements with the counterparty, or choose to exclude the ability to trade MOS as part of the contractual arrangements.

The Commission also noted AEMO's supplementary submission to the AEMC consultation paper outlined implementation issues related to the MOS stack under this new proposed arrangement. The Commission agrees with AEMO that these additional amendments are required to give full effect to the proposed change.

6.5 Conclusion

The Commission considers that broadening the eligibility requirements specified in the NGR to allow trading participants to potentially provide MOS services is likely to contribute to a number of benefits to the market. Greater competition in the provision of MOS services, which the final rule may facilitate, has the potential to place downward pressure on MOS service prices. Further, this amendment has the potential to benefit trading participants by providing them with the potential for an additional source of revenue and a way to at least partially offset any adverse financial impacts resulting from deviations from their daily gas market schedule.

Abbreviations

AEMC, the Commission	Australian Energy Market Commission
AEMO, the Proponent	Australian Energy Market Operator
EGP	Eastern Gas Pipeline
ISC	Implementation Steering Committee
MAPS	Moomba to Adelaide Pipeline System
MCE	Ministerial Council on Energy
MOS	Market Operator Service
NEM	National Electricity Market
NGL	National Gas Law
NGO	National Gas Objective
NGR	National Gas Rules
SCER	Standing Council on Energy Resources
SEAgas	South East Australian Gas
STTM	Short Term Trading Market

A Summary of issues raised in submissions

A.1 First round of consultation - AEMC consultation paper

Stakeholder	Issue	AEMC Response
Stanwell Corporation Limited (Stanwell)	Three monthly MOS period set out in the Procedures contributes to a lack of competition for MOS provision. Supports a reduction in the MOS period from three months to one month. Consideration should be given to shortening the period even further to daily, or weekly at the longest.	The Commission agrees that the MOS period should be reduced from its current three monthly schedule to monthly. A monthly MOS period balances the need to reduce the MOS period with price certainty, especially as there is greater scope for new entrants into the MOS market under the draft (more preferable) rule.
Stanwell	Considers that the MOS period should be reduced to daily, or weekly at the longest.	The Commission notes Stanwell's view, and considers that further reductions in the MOS period should be considered in line with market development.
Stanwell	Supports extending the eligibility criteria for MOS provision on the grounds that such an extension will increase MOS market participation. Allowing MOS services to be subcontracted should also increase the efficiency of pipeline investment.	The Commission agrees with this point.
Stanwell	Stanwell considers that the MOS period, and MOS offer process and associated time frames, are interdependent market parameters that should both be regulated by the Procedures. This would also provide greater flexibility and reduce the administrative burden for the regulator and participants.	The Commission considers that the MOS period is an important market parameter. Any changes to its length should be assessed through a rule change process and against the NGO.
Stanwell	There may be merit in retaining some parameters in the NGR that limit the extent to which detailed matters can be further specified in the Procedures to give greater regulatory certainty for trading participants.	The Commission considers that the MOS offer process and associated time frames have less of a substantive impact on the efficiency of the market and on trading participants, and should therefore be determined by the Procedures.

Stakeholder	Issue	AEMC Response
Stanwell	Supports including a maximum time window for MOS process timings if these were to be moved from the NGR.	The Commission notes this point.
Stanwell	Does not support the proposed removal of the requirement for AEMO to publish a notice inviting MOS offers.	The Commission agrees with this point.
Stanwell	Supports the proposal that trading right holders with an appropriate underlying agreement be allowed to offer MOS in the STTM. This will also create an alternative source of revenue for a contract holder that does not wish to trade gas in the STTM.	The Commission agrees with this point.
Stanwell	Does not see any valid reason for MOS provision being treated differently to the provision of gas in the ex-ante market or as contingency gas.	The Commission agrees with this point.
Origin Energy (Origin)	Origin supports changes to reduce the current MOS period and that an automated MOS submission and feedback process is a necessary prerequisite to such change. It is not clear that it will generate an increased availability of MOS supply.	The Commission considers that reducing the MOS period will enable trading participants to use more accurate monthly forecasts, as opposed to three monthly forecasts, to determine their potential allocation of pipeline capacity to MOS services, and adjust their MOS offers accordingly.
Origin	Supports a regulatory framework where the NGR set out the high-level policy principles and guidelines while the Procedures specify the underlying details to support those policies. As such, Origin agrees that the MOS timing requirements should be outlined in the Procedures.	The Commission considers that the MOS period is an important market parameter. Any changes to its length should be assessed through a rule change process and against the NGO.
Origin	Considers it appropriate that participants are given adequate opportunity to assess and provide any necessary feedback on AEMO's proposed Procedure changes before a rule change is finalised.	The Commission notes this point.
Alinta Energy (Alinta)	While a monthly service as opposed to three-monthly is an	The Commission notes this point, and considers that further

Stakeholder	Issue	AEMC Response
	improvement, a daily arrangement remains preferable.	reductions in the MOS period should be considered in line with market development.
Alinta	Prefers matters being contained in the rules when those matters are not primarily operational. Matters concerning the MOS period should be contained in the NGR, and not in the Procedures.	The Commission agrees with this point.
Alinta	The fact that the MOS period and the MOS process timings are currently regulated by different instruments does not automatically lead to the conclusion that the Procedures should be favoured over the NGR.	The Commission agrees with this point.
Alinta	The extent to which it is appropriate to have a rule change process, followed by a Procedure change process, to implement changes to the MOS period or MOS offer process, is not an appropriate criterion for assessment. An independent rule-making assessment by the AEMC is by its nature different to AEMO's consultation process.	The Commission agrees with this point.
Alinta	<p>To the extent that the MOS process timings and the MOS period are interdependent, Alinta supports amending the rule to introduce maximum thresholds, being:</p> <ul style="list-style-type: none"> • a MOS period of no greater than one month; • submissions for MOS offers to be received no greater than five days ahead of the MOS period; • the MOS stack to be published within 24 hours of the close of submissions; and • AEMO to publish a notice inviting MOS offers no less than once per month where the MOS period is one month or greater. 	<p>The Commission notes this point, and considers that further reductions in the MOS period should be considered in line with market development.</p> <p>The Commission considers that the MOS offer process and associated time frames have less of a substantive impact on the efficiency of the market and on trading participants, and should therefore be determined by the Procedures.</p>

Stakeholder	Issue	AEMC Response
Alinta	Supports extension of eligibility to provide MOS services including through a sub-contracted arrangements.	The Commission agrees with this point.
AEMO	STTM Reviews Phase 1 - Discussion Paper raised issue of MOS period. Stakeholder submissions to the discussion paper presented views ranging from a daily MOS period to no change to the MOS period.	The Commission notes this point.
AEMO	Rationale for choosing monthly MOS over weekly MOS period is to provide balance between price certainty for the market and the ability for shippers to enter and exit the MOS market.	The Commission agrees with the rationale for recommending a monthly MOS period.
AEMO	Staged approach to reduce MOS period is preferred to minimise risk to the market.	The Commission agrees with this point.
AEMO	Specifying the timings in the STTM Procedures will provide greater flexibility to make subsequent amendments when the market is ready to move to a short MOS period.	The Commission considers that the MOS period is an important market parameter. Any changes to its length should be assessed through a rule change process and against the NGO.
AEMO	<p>In response to Alinta, AEMO proposes:</p> <ul style="list-style-type: none"> • A MOS period of no greater than one month; • The closing time to make or update MOS offers for a MOS period shall be no more than five days prior to the start of the MOS period; • The MOS stack to be published within 24 hours of the close of submissions; • Where the MOS period is one month, AEMO must publish a notice inviting MOS offers in accordance with STTM Procedures. 	<p>The Commission notes this point, and considers that further reductions in the MOS period should be considered in line with market development.</p> <p>The Commission considers that the MOS offer process and associated time frames have less of a substantive impact on the efficiency of the market and on trading participants, and should therefore be determined by the Procedures.</p>

Stakeholder	Issue	AEMC Response
AEMO	AEMO propose to automate the MOS offer submission and validation process at the same time as reducing the MOS period to monthly, to allow validation of MOS offers and the publication of the MOS stack in a shorter period. As the market transitions to a short MOS period, the automation process is necessary to eliminate the risk of mistakes caused by more frequent manual processes.	The Commission notes this point.
AEMO	Allowing trading right holders to supply MOS is expected to increase competition for the supply of MOS at the hub. As a result, it is expected that the market will see a decrease in the cost of MOS.	The Commission agrees with this point.
AEMO	Broadening eligibility requirements would give the contract holder the potential benefit to earn a return on their contract holding by entering into a commercial arrangement with another shipper to transfer the right to supply MOS. This is similar to the current process of transferring rights to capacity via trading rights that is allowed in the ex-ante market scheduling process.	The Commission agrees with this point.
AEMO	The cost benefit analysis suggest that the market only needs to see 0.14 per cent reduction in the cost of MOS over a five year period to fully recover the cost of implementing the proposed changes (estimated at \$200,000).	The Commission notes this point.

A.2 Second round of consultation - Draft rule determination

Stakeholder	Issue	AEMC response
Alinta Energy (Alinta)	Alinta Energy notes general support for a shorter MOS period from industry participants and AEMO.	The Commission notes this point.
Alinta	Alinta Energy notes that there is an absence of substantive analysis as to why a shorter MOS period should not be progressed at this time given the consultation process already underway.	The Commission notes this point. The Commission's reasons for not shortening the MOS period to less than a monthly schedule are outlined in section 5.4.
Alinta	Alinta Energy would support a further reduction to the MOS period, as a prudent and appropriate market based approach.	The Commission notes this point.
Alinta	Alinta welcomes the broadened eligibility definitions from the limited "eligible contract holder" to include "trading right holder"	The Commission notes this point.
Alinta	Alinta notes the view that new MOS providers are dependent on incumbent contract holder's willingness to sub-contract. It should be noted that this would likely be less problematic if the MOS period was further shortened.	The Commission notes this point and considers that removing regulatory barriers for transferring MOS capacity will lower barriers to entry for a range of trading participants.
Alinta	As it pertains to administrative and transaction costs, the AEMC is correct in that these can be priced into what are voluntary transactions.	The Commission notes this point.
Stanwell Corporation (Stanwell)	Supports the AEMC's draft decision to create a provision in the NGR that defines the MOS period, and to reduce the MOS period from three months to one month.	The Commission notes this point.

Stakeholder	Issue	AEMC response
Stanwell	Continue to urge that consideration be given to shortening the MOS period even further to daily, or weekly at the longest. Stanwell considers that daily MOS would further improve the efficiency of MOS pricing and increase competition in the provision of MOS.	The Commission notes this point. The Commission's reasons for not shortening the MOS period to less than a monthly schedule are outlined in section 5.4.
Stanwell	Support the AEMC's draft decision to transfer the MOS offer process and timings to the Procedures. This amendment has the potential to improve flexibility and reduce the administrative burden for the regulator and participants.	The Commission notes this point.
Stanwell	Strongly supports extending the eligibility criteria on the grounds that such an extension will increase market participation increase competition and drive an economic price for gas.	The Commission notes this point.

B MOS supply curves, provided by AEMO

Figure B.1 MOS increase supply curve for MAP pipeline

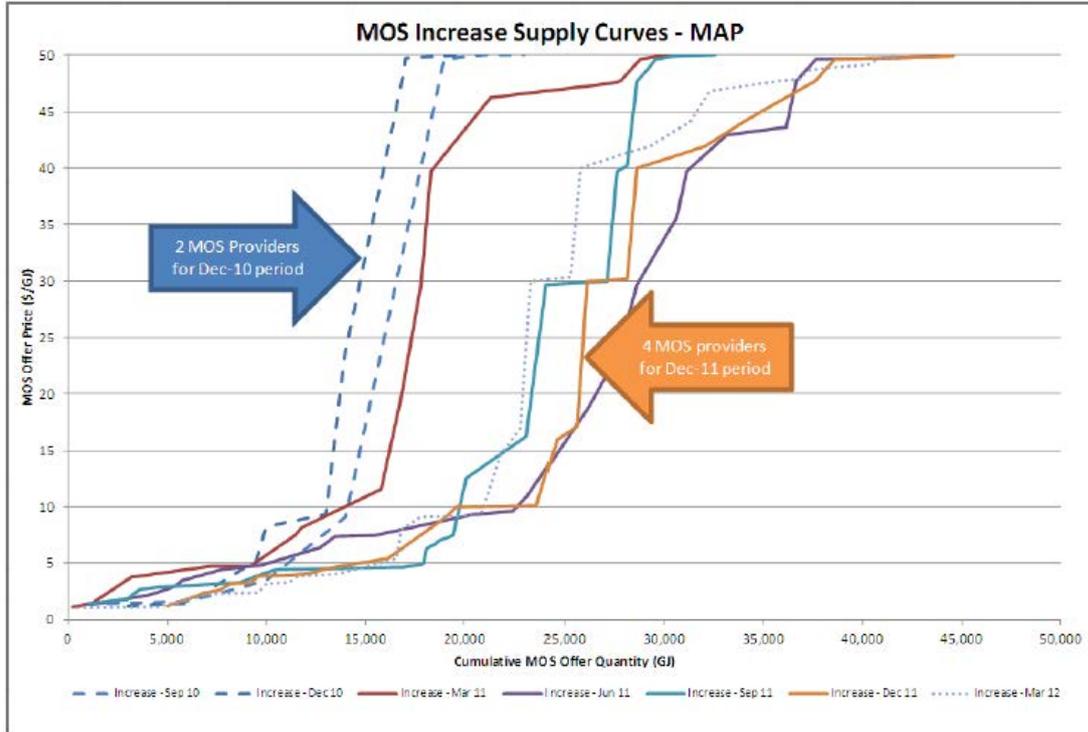


Figure B.2 MOS increase supply curve for SEAGAS pipeline

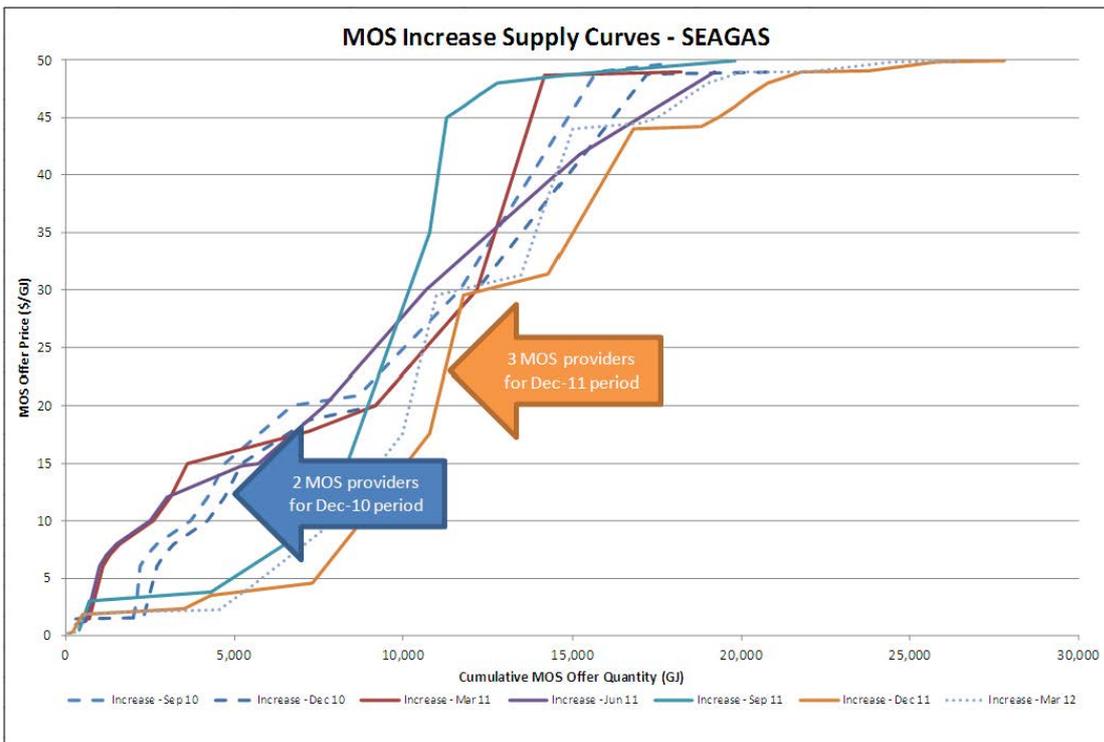


Figure B.3 MOS increase supply curve for Eastern Gas Pipeline

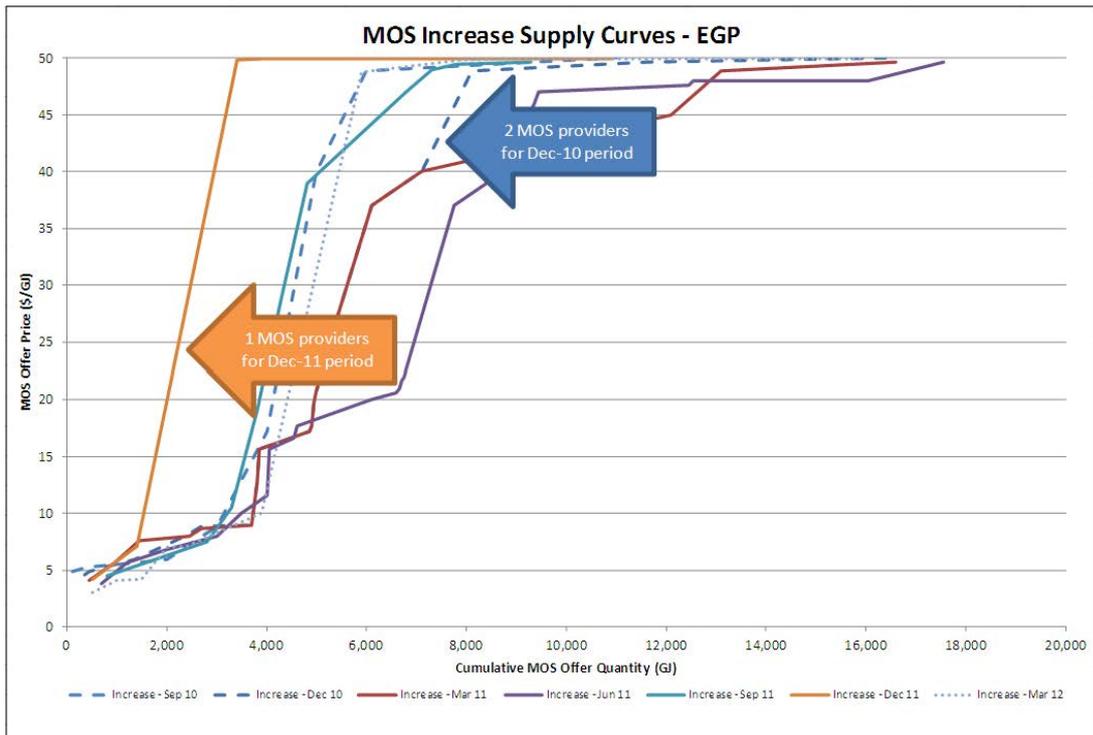


Figure B.4 MOS providers in each STTM hub

Table 1: Number of participants offering MOS

	Number of Parties offering MOS. Note I = increase MOS, D = decrease MOS				
	Adelaide		Sydney		Brisbane
MOS period	MAP	SEAGAS	MSP	EGP	RBP
Sep 2010 – Nov 2010	I: 2 D: 2	I: 2 D: 1	I: 4 D: 4	I: 2 D: 2	N/A
Dec 2010 – Feb 2011	I: 2 D: 2	I: 2 D: 1	I: 4 D: 4	I: 2 D: 3	N/A
Mar 2011 – May 2011	I: 3 D: 3	I: 2 D: 2	I: 3* D: 3	I: 2 D: 2	N/A
Jun 2011 – Aug 2011	I: 4 D: 4	I: 2 D: 2	I: 3 D: 3	I: 2 D: 2	N/A
Sep 2011 – Nov 2011	I: 4 D: 4	I: 2 D: 3	I: 3 D: 3	I: 1 D: 1	N/A
Dec 2011 – Feb 2012	I: 4 D: 4	I: 3 D: 4	I: 3 D: 3	I: 1 D: 1	I: 4 D: 4
Mar 2012 – May 2012	I: 4 D: 4	I: 3 D: 4	I: 3 D: 3	I: 2 D: 2	I: 5 D: 5

* Ausgrid was formerly EnergyAustralia and the gas contracts were transferred to TRUenergy as from March 2011

** Minimum number of parties participating highlighted for each facility.