



**Australian Energy Market Commission**

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## **CONSULTATION PAPER**

# **National Gas Amendment (STTM - Market Schedule Variation transactions) Rule 2012**

### **Rule Proponent(s)**

Australian Energy Market Operator

19 July 2012

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For and on behalf of the Australian Energy Market Commission

**RULE  
CHANGE**

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## **About the AEMC**

The Council of Australian Governments, through its Ministerial Council on Energy (MCE), established the Australian Energy Market Commission (AEMC) in July 2005. The AEMC has two principal functions. We make and amend the national electricity and gas rules, and we conduct independent reviews of the energy markets for the MCE.

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# 1 Introduction

On 7 June 2012, the Australian Energy Market Operator (AEMO or proponent) submitted a rule change request to the Australian Energy Market Commission (AEMC or Commission). The rule change request proposes to amend a provision in the National Gas Rules (NGR or Rules) relating to an operational aspect of the Short Term Trading Market (STTM) in natural gas. Specifically, the request relates to the trading participants who are eligible to submit market schedule variations (MSVs) to AEMO as the 'originating' participant.

This consultation paper has been prepared by the staff of the AEMC to facilitate public consultation on the rule change request and does not necessarily represent the views of the AEMC or any individual Commissioner of the AEMC.

This paper:

- sets out a summary of, and a background to, the Short Term Trading Market - Market Schedule Variation transaction rule change request proposed by the proponent;
- identifies a number of issues and question to facilitate consultation on this rule change request; and
- outlines the process for making submissions to the issues and questions raised in this consultation paper.

## Request for expedited process

The proponent requests that the rule change request be assessed under an expedited process as set out in section 304 of the National Gas Law (NGL), as it is perceived to be non-controversial. The NGL defines a non-controversial rule as a "Rule that is unlikely to have a significant effect on a market for gas or the regulation of pipeline services".<sup>1</sup>

The proponent considers that the rule change request will not have a significant effect on the STTM market outcomes, trading participants or other market observers, but will improve the efficiency with which MSV transactions can be undertaken.

In addition, the proponent undertook consultation on the issue in the context of the STTM Operational Review and Demand Hubs Review,<sup>2</sup> and also via the STTM Consultative Forum. The proponent states that the rule change proposal has industry support.<sup>3</sup>

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<sup>1</sup> Section 290 of the NGL.

<sup>2</sup> 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 short term trading market 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 and a draft report on 19 December 2011). The final report was published 30 March 2012. See AEMO website: <http://www.aemo.com.au>.

<sup>3</sup> AEMO, rule change request, p. 5.

The Commission proposes to expedite the rule change request (subject to written requests from stakeholders not to do so) under section 304 of the NGL. Accordingly, the Commission has six weeks from the publication of the notice under section 303 of the NGL to publish a final rule determination. Under an expedited process, no draft rule determination is published. Stakeholders have:

- two weeks from the publication of the notice under section 303 of the NGL to lodge written requests not to make a rule under the expedited process in section 304 of the NGL; and
- four weeks from the publication of the notice under section 303 of the NGL to lodge written submissions on the rule change request.

More information on the expedited process, and the due dates for written requests and submissions, is contained in Chapter 6 of this consultation paper.

## 2 Background

### 2.1 STTM and market schedule variations

This Chapter describes the relevant STTM operations that are affected by this rule change request and the role of MSVs in this process.<sup>4</sup>

The STTM is a market for the trading of natural gas at the wholesale level, operating at defined hubs in Adelaide, Brisbane and Sydney. It provides participants with the opportunity to buy and sell gas in the open market, as an alternative for or in addition to existing long-term industry contracts. As a trading market, the STTM does not deal with the actual physical flow of gas. The STTM is operated and administered by AEMO.

Essentially, gas is traded a day before it is scheduled to be flowed along pipeline facilities for further distribution ('day ahead' market). The day before the gas day, pipeline operators submit pipeline capacity information to AEMO, who publishes this data. STTM Trading Participants<sup>5</sup> can then place bids to buy quantities of gas at the hub and STTM Shippers can place offers to sell quantities of gas to the hub.

On the basis of this information, via an automated process, AEMO then matches offers and bids, determines the (ex-ante) market price and draws up the initial market schedules for the flow of gas to and from the hub for the gas day. The ex-ante market price is the price that is applied to all gas that is allocated through the hub on the gas day.

The market schedule is published by AEMO approximately 18 hours ahead of the gas day so that shippers can use this information to nominate the quantity of gas they require from each pipeline operator (a process which occurs outside of the STTM). Pipeline operators then prepare pipeline schedules, which detail the quantities of gas that are scheduled to be flowed from each STTM facility.<sup>6</sup>

On the gas day, pipeline operators deliver gas to the hub, and users withdraw gas at the hub. The day after the gas day, pipeline operators supply AEMO with the data regarding actual quantities of gas delivered to the hub. Typically, quantities delivered to or withdrawn from the hub over the gas day will not match with the ex-ante STTM market schedules. This is called a 'deviation' and is the difference between a trading participant's actual allocated quantity of gas and its (modified) market schedule quantity.

The STTM contains financial incentives for participants to keep to their schedules as much as possible, as deviations will incur a penalty, calculated on the basis of either the volume or the percentage of the deviation. These calculations are performed by AEMO as part of the settlement process.<sup>7</sup> Shippers supplying gas to the hub who deviate from their schedule will typically be paid less for their gas, depending on the size of the

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<sup>4</sup> Information in this section was generally derived from AEMO, *Industry Guide to the STTM* (December 2011) and *Overview of the Short term Trading Market for Natural gas* (December 2011).

<sup>5</sup> This term refers to either STTM Shippers or STTM Users, see NGR rule 364.

<sup>6</sup> This term can refer to a transmission pipeline, hub-connected storage facility or hub-connected production facilities see NGR rule 364.

<sup>7</sup> NGR, Division 10, Subdivision 2.

deviation. Shippers and users withdrawing gas from the hub who deviate from their schedules will typically pay more for their gas. Thus, the system provides a financial driver to keeping the gas supply system balanced.

Where STTM participants deviate from their market schedules on a particular gas day, the MSV is a mechanism provided in the NGR that allows STTM participants to make adjustments to their ex-ante market schedules. By submitting an MSV to AEMO to cover for the deviations that occurred, STTM participants can ensure that their (modified) market schedules are better aligned with their actual allocations on a gas day.<sup>8</sup>

For example, if a user requires more gas than it was scheduled to receive (based on its initial forecasts) on a particular gas day, this user can ask a shipper to deliver the extra quantity of gas. For this extra quantity of gas delivered, the shipper and user can submit an MSV to AEMO. When validated, the MSV will result in adjustments in each participant's market schedules. This will then reduce participants' exposure to deviation penalties, as these are calculated on the basis of the difference of a trading participant's actual allocated quantity of gas and its (modified) market schedule.

MSVs will attract a charge if they result in an overall change in demand at the hub. This is the case, for example, when processing the MSV requires additional gas to be shipped to the hub (in excess of the total quantity scheduled ex ante). If the MSV can be met without changing overall net demand at the hub (for example, when the shipper can meet the extra demand from a user entirely within the quantity of gas already allocated to the hub for that day), the MSV does not attract a charge. In any case, MSV charges will be significantly lower than if no MSV is submitted and 'deviation penalties' are incurred. This process is designed to encourage more accurate day-to-day forecasting and, if changes occur, to communicate them to the market and operators of STTM facilities via an MSV.

The decision to enter into an MSV is voluntary and requires a bilateral agreement between the participant wishing to adjust its ex-ante market schedule and a counter party that has a deviation in the opposite direction. The proposed MSV must nominate adjustments to both participants' market schedules by the same quantity so that there is a net zero balance.<sup>9</sup> Under the current rules, only a shipper (the 'originating STTM shipper') may submit a proposed MSV to AEMO. The counter party (the 'receiving Participant', which can be either an STTM User or another STTM Shipper) whose market schedule will be modified as a result of the MSV must confirm its acceptance of an MSV before it is validated and can be applied in settlement.

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<sup>8</sup> NGR, rule 423.

<sup>9</sup> A proposed MSV submitted to AEMO must furthermore contain certain information, set out in rule 423 and the STTM Procedures, such as: the gas day to which the proposed MSV relates, the quantity of the proposed MSV, and details regarding the 'originating' and 'receiving' participants whose market schedules will be modified by the MSV.

### 3 Details of the rule change request

The rule change request proposes to:

- broaden the scope of rule 423 of the NGR to enable STTM Users to submit MSVs in respect of a hub and a gas day to AEMO, within the time period as specified in the STTM Procedures; and
- have the rule change request treated on an expedited basis by the AEMC.

The proponent's rule change request includes a proposed rule, which is published on the AEMC website.<sup>10</sup>

#### 3.1 Rationale for the rule change request

In its rule change request, the proponent provides its rationale for the rule change. The key points raised in the request are summarised below:

- Under the current rules, only an STTM Shipper can submit an MSV to AEMO. This reflects the initial concept that an MSV is used by a shipper to recognise changes in the quantity of gas supplied to the hub, in response to changes in demand by a user on the gas day ('intraday renominations'). However, according to the proponent, experience in the market has shown that MSVs are also used by participants to trade their 'positive' and 'negative' deviations in the days following a particular gas day.<sup>11</sup> In this respect MSVs are used by participants - including between two users - as a risk mitigation tool in the STTM, to reduce their exposure to deviation charges when settlement takes place. As the current rule does not allow STTM Users to submit an MSV to AEMO, they always require an STTM Shipper to act as intermediary. In such a situation, two opposing MSVs need to be submitted by the shipper, which then requires both users to accept the MSVs. The proponent considers this inefficient from an operational perspective and unnecessarily burdensome from a transactional perspective.
- Amending rule 423 to make direct user-to-user MSVs possible would improve the efficient functioning of the STTM by reducing the number of transactions necessary to complete a user-to-user MSV. It would also eliminate transactional management actions by STTM Shippers when two users would be able to conduct an MSV directly between themselves. This would reduce operating costs for STTM participants and would benefit industry and hence ultimately also consumers of natural gas.

The proponent considers that the proposed rule would not impose or impact the substantive rights, obligations or duties of participants in the STTM nor have substantial financial implications for the STTM for the following reasons:

- MSVs are, and will continue to be, voluntary bilateral transactions.

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<sup>10</sup> See: [www.aemc.gov.au](http://www.aemc.gov.au)

<sup>11</sup> An MSV can be submitted until seven days after the gas day to which it applies.

- The proposed rule is consistent with the existing arrangements, as it would still be possible for an STTM User to engage in an MSV with another user with an STTM Shipper acting as intermediary if it wishes to do so.
- STTM Shippers receive no financial gain from acting as intermediary in a user-to-user MSV and eliminating their transactional management actions in these situations does not otherwise impact STTM Shippers' substantive rights, obligations or duties.

Moreover, the proponent considers that there are minimal costs associated with the rule change. According to the proponent, some participants who are utilising automated MSV transactions may have to amend their systems to accommodate the change. In addition, amending the rules as proposed would require AEMO to undertake a procedure change process, and to make changes to the STTM market system. The costs of the latter have been estimated at \$30,000, which the proponent considers to be reasonable in view of improving STTM transactions.

### **3.2 Consideration as a non-controversial rule change**

The proponent has requested that this rule change request be considered non-controversial under section 304 of the NGL on the following basis:

- STTM Users are able, under the current rules, to complete an MSV transaction between themselves, but in an inefficient manner, with a shipper acting as intermediary. The proposed rule change would simply improve the efficiency with which these transactions can be undertaken.
- The proposal has industry support, as indicated in the feedback from market participants to proponent's STTM Review and via the STTM Consultative Forum. Further, STTM Shippers have not objected to the proposed change, as they have received no benefit from acting as an intermediary.
- The proposed rule change will not have a material effect on the STTM market outcomes, trading participants or other market observers for the above reasons.

The Commission considers that the proponent's request is reasonable and the Commission is therefore prepared to commence the process on an expedited basis in accordance with section 304 of the NGL.

## 4 Assessment framework

The Commission's assessment of this rule change request must consider whether the proposed rule promotes the National Gas Objective (NGO), as set out under section 23 of the National Gas Law (NGL):

*“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.”*

In assessing the rule change request against the NGO, the Commission will therefore in particular take into consideration:

- the effect of the rule change request on efficiency in the operation and use of gas services in the STTM;
- the effect of the rule change request on efficiency in administering the STTM; and
- the effect of the rule change request on market outcomes and on the substantive rights, obligations or duties of participants in the STTM.

The proposed rule will be assessed against the relevant counterfactual arrangements, which in this case are the existing provisions in the rules.

## 5 Issues for consultation

Taking into consideration the assessment framework and any potential requirements to implement the proposed rule, we have identified a number of issues for consultation that appear to be relevant to this rule change request.

These issues outlined below are provided for guidance. Stakeholders are encouraged to comment on these issues as well as any other aspect of the rule change request or this paper, including the proposed framework.

### 5.1 User-to-user and user-to-shipper MSVs

According to the proponent, experience has shown that MSV transactions are not only initiated between STTM Shippers and STTM Users to match intraday renominations in response to changes in consumption. In addition, MSVs are used after the gas day by STTM participants with opposite deviations, including two STTM Users, to mitigate the risk of incurring deviation penalties.

Currently, user-to-user MSVs require an STTM Shipper to act as intermediary, as only an STTM Shipper can submit an MSV to AEMO. According to the proponent, this creates unnecessary transactional inefficiencies in the STTM. Therefore, to improve the efficient functioning of the STTM, the proposed rule would allow an STTM User to submit an MSV directly to AEMO "where the counter party is also a user".<sup>12</sup>

However, as drafted, the proposed rule does not rule out the possibility of a user submitting an MSV to AEMO where the counter party is a shipper. Stakeholders may therefore wish to reflect on how the proposed rule would impact on user-to-shipper MSVs, and whether it is desirable for a user to initiate user-to-shipper MSVs as well.

#### **Question 1      Enabling STTM Users to submit an MSV to AEMO**

- (a) Do you agree that allowing STTM Users to submit an MSV to AEMO (without requiring an STTM Shipper to act as intermediary) would improve the efficient operation of the STTM? Please provide supporting reasons. Are there any reasons why STTM Users should not be able to submit an MSV to AEMO?**
- (b) How would the proposed rule change affect MSVs between shippers and users? Are there any reasons for not allowing STTM Users to submit a user-shipper MSV?**

### 5.2 Duplication

In AEMO's *Industry Guide to the STTM*, it states:

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<sup>12</sup> AEMO rule change request, p. 3.

*“To avoid duplication, only the supplying shipper (with a positive gas variation) can submit an MSV<sup>13</sup>”*

This citation refers to the current rules, which only allow shippers to submit an MSV to AEMO. It suggests 'duplication' could arise if STTM participants other than shippers are also able to submit MSVs to AEMO, creating a possibility that multiple STTM participants could lodge a submission for the same MSV. Stakeholders may wish to consider whether amending the rules as proposed would introduce a risk of duplication, and, if so, how duplication would be avoided.

**Question 2      Duplication**

**Would the proposed rule introduce a risk of duplication if multiple participants could potentially lodge a submission for the same MSV to AEMO?**

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13      AEMO, *Industry Guide to the STTM*, December 2011, p.46.

## **6 Lodging a submission**

The Commission has published a notice under sections 303 and 304 of the NGL to assess this rule change request under an expedited rule making process. The Commission is now accepting written requests not to make a rule under the expedited process, and inviting written submissions on this rule change request.

Written requests not to make a rule under the expedited process in section 304 of the NGL must include reasons for the request, and must be lodged with the Commission by 2 August 2012, either online or by mail, in accordance with the requirements specified below.

Written submissions on the rule change request must be lodged with the Commission by 16 August 2012, either online or by mail, in accordance with the requirements specified below. Where practicable, submissions should be prepared in accordance with the Commission's Guidelines for making written submissions on rule change proposals.<sup>14</sup> The Commission publishes all submissions on its website subject to a claim of confidentiality.

All enquiries on this project should be addressed to Sjoerd Ammerlaan on (02) 8296 7800.

### **6.1 Lodging a submission electronically**

Electronic requests not to make a rule under the expedited process or electronic submissions on the rule change request itself must be lodged online via the Commission's website, [www.aemc.gov.au](http://www.aemc.gov.au), using the "lodge a submission" function and selecting the project reference code: "GRC0015". The request or submission must be on letterhead (if submitted on behalf of an organisation), signed and dated.

Upon receipt of the electronic request or submission, the Commission will issue a confirmation email. If this confirmation email is not received within three business days, it is the submitter's responsibility to ensure the request or submission has been delivered successfully.

### **6.2 Lodging a submission by mail**

The request or submission must be on letterhead (if submitted on behalf of an organisation), signed and dated. The submission should be sent by mail to:

Australian Energy Market Commission  
PO Box A2449  
Sydney South NSW 1235

Or by fax to (02) 8296 7899.

The envelope must be clearly marked with the project reference code: GRC0015.

Except in circumstances where the request or submission has been received electronically, upon receipt of the hardcopy submission the Commission will issue a confirmation letter.

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<sup>14</sup> This guideline is available on the Commission's website.

If this confirmation letter is not received within three business days, it is the submitter's responsibility to ensure successful delivery of the request or submission has occurred.

## Abbreviations

AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
Commission	See AEMC
MSV	market schedule variation
NGL	National Gas Law
NGO	National Gas Objective
NGR	National Gas Rules
Proponent	See AEMO
Rule	See NGR
STTM	Short Term Trading Market
STTM-CF	STTM Consultative Forum