



Australian Energy Market Commission

DRAFT RULE DETERMINATION

National Gas Amendment (STTM Brisbane Hub) Rule 2011

Rule Proponent

Australian Energy Market Operator

Commissioners

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23 June 2011

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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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Summary of draft Rule determination

The Commission has made this draft Rule determination for the STTM Brisbane Hub Rule change request (Rule Change Request). This Rule Change Request was submitted by the Australian Energy Market Operator (AEMO) on 4 April 2011.

In this Rule Change Request, AEMO seeks to make changes to the National Gas Rules (NGR or Rules) to address technical aspects of the implementation of a Short Term Trading Market (STTM) at Brisbane. AEMO states that the proposed Rule changes will reduce costs, increase efficiency, maximise competition, and reduce barriers to entry when the STTM commences operation at the Brisbane hub.

Commission's decision

The Commission has decided to make a draft Rule reflecting the intent of AEMO's proposed Rule with amendments to aid clarity.

Reasons for the Commission's decision

The Commission is making a draft Rule reflecting AEMO's proposed Rule as it considers that it is likely to contribute to the achievement of the National Gas Objective (NGO). In particular, the Commission considers that the draft Rule is likely to lead to price, reliability and security of supply benefits to consumers of natural gas as it would allow:

- the STTM to commence operation at the Brisbane hub without substantial implementation costs associated with changing the timing of the start of the Brisbane gas day¹ from 8:00am to 6:30am;
- gas users in the Queensland retail gas market to register as Self Contracting Users, providing them with the opportunity to contract for gas supply directly with pipeline operators and producers and also allowing them to participate in the STTM at the Brisbane hub. This may increase competition in the Queensland retail market and the STTM at the Brisbane hub; and
- transmission-connected STTM Users to offer contingency gas services at the STTM at the Brisbane hub, enhancing the reliability and security of supply of natural gas.

Invitation for public submissions

The Commission invites public submissions on this draft Rule determination by Thursday 4 August 2011. See section 1.6 for details on how to make a submission and how to request a public hearing on this draft Rule determination.

¹ The current gas day for Brisbane and the Roma to Brisbane Pipeline starts at 8:00am.

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1 AEMO's Rule Change Request

1.1 The Rule Change Request

On 4 April 2011, AEMO (Rule Proponent) made a request to the Australian Energy Market Commission (Commission) to make a Rule regarding the Short Term Trading Market (STTM) at the Brisbane hub. The STTM is scheduled to commence operation at the Brisbane hub on 1 December 2011² or a later date determined by AEMO.³

1.2 Rationale for Rule Change Request

In this Rule Change Request the Rule Proponent raised the following issues that it seeks to resolve:

- The Rules currently prevent distribution-connected end-users registering as Self Contracting Users (SCUs) in the Queensland retail gas market, unlike for the New South Wales (NSW), Australian Capital Territory (ACT) and South Australia (SA) retail gas markets. This means that those end-users must contract with retailers to haul gas through distribution networks. It will also prevent these parties participating directly in the STTM when it commences operation.
- Under the current rules the start of the gas day at Brisbane will change from 8:00am to 6:30am when the STTM commences operation at the Brisbane hub. This would necessitate substantial changes to metering infrastructure and bilateral contracts.
- STTM Users at the Brisbane hub will face higher-than-needed operating costs as they will have to submit separate withdrawal bids for each distribution system they wish to haul gas through to withdraw gas from the hub instead of one combined bid.⁴
- Transmission-connected STTM Users⁵ at the Brisbane hub will be unable to offer contingency gas services when the STTM commences operation. This may unnecessarily limit the management of system security at times that contingency gas services are called on. This may, in turn, lead to higher-than-necessary costs for Brisbane consumers.

² Hon. S. Hinchliffe, Queensland Minister for Employment, Skills and Mining, second reading speech, *Gas Security Amendment Bill 2011* (Qld), 6 April 2011. The Rules provide for notification in the Queensland Government Gazette of the date the STTM is scheduled to commence operation.

³ Clause 13(2) of Schedule 1 to the Rules.

⁴ STTM Users have to submit separate withdrawal bids for each distribution system they wish to haul gas through at all hubs. However, in a practical sense this only impacts STTM Users at the Brisbane hub as it will be connected to at least three distribution systems while the Sydney and Adelaide hubs are each only connected to one distribution system.

⁵ In this draft Rule determination we use the term transmission-connected STTM Users to refer to parties registering as an STTM User under rule 135ABA(1)(b)(ii).

- Under current arrangements, the STTM will only be able to start operation at the Brisbane hub on the first day of a calendar month. This may impose unnecessary constraints on AEMO about when it can start the STTM, which may increase operating costs. In addition, AEMO is not required to confirm with an STTM Shipper or STTM User their minimum exposure for which they must lodge security prior to the start of the STTM. This may reduce clarity for these parties regarding their prudential obligations.

1.3 Solution proposed in the Rule Change Request

The Rule Proponent proposes to resolve the issues discussed above through a Rule seeking to:

- introduce a new registrable capacity of SCU for the Queensland retail gas market;
- change the arrangements for the timing of STTM gas days by:
 - retaining the existing 8:00am start of the Brisbane gas day when the STTM commences operation at that hub;
 - expressing the time period for compliance with STTM gas day obligations for all hubs in terms of offset periods from the start of the gas day at that hub; and
 - obliging the AEMC to undertake a comprehensive review of the timing of the start of the gas day across all STTM hubs no later than five years after the commencement of the Brisbane hub;
- provide for each STTM User to have one trading right for a hub instead of separate trading rights for each of its registered distribution services;
- allow transmission-connected STTM Users to offer and provide contingency gas services at the STTM Brisbane hub on the same basis as other STTM Users; and
- allow the STTM Brisbane hub to commence on a day other than the first day of a month, and requiring AEMO to confirm with STTM Shippers and STTM Users their minimum exposure for which they must lodge security prior to the start of the STTM at Brisbane.

1.4 Relevant background

1.4.1 Consultation with AEMO consultative and working groups

The Rule Proponent discussed drafts of the Rule it proposed (Proposed Rule) with its consultative and working groups before it publically consulted on an exposure draft of the Proposed Rule (see section 1.4.2). These consultative groups were the STTM

Consultative Forum (STTM-CF),⁶ the Queensland STTM Working Group (Qld STTM-WG)⁷ and the Gas Retail Consultative Forum - Queensland (GRCF-Q).⁸ The documents relating to the STTM-CF discussions and the minutes of the relevant STTM-CF meetings are published on AEMO's website.⁹

1.4.2 Public consultation undertaken by AEMO

AEMO consulted with the public on the nature and content of the Rule Change Request before submitting it to the AEMC. It did this by publishing a consultation paper on 14 February 2011 and inviting public submissions, due 18 March 2011.¹⁰ This consultation paper included an exposure draft of the Proposed Rule. AEMO also held a public information session in Brisbane on 8 March 2011.

AEMO received no public submissions on its consultation paper. However, AEMO amended the Proposed Rule following its consideration of submissions received during public consultation on changes to the STTM procedures. These amendments did not impact the substance of the Proposed Rule.

1.5 Commencement of Rule making process

On 16 June 2011, the Commission published a notice under section 303 of the National Gas Law (NGL) advising of its intention to commence the Rule making process in respect of the Rule Change Request.

⁶ The STTM-CF is an open AEMO forum consisting of representatives of registered participants, STTM network and pipeline owners or operators, end-user groups, interested members of the public and AEMO representatives. The objective of the STTM-CF (in part) is to provide effective consultation between AEMO and stakeholders for the development of changes to the NGR. The functions of the STTM-CF include: making and considering submissions in relation to the development of the NGR; providing a forum for consultation and involvement of stakeholders for consideration of issues relating to the operation and design of the STTM; and providing feedback to AEMO on proposals made in relation to the STTM. The terms of reference of the STTM-CF are outlined in AEMO's *Short Term Trading Market Consultative Forum (STTM CF) Terms of Reference and Operational Procedure*. See www.aemo.com.au.

⁷ The Qld STTM-WG is a subgroup of the STTM-CF comprising representatives of parties interested in the Brisbane hub.

⁸ The GRCF-Q is an open forum consisting of registered participants, end-user groups, interested members of the public and AEMO representatives. The objective of the GRCF-Q (in part) is to provide effective consultation between AEMO and stakeholders for the development of changes to the Queensland Gas Retail Market Procedures and arrangements governing the retail market. The functions of the GRCF-Q include making and considering submissions relating to the NGR, providing a forum for consultation and involvement of interested and affected parties for consideration of issues relating to the operation and design of the Queensland gas retail market. The terms of reference of the GRCF-Q are outlined in AEMO's *Gas Retail Consultative Forum - Queensland (GRCF-Q) - Terms of Reference and Operating Procedures*.

⁹ The relevant STTM-CF meetings were held on 6 December 2010, 18 January 2011 and 31 January 2011.

¹⁰ AEMO, *STTM Rule Change Proposal - Consultation Paper*, 14 February 2011. See www.aemo.com.au.

The Commission decided to fast track the Rule Change Request under section 305(2)(a) of the NGL and, accordingly, there has been no first round of consultation. The Commission decided to use the fast track process as it considered that AEMO had adequately consulted with the public on the nature and content of the Rule Change Request.

1.6 Consultation on draft Rule determination

In accordance with the notice published under section 308 of the NGL, the Commission invites submissions on this draft Rule determination, including the draft of the Rule proposed to be made, by Thursday 4 August 2011.

In accordance with section 310(2) of the NGL, any person or body may request that the Commission hold a hearing in relation to the draft Rule determination. Any request for a hearing must be made in writing and must be received no later than Thursday 30 June 2011.

Submissions and requests for a hearing should quote project number "GRC0007" and may be lodged online at www.aemc.gov.au or by mail to:

Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

2 Draft Rule Determination

2.1 Commission's draft determination

In accordance with section 308 of the NGL, this draft Rule determination has been made in relation to the Rule proposed by AEMO. The Commission has determined it should make, with amendments, the Proposed Rule.¹¹

The Commission's reasons for making this draft Rule determination are set out in section 3.1.

A draft of the proposed Rule that the Commission proposes to make (Draft Rule) is attached to and published with this draft Rule determination. The Draft Rule reflects the intent of the Proposed Rule with amendments to aid clarity. Its key features are described in section 3.2.

2.2 Commission's considerations

In assessing the Rule Change Request the Commission considered:

- its powers under the NGL to make the Rule;
- the Rule Change Request;
- the public consultation the Rule Proponent conducted on an exposure draft of the Proposed Rule, and the consultation conducted with the STTM-CF, Qld STTM-WG and GRCF-Q on the substance of the Rule Change Request;
- the fact that there is no relevant Ministerial Council on Energy (MCE) Statement of Policy Principles;¹² and
- the ways in which the Proposed Rule will, or is likely to, contribute to the NGO.

2.3 Commission's power to make the Rule

The Commission is satisfied that the Draft Rule falls within the subject matter about which the Commission may make Rules.¹³ The Draft Rule falls within section 74 of the NGL as it relates to AEMO's STTM functions and the operation of a short term trading

¹¹ Under section 308(4a) of the NGL the draft of the Rule to be made need not be the same as the draft of the proposed Rule to which the notice under section 303 relates.

¹² Under section 73 of the NGL the AEMC must have regard to any relevant MCE Statement of Policy Principles in making a Rule.

¹³ The Draft Rule does not apply in Western Australia as the Draft Rule does not fall within the subject matters about which the Commission may make Rules under the Western Australian application act (the *National Gas Access (WA) Act 2009*).

market of an adoptive jurisdiction.¹⁴ Further, the Draft Rule falls within the matters set out in schedule 1 to the NGL as it relates to:

- clause 55B because it regulates the operation and administration of a regulated gas market; and
- clause 55C because it regulates the declared system functions or STTM functions.¹⁵

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:

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.

Under section 291(2) of the NGL, for the purposes of section 291(1) of the NGL 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.¹⁶

For the Rule Change Request, the Commission considers that the relevant aspect of the NGO is the efficient operation and use of natural gas services for the long term interests of consumers of natural gas with respect to price, reliability and security of supply.

The Commission is satisfied that the Draft Rule will, or is likely to, contribute to the achievement of the NGO because it is likely to promote efficient investment in, and efficient operation and use of, natural gas services resulting in price, reliability and security of supply benefits in the long term interests of consumers of natural gas. In particular, the Draft Rule:

- would allow the STTM to commence operation at the Brisbane hub without substantial implementation costs associated with changing the timing of the start of the Brisbane gas day from 8:00am to 6:30am;

¹⁴ Queensland became an adoptive jurisdiction on 19 May 2011 following Royal assent to the *Gas Security Amendment Act 2011* (Qld).

¹⁵ The STTM functions are stated in section 91BRB of the NGL.

¹⁶ For the Commission's consideration of the Rule Change Request, there is no relevant MCE Statement of Policy Principles.

- would allow gas users in the Queensland retail gas market to register as SCUs, providing them with the opportunity to contract for gas supply directly with pipeline operators and producers and also allowing them to participate in the STTM at the Brisbane hub. This may increase competition in the Queensland retail market and the STTM at the Brisbane hub; and
- would allow transmission-connected STTM Users to offer contingency gas services at the STTM at the Brisbane hub, enhancing the reliability and security of supply of natural gas.

See Chapter 3 for further discussion about how the Draft Rule will or is likely to contribute to the achievement of the NGO.

2.5 Other requirements under the NGL

2.5.1 Compatibility of the Draft Rule with the proper performance of AEMO's declared system functions

Under section 295(4) of the NGL the Commission may only make a Rule that has effect with respect to an adoptive jurisdiction if satisfied that the proposed Rule is compatible with the proper performance of AEMO's declared system functions.¹⁷

The Draft Rule will not impact on AEMO's declared system functions as it only amends the registrable capacities for the Queensland retail gas market and the regulation of short term trading markets.

2.5.2 Section 295(5) of the NGL

Under section 295(5) of the NGL, the AEMC may only make a Rule that affects the allocation of powers, functions and duties between AEMO and a service provider for a declared transmission system¹⁸ if AEMO consents to the making of the Rule or the Rule is requested by the Minister of the relevant adoptive jurisdiction.

In relation to this Rule Change Request, there is no requirement under section 295(5) of the NGL for AEMO to consent to the AEMC making this Draft Rule. This is because the Draft Rule only amends the registrable capacities for the Queensland retail gas market and the regulation of short term trading markets.

¹⁷ AEMO's declared system functions are specified in section 91BA of the NGL.

¹⁸ The declared transmission system is the set of transmission pipelines for the declared wholesale gas market in Victoria.

2.6 Participating jurisdictions

Although the Draft Rule applies in each participating jurisdiction except Western Australia,¹⁹ it only amends:

- rule 135AB which only relates to the registrable capacities of the retail gas markets of NSW, the ACT, Queensland, SA and Victoria; and
- Part 20 of the Rules which only applies to short term trading markets.

¹⁹ Under section 21 of the NGL, the participating jurisdictions are the States, the Commonwealth, the Australian Capital Territory and the Northern Territory. The Draft Rule does not apply in Western Australia as it does not fall within the subject matters about which the Commission may make Rules under the *National Gas Access (WA) Act 2009*.

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 Draft Rule should be made. Its analysis of the Proposed Rule is also set out in this chapter.

3.1 Assessment of issues

In submitting the Rule Change Request, AEMO sought to:

- permit self contracting users to participate in the Queensland retail gas market;
- provide for a different gas day for the Brisbane STTM hub than for existing STTM hubs at Sydney and Adelaide;
- provide for an STTM User at a hub to have one trading right for that hub notwithstanding that there may be multiple distribution systems at that hub;
- permit transmission-connected STTM Users to participate in providing contingency gas services; and
- make technical amendments to the transitional provisions.

AEMO submitted that the proposed changes would reduce costs, increase efficiency, maximise competition and reduce barriers to entry when the STTM commences at the Brisbane hub.

After analysing the issues arising from the Rule Change Request, the Commission is satisfied that the Proposed Rule will or is likely to contribute to the achievement of the NGO as it is likely to result in price, reliability of supply and security of supply benefits to consumers of natural gas.

The current arrangements relevant to this Rule Change Request and the issues considered by the Commission in making this draft Rule determination are set out below.

3.1.1 Current arrangements

The counterfactual for the Commission's assessment of this Rule Change Request is the current arrangements as they relate to the STTM Brisbane hub and the Queensland retail gas market. These arrangements include the STTM commencing operation at the Brisbane hub on or after the date specified in the Queensland Government Gazette under the existing Rules.

Commencement of STTM at the Brisbane hub

The STTM is scheduled to commence operation at the Brisbane hub on the date specified in the Queensland Government Gazette or on a later date as determined by AEMO.²⁰ Under rule 372A, the Brisbane hub comprises the custody transfer points on the Roma to Brisbane Pipeline specified in AEMO's *STTM Procedures v. 5.1*.²¹

Timing for the STTM gas day at the Brisbane hub

Under the existing Rules, the STTM gas day at the Brisbane hub will begin at 6:30am Australian Eastern Standard Time (AEST), the same time as at other STTM hubs.²² The gas day in the Queensland retail gas market currently starts at 8:00am.²³

Contingency gas services

Contingency gas is an STTM market mechanism to help ensure the security of supply. In this mechanism, the supply of gas to a hub, and withdrawals of gas from a hub, may be varied to prevent involuntary load curtailment.

STTM Shippers and STTM Users (other than transmission-connected STTM Users) can submit offers to the contingency gas market:

- STTM Shippers can submit an offer to increase or decrease the quantity of natural gas they supply to the Brisbane hub;²⁴ and
- STTM Users can submit offers to decrease the quantity of natural gas they withdraw from the hub.²⁵

While STTM Users can submit offers to provide contingency gas services, transmission-connected STTM Users are unable to provide contingency gas services at the Brisbane hub. This is because they are not considered to be connected to an STTM distribution system for the purpose of contingency gas due to an exclusion in rule 372A(3).

²⁰ Clause 13, Schedule 1 to the Rules. The Minister's second reading speech on *Gas Security Amendment Bill 2011* (Qld) indicated that it was intended that the STTM would commence operation at the Brisbane hub on 1 December 2011.

²¹ See www.aemo.com.au.

²² Rules 364 and 366.

²³ AEMO, *Retail Market Procedures (Queensland)* v. 3.0, p. 7. See www.aemo.com.au.

²⁴ Rule 435(1).

²⁵ Rule 435(2).

Registrable capacities in the Queensland retail gas market

Rule 135AB specifies the registrable capacities for participants in the NSW, ACT, SA and Queensland retail gas markets:

- NSW and ACT:
 - network operator;
 - user; and
 - self contracting user.

- SA:
 - network operator;
 - network operator (Mildura region);
 - user;
 - self contracting user;
 - transmission system operator;
 - swing service provider; and
 - shipper.

- Queensland:
 - distributor; and
 - retailer.

Trading rights for STTM Users

The Rules provide for each STTM User to have separate trading rights at a hub in respect of each distribution service they register with AEMO for that hub. This means that an STTM User will have to make separate bids to AEMO to withdraw gas from a hub in respect of each of its registered distribution services at that hub.

Under these arrangements, STTM Users at the Sydney and Adelaide hubs only have to submit one withdrawal bid in respect of each hub as each hub is connected to only one distribution system. However, in Brisbane, STTM Users may be required to submit multiple withdrawal bids under the existing Rules as there will be at least two distribution systems connected to that hub.

3.1.2 AEMO's Proposed Rule

AEMO proposes a Rule that seeks to:

- introduce a new registrable capacity of SCU for the Queensland retail gas market. This would have the additional consequence of allowing SCUs to participate as an STTM User in the STTM at the Brisbane hub;
- change the arrangements for the timing of STTM gas days by:
 - retaining the existing 8:00am start of the Brisbane gas day when the STTM commences operation at that hub;
 - expressing the time period for compliance with STTM gas day obligations for all hubs in terms of offset periods from the start of the gas day at that hub; and
 - obliging the AEMC to undertake a comprehensive review of the timing of the start of the gas day across all STTM hubs no later than five years after the commencement of the Brisbane hub;
- provide for each STTM User to have one trading right for a hub instead of separate trading rights for each of its registered distribution services;
- allow transmission-connected STTM Users to offer and provide contingency gas services at the STTM Brisbane hub on the same basis as other STTM Users; and
- allow the STTM Brisbane hub to commence on a day other than the first day of a month, and requiring AEMO to confirm with a Trading Participant their minimum exposure for which they must lodge security prior to the start of the STTM at Brisbane.

3.1.3 Impact and assessment of Proposed Rule

This section summarises the Commission's assessment of the impact of the Proposed Rule. These matters are discussed in more detail in Chapters 5-7.

Impact on prices

The Proposed Rule is likely to result in price benefits:

- it may allow the STTM to commence operating at the Brisbane hub without imposing costs associated with implementing a new timing for the start of the gas day at that hub;
- it may reduce the operational costs for gas users in the Queensland retail market and increase competition in the STTM at the Brisbane hub;

- it would improve regulatory clarity for STTM Users at hubs at which there are multiple distribution systems; and
- it is likely to promote competition in the market for contingency gas services at the Brisbane hub and may result in the more efficient use of natural gas services.

The Commission notes, however, that inefficient market outcomes may arise from having different gas day timings across a physically interconnected gas system. The Commission requests submissions on whether having different gas day timings across STTM hubs would be likely to result in materially inefficient market outcomes.

In addition, the Commission has decided against requiring the AEMC to undertake a review of the timing of gas days across all STTM hubs in its draft Rule. This is because there are established processes under which a review could occur.²⁶

Impact on reliability and security of supply

The Proposed Rule is likely to promote the security and reliability of supply of natural gas to consumers at the Brisbane hub. This is because it would allow transmission-connected STTM Users to offer contingency gas services, increasing the number of parties that could offer those services and the quantity of gas that may be offered into the contingency gas services market.

Transitional Rule provisions

The proposal is likely to provide greater clarity to STTM trading participants about their prudential obligations. It may also reduce operational costs for AEMO and others that could result from any unnecessary delay to the start of the STTM by removing a potential impediment to the STTM starting at the Brisbane hub on a day other than the first day of a calendar month.

3.1.4 Commission's conclusion

The Commission is satisfied that the Proposed Rule will, or is likely to, contribute to the achievement of the NGO. This is because it is likely to promote efficient investment in, and efficient operation and use of, natural gas services resulting in price, reliability and security of supply benefits in the long term interests of consumers of natural gas.

²⁶ The established processes include the AEMC initiating a review or being directed by the MCE to undertake a review.

3.2 The Draft Rule

The Draft Rule reflects the intent of the Proposed Rule with changes to aid clarity. The changes are:

- the Draft Rule does not require the AEMC to undertake a review of the timings of gas days across all STTM hubs;
- the Draft Rule details amendments to an STTM User's existing trading right at a hub if it registers an additional distribution service in respect of that hub;
- the Draft Rule specifies how AEMO is to vary an STTM User's trading right if one of the STTM User's registered distribution services expires; and
- minor drafting changes for purposes of clarification.

3.3 Civil penalties

The Draft Rule amends rule 135AB, Part 20 and the transitional provisions in schedule 1 of the Rules. Appendix A identifies those rules that are civil penalties and notes how they have been amended by the Draft Rule.

The Commission will not recommend to the MCE that the existing classification of rules as civil penalties be changed. In particular, the Commission will not recommend to the MCE that rules not currently civil penalties be prescribed as civil penalties. This is because it would be disproportionate for civil penalties to apply in respect of breaches of those rules.

3.4 Conduct provisions

Conduct provisions are Rules or provisions of the NGL for which any person (including the Australian Energy Regulator (AER)) may institute civil proceedings in respect of a breach.²⁷ A person (other than the AER) who suffers loss or damage by conduct of another person in breach of a conduct provision may recover their loss or damage by action against the other person in a court.²⁸

The Draft Rule amends one conduct provision - rule 488(10). Appendix A specifies how rule 488(10) has been amended by the Draft Rule.²⁹

The Commission will not recommend to the MCE that the existing classification of rules as conduct provisions be changed. In particular, the Commission will not recommend to the MCE that rules not currently conduct provisions be prescribed as

²⁷ Under section 229(3) of the NGL.

²⁸ Under section 233 of the NGL.

²⁹ The conduct provisions are prescribed in the *National Gas (Victoria) (Declared System Provisions) Regulations 2009* and the *National Gas (South Australia) Regulations*.

conduct provisions. This is because it would be disproportionate for conduct provisions to apply in respect of breaches of those rules.

4 Commission's assessment approach

This chapter describes the Commission's approach to assessing the Rule Change Request in accordance with the requirements set out in the NGL (and explained in Chapter 2).

In assessing any Rule Change Request against the NGL criteria, the 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 STTM commencing operation at the Brisbane hub on or after a date specified in the Queensland Government Gazette under the existing Rules, with relevant aspects of the Rules laid out in Chapter 3.

In assessing this Rule Change Request, the Commission has considered the likely impact of the proposal on:

- the costs associated with the commencement of the STTM at the Brisbane hub;
- the reliability and security of supply of natural gas at the Brisbane hub;
- the level of competition in the Queensland retail gas market and in the STTM at the Brisbane hub; and
- the level of regulatory clarity for STTM Users and other parties.

The Commission has focussed on this set of issues because:

- the Rule Proponent claimed that the Proposed Rule would enable the STTM to commence operation at the Brisbane hub without substantial costs being incurred associated with parties changing metering infrastructure and bilateral contractual arrangements across Queensland for a 6:30am start to the gas day;
- the Rule Proponent claimed that the Proposed Rule could enhance the reliability and security of supply of natural gas at the Brisbane hub;
- it considers the Proposed Rule could enhance the level of competition in the Queensland retail gas market and in the STTM at the Brisbane hub; and
- it considers the Proposed Rule will improve regulatory clarity:
 - for STTM Users, in relation to their trading rights associated with hauling gas through multiple STTM distribution systems connected to the Brisbane hub; and
 - associated with the commencement of the STTM at the Brisbane hub.

The Commission has also:

- reviewed the public consultation the Rule Proponent conducted on an exposure draft of the Proposed Rule and the development of the Proposed Rule through its consultation forums; and
- held bilateral discussions with AEMO (as Rule Proponent and STTM market operator) to clarify the Rule Change Request.

5 Price impacts

The STTM is scheduled to commence operation at the Brisbane hub on 1 December 2011 or a later date as determined by AEMO. Implementing the STTM will impose costs on AEMO and other parties including STTM Shippers and Users, transmission and distribution pipeline operators.

Reducing the cost of implementing the STTM at the Brisbane hub, and reducing operating costs for STTM participants and others may, through competitive market processes, ultimately result in lower prices for end-use consumers of natural gas.

5.1 Rule Proponent's view

The Rule Proponent has stated that:

- in relation to issues around the timing of gas days:
 - providing for an 8:00am start to the Brisbane gas day would allow the implementation of the Brisbane hub to commence on time without substantial, non-critical costs being incurred and unnecessary implementation risks being introduced;³⁰
 - there is a desired longer-term objective of having closer alignments of operational timings through the gas day and across STTM hubs, related gas markets and more broadly in the gas sector;³¹
 - requiring a review of the timing of the start of the gas day across all hubs will ensure that the long terms benefits of aligning the gas day across the entire supply chain and across different jurisdictions would be appropriately assessed, with clarity provided on the potential for future alignment; and
 - changing the way in which the timing of gas day activities is expressed in the Rules by using an offset from the time when the gas day starts would accommodate different timings, improving clarity and reducing complexity in the Rules.
- adding a registration category of SCU for the Queensland retail gas market would:
 - enhance the efficient operation of retail gas markets through consistent application of participation rights; and
 - facilitate competition in retail and wholesale gas markets, reducing costs and improving market efficiencies.

³⁰ AEMO, Rule Change Request, Attachment A, p. 15.

³¹ AEMO, Rule Change Request, Attachment A, p. 14.

- providing for STTM Users to have one trading right per hub would:
 - reduce costs by allowing STTM Users to submit a single set of bids for each hub; and
 - provide for consistent regulatory arrangements supporting trading at all hubs.
- allowing transmission-connected STTM Users to offer contingency gas services would:
 - increase competition and liquidity in the contingency gas market; and
 - enhance the efficient operation of gas services.

5.2 Commission's analysis

The Commission considers that there are a number of aspects of the Rule Change Request which may have price impacts. These are:

- providing for the STTM gas day at the Brisbane hub to start at 8:00am each day;
- introducing a new registrable capacity of SCU in the Queensland retail gas market;
- providing for each STTM User at a hub to have a single trading right at the hub; and
- allowing transmission-connected STTM Users at the Brisbane hub to submit offers to provide contingency gas services at that hub.

The Commission's assessment of the impacts of each of these is discussed below.

5.2.1 Timing of the start of the gas day at the Brisbane hub

Current arrangements

Under the existing rules, the gas day in the STTM at the Brisbane hub will start at 6:30am AEST each day. Under the current arrangements, the Brisbane gas day starts at 8:00am AEST each day.

The Sydney, Adelaide and Brisbane hubs are interconnected through transmission pipelines. They are also interconnected with the Victorian declared transmission system and the Tasmanian gas system.

Analysis - timing of the start of the Brisbane gas day

The proposal seeks to retain the existing 8:00am timing of the start of the Brisbane gas day when the STTM commences operation at that hub. It also seeks to retain the existing relative timings for all STTM gas day activities at Brisbane.

The Commission considers that there would likely be benefits to AEMO and STTM participants, including reduced operating costs, from having consistent timings for STTM gas days across all hubs.

Notwithstanding the likely benefits of greater consistency, the costs of implementing a 6:30am start to the Brisbane gas day are likely to be substantial. These would include the costs of upgrading or replacing metering and IT systems, renegotiating contracts, and the disruption and uncertainty caused by delaying the start of the STTM at the Brisbane hub. AEMO estimated the cost to industry of upgrading and/or replacing metering infrastructure of being potentially in excess of \$5 million.³²

In addition, as discussed below, retaining the existing start of the Brisbane gas day may provide greater opportunities for inefficient market outcomes, as the Brisbane gas day will start 1.5 hours after the Sydney and Adelaide gas days start.

Potential for inefficient market outcomes

While the Proposed Rule would avoid the costs of changing the timing of the Brisbane gas day, the Commission recognises that having different timings for gas days across interconnected hubs may give rise to inefficient market outcomes. While the potential for materially inefficient market outcomes has not been identified by any party, it requires investigation as it may impact the efficient use of natural gas services.

One stylised set of circumstances in which different gas day timings may give rise to inefficient market outcomes is described in Box 5.1. Other sets of circumstances may also give rise to inefficient market outcomes.

Box 5.1: Potential inefficient market outcomes

One potential chain of events which could result in inefficient market outcomes is laid out below.

In this scenario, the Brisbane and Sydney gas days have different timings following a Rule being made in the form of the Draft Rule. The deadline for submitting offers and bids for the next gas day at the Sydney hub is 12:00pm and 1:30pm at the Brisbane hub. In this scenario the ex-ante prices at these hubs are usually similar.

- An event at a production facility affects supply to the Brisbane and Sydney hubs shortly after 12:00pm but before 1:30pm.

³² AEMO, Rule Change Request, Attachment A, p. 16.

- Due to the 1.5 hour difference between the start of the Sydney and Brisbane gas days, the information about the production facility event is incorporated into the Brisbane ex-ante price for the next gas day but not the Sydney ex-ante price. This results in the Brisbane ex-ante price being much higher than the Sydney ex-ante price. The prices would have been similar if the gas day timings (including to submit offers and bids) were the same.
- This results in the Sydney ex-ante price being much lower than the true value of the supply of gas at the Sydney hub.
- During the next gas day, STTM Shippers flow gas to Brisbane in preference to Sydney following the incentives that arise from the different ex-ante prices. They do this even though the true value of the supply of gas at Sydney is similar to its value at Brisbane.
- Preferentially allocating gas to Brisbane may reduce overall welfare, relative to the flows that would have occurred if the ex-ante prices were similar.
- This is because the relative allocation of gas to Brisbane and Sydney reflects the ex-ante prices but not the true value of supply. This could be an inefficient market outcome.

The key issue is whether having different gas day timings may give rise to inefficient market outcomes and whether these outcomes are likely and material. In relation to this point the Rule Proponent stated that:³³

- during its consultation with the STTM-CF, no party could identify how different gas day timings would increase the potential for new arbitrage opportunity in addition to those already existing;
- there is limited potential for trade between the STTM hubs due to their geographic separation; and
- the different timing for the start of the gas day is not anticipated to affect the operation of related energy markets.

The Commission requests submissions on whether having different gas day timings across STTM hubs would be likely to give rise to materially inefficient market outcomes.

Analysis - proposed AEMC review of gas day timings across STTMs

The Rule Proponent proposed that the Rules be amended to require the AEMC to complete a review of the time at which the gas day begins at all STTM hubs by five years after the start of the STTM at the Brisbane hub.

³³ AEMO, Rule Change Request, Attachment A, p. 17.

Under section 83 of the NGL, the AEMC may conduct a review into the operation and effectiveness of the Rules or any matter relating to the Rules. Under this provision the AEMC has the power to conduct a review of the time at which the gas day begins at one or more STTM hubs at any time.

While the AEMC's power to initiate a review is limited to the operation and effectiveness of the Rules or any matter relating to the Rules, the MCE has the power to direct the AEMC to conduct a review into any matter relating to a market for gas.³⁴ The MCE could request the AEMC conduct a review on the timing of gas days throughout the entire gas supply chain or any part of the supply chain across one or more markets.

The Commission considers there may be value in a future review being undertaken on the timings of gas days across all STTM hubs. This is because there may be benefits from having consistent arrangements across the short term trading markets. Such a review would be likely to be of interest to a wide range of parties in the gas supply chain as its recommendations may have upstream impacts. In determining the scope of the review, consideration may also be given to whether the timing of STTM gas days should be consistent with gas days in other wholesale gas markets such as the Victorian Declared Wholesale Gas Market.

The Commission has, however, decided against including a requirement in the Draft Rule that the AEMC undertake a review. This is because there are established processes under which a review could be undertaken and imposing a requirement through the Draft Rule could reduce the flexibility in how such a review is conducted.

Analysis - expressing gas day activities as an offset from the start of the gas day

The proposal seeks to express the timeframes for gas day activities to be undertaken as an offset period from the start of the gas day instead of specific times during the day. This is likely to reduce the complexity of the rules and enhance regulatory clarity as the timing of the Brisbane gas day will be different to the timing of the gas day at the Sydney and Adelaide hubs.

Overall conclusion

Allowing the STTM at the Brisbane hub to commence operation while retaining the existing timing for the start of the Brisbane gas day would be likely to result in price benefits for consumers. The expected competitive benefits would appear sooner and the STTM could commence operation without imposing the significant costs of changing metering infrastructure, IT systems and renegotiating contracts. It would also avoid the cost of uncertainty in delaying the start of the STTM at the Brisbane hub.

The Commission notes, however, that inefficient market outcomes may arise from having different gas day timings across a physically interconnected gas system. The Commission requests submissions on whether having different gas day timings across STTM hubs is likely to give rise to materially inefficient market outcomes.

³⁴ Section 79(1)(a) of the NGL.

5.2.2 Registrable capacities in the Queensland retail gas market

Current arrangements

Under the current arrangements, parties must register as a retailer or distributor to participate in the Queensland retail gas market.³⁵ A consequence of this is that end-consumers must contract with retailers to supply gas to the point of consumption. They are unable to contract directly with producers and pipelines to supply gas.

The Rules provide for a registrable capacity of SCU in the retail gas markets of NSW, the ACT and SA.³⁶ As at 10 June 2011, there were nine parties registered as SCUs in the NSW retail gas market and one party registered as an SCU in the South Australian retail gas market.

The current arrangements will also preclude distribution-connected gas users at the Brisbane hub from directly participating in the STTM. This is because only parties participating in the Queensland retail gas market as an SCU or retailer will be able to be the financially responsible person in respect of a distribution supply point and withdraw gas at such a point.³⁷ Creating a new registration category of SCU for the Queensland retail gas market in the Rules will then allow those parties to participate in the STTM at the Brisbane hub by registering as an STTM User under rule 135ABA(1)(b)(i).

Analysis

The Proposed Rule would allow distribution-connected end-users to register as SCUs in the Queensland retail gas market, permitting them to participate in that retail gas market.

This would provide gas users³⁸ with the choice of contracting supply with pipelines and producers or with retailers. This greater range of supply options may allow them to reduce their operating costs. This may also provide greater discipline on Queensland retailers to offer competitive products to large gas users.

In addition, it would allow gas users at the Brisbane hub to participate directly in the STTM. This may result in an increased level of competition in the STTM, which would have potential to result in lower prices in the STTM and ultimately lower costs for end-use consumers.

Conclusion

The proposal to introduce the registrable capacity of SCU for the Queensland retail gas market may reduce the operational costs for gas users in that market. It may also

³⁵ Rule 135AB(2).

³⁶ Rules 135AB(1) and 135AB(3).

³⁷ AEMO, *Retail Market Procedures (Queensland)*, v. 5.0. See www.aemo.com.au.

³⁸ The Commission recognises that, in practice, large gas users would be more likely to register as SCUs than small gas users.

increase competition in the Queensland retail gas market and in the STTM at the Brisbane hub. These changes may result in reduced costs for end-use consumers.

5.2.3 Multiple distribution networks

Current arrangements

Under the existing Rules, the definition of trading right appears to provide that an STTM User will have a trading right for each distribution service it registers with AEMO. This appears to be because the Rules do not contemplate that multiple distribution systems may be connected to the hub.

The Sydney and Adelaide hubs are both connected to only one distribution system. STTM Users at those hubs therefore only need to submit one bid to withdraw gas from each of those hubs.

However, there are expected to be at least three distribution systems connected to the Brisbane hub. Under the current arrangements, STTM Users at that hub will be required to submit separate withdrawal bids for each of their registered distribution services. The Commission understands that AEMO would amalgamate those bids before scheduling the market. After scheduling the market, AEMO would provide separate distribution system allocations to each STTM User.

Analysis

Providing for an STTM User to have only one trading right per hub, regardless of the number of its registered distribution services for that hub, would result in it needing to submit only one set of bids for withdrawals from the hub. It would also allow AEMO to provide those STTM Users with one combined schedule of withdrawals from the hub instead of separate schedules for each registered distribution service.

This would improve the clarity about STTM User trading rights and may marginally reduce users' and AEMO's operational costs. While the changes would currently only affect the operation of the STTM at the Brisbane hub, they would apply to all existing and future STTM hubs.

Conclusion

The proposal would improve clarity for STTM Users about the relationship between trading rights at the hub and users' registered distribution services. It may also reduce operating costs, on the margin, for AEMO and STTM Users at hubs which are connected to multiple distribution systems. These reduced costs may ultimately result in lower costs for end-use consumers.

5.2.4 Transmission-connected STTM Users providing contingency gas services

Current arrangements

Under rule 435, STTM Shippers and STTM Users can submit offers to provide contingency gas services at hubs. However, transmission-connected STTM Users will be unable to provide contingency gas services at the Brisbane hub. This is because they are not considered to be connected to an STTM distribution system for the purpose of contingency gas due to an exclusion in rule 372A(3).

In particular:

- STTM Shippers can submit an offer to increase or decrease the quantity of natural gas they supply to the Brisbane hub;³⁹ and
- STTM Users (other than transmission-connected STTM Users) can submit offers to decrease the quantity of natural gas they withdraw from the hub.⁴⁰

There are no transmission-connected STTM Users at the Sydney and Adelaide hubs as the relevant transmission pipelines do not extend into those hubs.

Analysis

The proposal would allow transmission-connected STTM Users to submit offers to provide contingency gas services at the Brisbane hub. These users may consume large quantities of natural gas.

This would increase the number of parties who could offer contingency gas services at the Brisbane hub, which may increase competition and liquidity in that market. This may then lead to reduced costs for end-use consumers at that hub. It would also provide greater flexibility to transmission-connected STTM users in how they use their gas. This could result in the more efficient use of natural gas services as they would have the opportunity to offer their gas to the contingency gas market.

Conclusion

The proposal may result in price benefits for consumers of natural gas at the Brisbane hub as it is likely to promote competition in the Brisbane contingency gas services market. It may also result in the more efficient use of natural gas services.

³⁹ Rule 435(1).

⁴⁰ Rule 435(2).

5.3 Conclusion

The Proposed Rule is likely to result in price benefits for consumers of natural gas as:

- it may allow the STTM to commence at the Brisbane hub without imposing costs associated with implementing a new timing for the start of the gas day at that hub;
- it may reduce the operational costs for gas users in the Queensland retail market and increase competition in the STTM at the Brisbane hub;
- it would improve regulatory clarity for STTM Users at hubs at which there are multiple distribution systems; and
- it is likely to promote competition in the market for contingency gas services at the Brisbane hub and may result in the more efficient use of natural gas services.

The Commission requests submissions on whether having different gas day timings across STTM hubs would be likely to give rise to materially inefficient market outcomes.

6 Reliability and security of supply of natural gas

Natural gas pipelines must be operated within pressure limits and other specifications to ensure they remain safe and allow a reliable supply of gas to retailers and end-use consumers.

The STTM has a contingency gas mechanism for each hub to help ensure the security of the gas system. As discussed in section 5.2.4, this is a market mechanism in which STTM Shippers and STTM Users can submit offers to supply greater or lesser quantities of gas to the hub or to withdraw lesser quantities of gas from the hub.

Increasing the number of parties who are able to offer contingency gas services, and the quantity of gas that can be offered in respect of those services, may enhance the reliability and security of supply of natural gas at those hubs.

6.1 Rule Proponent's view

The Rule Proponent stated that facilitating the participation of potential providers in the contingency gas mechanism would enhance the reliability and security of supply of gas.⁴¹

6.2 Commission's analysis

Current arrangements

As discussed in section 5.2.4, STTM Shippers and STTM Users (except transmission-connected STTM Users) can offer services to the contingency gas market. Transmission-connected STTM Users are unable to offer these services at the Brisbane hub as they are not considered to be connected to an STTM distribution system for the purpose of contingency gas due to an exclusion in rule 372A(3).

Analysis

The Proposed Rule would allow transmission-connected STTM Users, in line with other STTM Users, to provide contingency gas services by submitting offers to decrease the quantity of gas they withdraw from the hub. They would still be unable to participate in the contingency gas assessment conferences even though they would be deemed to be distribution systems under rule 372A(3).

The Commission understands that there are expected to be three transmission-connected STTM Users when the STTM commences at the Brisbane hub.⁴² Each of these is a major gas user; one is a gas-fired electricity generator.

⁴¹ AEMO, Rule Change Request, Attachment A, p. 27.

⁴² AEMO, *STTM Procedures*, v. 5.1. See www.aemo.com.au.

Allowing a greater number of parties to offer contingency gas services at the Brisbane hub is likely to promote the reliability and security of supply of gas. This is because it will increase the number of parties that could offer those services and the quantity of gas that may be offered into the contingency gas services market.

In making this assessment, the Commission notes that transmission-connected STTM Users may have opportunities to provide demand reduction services under the existing arrangements. Allowing them to participate in the contingency gas market may give them another route for providing demand reduction services that could assist system security. This could attract higher volumes of demand reduction than would occur under usual market processes, enhancing the management of system security issues in the hub efficiently and in a timely way.

6.3 Conclusion

Allowing transmission-connected STTM Users to offer contingency gas services at the Brisbane hub is likely to promote the security and reliability of supply of natural gas to consumers supplied gas via the hub. This is because it would allow these parties to offer contingency gas services, increasing the quantity of gas that may be offered into the contingency gas services market.

7 Transitional provisions

Transitional provisions are needed to provide for the commencement of the operation of the STTM at the Brisbane hub.

7.1 Rule Proponent's view

The Rule Proponent stated that the following two changes should be made to the transitional provisions:

- the first STTM billing period at the Brisbane hub should start on the first STTM day at that hub and not the first day of a calendar month. Without this change the commencement of the STTM at the Brisbane hub may need to be delayed; and
- AEMO should be required to determine and provide to each STTM trading participant at the Brisbane hub the participant's minimum exposure for the first financial year no later 15 business days before the first STTM gas day at the Brisbane hub.

The Rule Proponent stated that the Rules imposed similar requirements for the commencement of the STTM at the Sydney and Adelaide hubs.

7.2 Commission's analysis

7.2.1 First billing period

Current arrangements

The existing Rules provide for each billing period in the STTM at the Brisbane hub (including the first) to start on the gas day starting on the first day of a calendar month and ending on the gas day that starts on the last day of that calendar month.⁴³ The transitional provisions for the commencement of the Sydney and Adelaide hubs provided for the first billing period to commence on the first STTM gas day at those hubs.⁴⁴

Analysis

The proposal would provide for the first billing period of the STTM at the Brisbane hub to be the first day the STTM operates at that hub. This would provide more flexibility to AEMO in relation to the day the STTM can commence at that hub if its commencement is delayed from 1 December 2011. This may prevent any unnecessary delay to the commencement of the STTM and therefore reduce operational costs of AEMO and others.

⁴³ Rule 364.

7.2.2 Amount of security

Current arrangements

The Rules do not require AEMO to confirm with STTM participants their minimum exposure for which they must lodge security before the start of the STTM at the Brisbane hub. The Rules required AEMO to do this before the start of the STTM at the Sydney and Adelaide hubs.

Analysis

Requiring AEMO to confirm with trading participants their minimum exposure for which they must lodge security prior to the start of the STTM is likely to promote participants' ability to manage their risk of being subject to a default event. This is because:

- rule 480(3) requires each trading participant to ensure that the amount of its security unclaimed by AEMO does not fall below the participant's minimum exposure;
- under rule 486(1)(b), not complying with that obligation is a default event; and
- under rule 486(2) AEMO may issue a default or suspension notice in relation to a trading participant if a default event occurs.

The proposal is then likely to provide greater clarity to trading participants about their prudential obligations.

7.2.3 Additional changes

The Commission has identified a number of additional changes to the transitional provisions. These remove the references to clauses 14, 15 and 19 of schedule 1 from clause 29 of schedule 1. These references can be removed as those clauses will not apply in respect of the commencement of the STTM at the Brisbane hub as the 'effective date' for the commencement of the STTM will occur before the market trial.

7.3 Conclusion

The proposal is likely to provide greater clarity to STTM trading participants about their prudential obligations. It may also reduce operational costs for AEMO and others that could result from any unnecessary delay to the start of the STTM by removing a potential restriction that the STTM can only start at the Brisbane hub on the first day of a calendar month.

44 Clause 17 of schedule 1 of the Rules.

Abbreviations

ACT	Australian Capital Territory
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
AEST	Australian Eastern Standard Time
Commission	Australian Energy Market Commission
GRCF-Q	Gas Retail Consultative Forum - Queensland
MCE	Ministerial Council on Energy
NGL	National Gas Law
NGO	National Gas Objective
NGR	See Rules
NSW	New South Wales
Qld STTM-WG	Queensland STTM Working Group
Rule Change Request	STTM Brisbane Hub Rule change request
Rules	National Gas Rules
SA	South Australia
SCU	Self Contracting User
STTM	Short Term Trading Market
STTM-CF	STTM Consultative Forum

A Civil penalties and conduct provisions

This appendix details the civil penalties and conduct provisions omitted or amended by the Draft Rule.

NGR civil penalties omitted or amended by the Draft Rule	How amended
390(2)	Variation to rule 390(2)(a) to require contract holders of registered distribution services to notify AEMO of any change to the capacity limit of the registered distribution service for any gas day.
414(1)	Minor variation to express the time by which an STTM gas day activity is to be undertaken in terms of an offset period from the start of a gas day.
442(5)	Variation to require an STTM facility operator to provide AEMO with information specified in the STTM Procedures.
488(10)	Minor variations to allow for the possibility of a hub being connected to multiple distribution systems.

NGR conduct provisions omitted or amended by the Draft Rule	How amended
488(10)	Minor variations to allow for the possibility of a hub being connected to multiple distribution systems.