



Contingency gas evidentiary changes

Commencement of consultation on rule change request

The AEMC has started consultation on a rule change request from the Australian Energy Market Operator (AEMO) that seeks to amend the National Gas Rules (NGR) to improve incentives for trading participants to supply and efficiently price contingency gas.

Details of the rule change request

Structure of contingency gas offers and bids

AEMO is concerned that trading participants in the Short Term Trading Market (STTM) may have an incentive to restrict supply of, or inefficiently price, contingency gas. This arises because when a trading participant structures its provisional offer or bid for contingency gas, it may link its price steps to individual sources of contingency gas.¹ However, trading participants are only able to confirm the total quantity of contingency gas – rather than individual quantities in each price step. If an individual source of contingency gas is no longer available, the trading participant bears the cost of a lower price for a portion of this gas.

To mitigate this risk, the trading participant may inflate its prices or not make contingency gas available from a more expensive source. AEMO considers that this leads to inefficient prices for contingency gas, and reliability and security issues.

Evidentiary requirements for scheduled contingency gas

AEMO considers that the current evidentiary requirements for the resettlement of scheduled contingency gas are limited. These limitations include the following:

- Only STTM users are currently required to provide evidence on delivered contingency gas. This results in inequitable obligations between STTM users and shippers, making it difficult to resettle contingency gas for STTM shippers.
- Information on the timing of delivered contingency gas is currently not required. Therefore, AEMO is unable to determine whether it was delivered at the required time.
- The timing of when trading participants provide evidence of delivered contingency gas (40 days after the event) does not align with AEMO's reporting requirements (30 days after an event).
- There is a lack of guidance on what evidence is required from STTM users.

AEMO's proposed rules

AEMO proposes to address the above issues by modifying the NGR to:

- allow trading participants to confirm or revise individual quantities of gas in specific price steps within a contingency gas offer or bid, rather than just the total quantity, and require them to provide information in good faith when doing so; and
- amend the evidentiary requirements on the trading participant so that the detail on the provision of information on contingency gas is shifted from the NGR to the STTM Procedures.

¹ For example, a trading participant may be a retailer with multiple customer curtailment contracts, or have a plant with multiple plant parts or processes that can be withdrawn or shut down.

Submissions to the consultation paper are due on 4 December 2014.

AEMO considers that its proposed rules would improve the incentives for trading participants to supply and efficiently price contingency gas.

Issues for consultation

A consultation paper has been prepared to facilitate stakeholder comment on the issues raised by the proposed rule change. These issues include:

- Are changes required to the NGR or can the proposed changes to the way in which contingency gas is confirmed be achieved by changes to the STTM Procedures?
- Will the proposed changes to the NGR promote more competitively priced contingency gas and greater availability of contingency gas?
- Will the proposed changes to shift details of the evidentiary requirements from the NGR to the STTM Procedures appropriately balance flexibility for AEMO and certainty for trading participants?

The consultation paper should be read in conjunction with the rule change request, which is available on the AEMC website.

Submissions are due by **4 December 2014**.

Background

Contingency gas

AEMO may call upon contingency gas in order to balance physical supply and demand at a STTM hub if normal STTM mechanisms (such as the Market Operator Service) are unlikely to achieve this balance.

The use of contingency gas avoids the need to involuntarily curtail STTM shippers supplying or STTM users withdrawing at the hub.

A price is effectively set to make additional supplies of gas available for operational purposes to reduce the risk of supply issues for customers.

Contingency gas is expected to be rarely needed. To date, contingency gas has never been scheduled in the STTM.

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