



Australian Energy Market Commission

FINAL RULE DETERMINATION

National Gas Amendment (Changes to periodic review of market parameters in STTM) Rule 2017

Rule Proponent

Australian Energy Market Operator

10 October 2017

**RULE
CHANGE**

Inquiries

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About the AEMC

The AEMC reports to the Council of Australian Governments (COAG) through the COAG Energy Council. We have two functions. We make and amend the national electricity, gas and energy retail rules and conduct independent reviews for the COAG Energy Council.

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Summary

The Australian Energy Market Commission (Commission) has made a rule that aligns the periodic review of market parameters for the gas short term trading market (STTM) with the national electricity market (NEM) reliability standard and settings review.

The final rule requires the Australian Energy Market Operator (AEMO) to complete:

- its current review of the STTM market parameters by 30 April 2018, rather than 14 December 2017 under the previous rule, and
- subsequent reviews of the STTM market parameters within six months of the completion of each NEM reliability standard and settings review, i.e. every four years rather than every five years as under the previous rule.

The impact of changing the completion date for the current and subsequent STTM parameter reviews is that any revised STTM parameter values would come into effect on the same date as any NEM parameter values revised pursuant to the NEM reliability standard and settings reviews.¹ For the current STTM parameter review, the final rule means that any new parameters would take effect on 1 July 2020, rather than 1 July 2019 under the previous version of this rule (or if expedited, 1 July 2019 rather than 1 July 2018).

The rule change request was submitted by AEMO on 12 July 2017. The expedited rule change process was used for this rule change. The Commission determined that it should make a more preferable rule, since it considers the more preferable rule will, or is likely to, better contribute to the National Gas Objective, on the basis that it will:

- promote the provision of accurate market signals to STTM participants, and
- reduce the administrative burden on AEMO.

The final rule commences and comes into effect on the date it is published, 10 October 2017.

¹ This assumes that the Commission changes the NGR and NER to implement the revised parameter values recommended by the STTM parameter review and NEM reliability standard and settings review respectively, and that AEMO does not seek expedited implementation of the STTM parameter values under NGR rule 429(3).

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1 AEMO's Rule Change Request

1.1 The Rule Change Request

On 12 July 2017, the Australian Energy Market Operator (AEMO) made a request to the Australian Energy Market Commission (Commission) to make a rule regarding the timing of reviews of market parameters in the short term trading market (STTM) (rule change request). The rule change request sought to allow the periodic review of market parameters for the STTM (STTM review) to be conducted at the same time as the national electricity market (NEM) reliability standard and settings review (NEM review).

The Commission considered the rule change request to be a request for a non-controversial rule for the purposes of section 304 of the National Gas Law (NGL).² On this basis, the rule change has been assessed under an expedited rule change process. The Commission did not receive any objections to the use of the expedited rule change process for this rule change request.³

1.2 Current arrangements

Under rule 492 of the National Gas Rules (NGR), AEMO is mandated to:

- conduct the STTM review no later than five years after the last STTM review, and
- consult with interested parties to consider if a review should be completed earlier if a parameter in a related market changes.

1.3 Relevant background

The increased interconnection of gas and electricity markets is a key driver for this rule change request.⁴ AEMO has stated that parameters in gas markets are best analysed taking into account current considerations in inter-related markets.⁵

The STTM is a market for the trading of natural gas at the wholesale level at defined hubs between pipelines and distribution systems. AEMO operates the three STTM hubs at Sydney, Adelaide and Brisbane.⁶ The STTM includes a number of parameters which, collectively:

- establish the price envelope within which gas supply and demand is balanced in the STTM

² Section 290 of the NGL defines "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".

³ Section 304(2) of the NGL.

⁴ The interconnected nature of gas and electricity markets was recently described by the Reliability Panel, "Higher gas prices led to higher electricity prices, with sustained high prices for extended periods in June and July 2016. The high gas price was in part a function of the demand for gas as a fuel for power generation. The closure of Hazelwood power station – and the attendant increase in gas-fired power generation – is likely to strengthen the connection between gas and electricity prices." Reliability Panel, *Reliability standard and settings review 2018*, Issues paper, 6 June 2017, p.37.

⁵ Rule change request, p.6.

⁶ AEMO, *Overview of the short term trading market for natural gas*, 14 December 2011, p.1.

- allow the market to send price signals to market participants relating to investment and risk strategies, and
- limit financial risk for participants and therefore cost to end consumers.

These parameters include: the market price cap, the administered price cap, the cumulative price threshold (CPT), the CPT horizon, the minimum market price and the market operator service cost cap.

In accordance with rule 492 of the NGR, AEMO is required to conduct a review of market parameters in the STTM every five years from the completion of the first STTM review. The first (and most recent) STTM review was completed in December 2012.⁷

The STTM review is to consider parameter values that should apply from 1 July in the year commencing two years after the year in which the review was completed.⁸ For example, the STTM review completed in December 2012 considered the parameters that would apply from 1 July 2014. Alternatively, in certain circumstances AEMO can recommend that new values of the parameters should apply from 1 July in the year following the year in which the STTM review was conducted.⁹ (Using the 2012 STTM review as an example, AEMO could have recommended that the new values apply from 1 July 2013).

If the STTM review recommends a change to any of the parameters, AEMO is required to submit a rule change request to the Commission. The Commission will consider whether to make the proposed rule change having regard to the national gas objective (NGO).

As has previously been the case, AEMO intends to review the market parameters applicable in Victoria's declared wholesale gas market (DWGM) at the same time as the STTM review.¹⁰ There is no requirement under the NGR for a review of the market parameters in the DWGM.

In respect of the NEM, the Reliability Panel is required to conduct a NEM review every four years. The Panel must complete its current NEM review (2018 NEM review) by 30 April 2018.¹¹ The 2018 NEM review is considering the reliability standard and settings to apply in the NEM from 1 July 2020.

The change to the timing of the STTM review proposed in the rule change request was discussed at AEMO's Gas Wholesale Consultative Forum (GWCF) on 13 June 2017.¹² In

⁷ For further detail on the 2012 STTM parameter review see: <https://www.aemo.com.au/Datasource/Archives/Archive549>

⁸ Rule 492(2) of the NGR.

⁹ Rule 492(3) of the NGR. This timing is only permitted if AEMO found the assumptions on which the parameter value was previously set were incorrect in a material respect, and AEMO has considered the impact of the change on STTM trading participants.

¹⁰ Rule change request, p.4. The DWGM is a wholesale gas market established to enable competitive and dynamic trading on injections into and withdrawals from the Victorian Gas Declared Transmission System.

¹¹ Cl. 3.9.3A(d) of the National Electricity Rules (NER).

¹² The GWCF is a collection of stakeholders, including registered participants, government bodies and end user representatives, that contribute ideas to develop and improve the DWGM and STTM.

its rule change request, AEMO stated that the members of the GWCF unanimously supported the proposed changes.¹³

1.4 Rationale for the rule change request

In the rule change request, AEMO identifies two core issues in relation to the rules for the STTM review.¹⁴ These are:

1. Sub-optimal outcomes may be achieved if the STTM parameters are not analysed taking into account the market parameters and circumstances in inter-related markets.
2. Duplication in effort can occur where AEMO is required to conduct multiple STTM reviews in a short timeframe.¹⁵

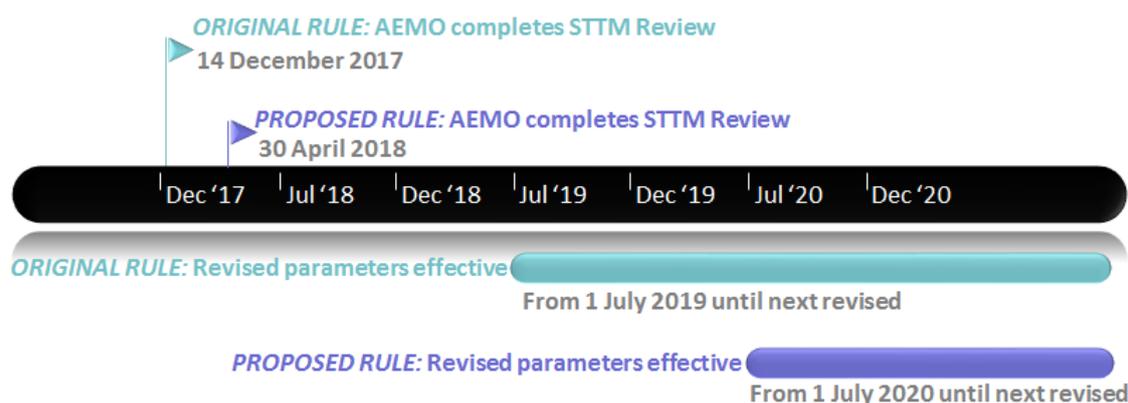
1.5 Solution proposed in the rule change request

AEMO proposed resolving the issues referred to above by making a rule (the proposed rule) that:¹⁶

- Delays the completion date for the current STTM review required by the NGR from 14 December 2017 until 30 April 2018.
- Aligns subsequent STTM reviews with future NEM reviews.

Figure 1 shows original and proposed STTM review completion dates and the dates any revised parameters would become effective.

Figure 1 Original rule and proposed rule time frames



1.6 The rule making process

On 29 August 2017, the Commission published a notice advising of its commencement of the rule making process and consultation in respect of the rule change request.¹⁷ A

¹³ Rule change request, p.13.

¹⁴ Rule change request, p.6.

¹⁵ For example where a NEM parameter changes, pursuant to NGR cl. 492(4).

¹⁶ Rule change request, p.7.

consultation paper identifying specific issues for consultation was also published. Submissions closed on 26 September 2017.

The Commission considered that the rule change request was a request for a non-controversial rule as defined in s. 290 of the NGL, on the grounds that the proposed rule would be unlikely to have a significant effect on the STTM or other gas markets (and would not affect the regulation of pipeline services). Accordingly, the Commission commenced an expedited rule change process, subject to any written requests not to do so. The closing date for receipt of written requests was 12 September 2017.

No requests to not carry out an expedited rule change process were received. Accordingly, the rule change request was considered under an expedited process.¹⁸

17 This notice was published under s. 303 of the NGL.

18 This process is set out in s. 304 of the NGL.

2 Final Rule Determination

2.1 The Commission's determination

In accordance with section 311 of the NGL, the Commission has made this final rule determination in relation to AEMO's *Changes to periodic review of market parameters in STTM* rule change request.

In accordance with section 296 of the NGL, the Commission has determined to make a more preferable rule rather than the rule proposed by AEMO.

The Commission's reasons for making the rule and the key features of the final rule are described further in this chapter.

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
- the fact there is no relevant Ministerial Council on Energy (MCE) statement of Policy Principles¹⁹
- submissions received during consultation
- the ways in which the proposed rule will, or is likely to, contribute to the achievement of the NGO.

2.3 Commission's power to make the rule

The Commission is satisfied the rule as made falls within the subject matter about which the Commission may make rules. The rule as made falls within matters set out in section 74 of the NGL, as it relates to AEMO's STTM functions and the operation of a short term trading market of an adoptive jurisdiction (s. 74(1)(a)(va)).

2.4 Rule making test

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.²⁰ This is the decision making framework that the Commission must apply.

The NGO is:²¹

“to promote efficient investment in, and efficient operation and use of, natural gas services for the long term interests of consumers of natural gas

¹⁹ Under s. 73 of the NGL the Commission must have regard to any relevant MCE statement of policy principles in making a rule. The MCE is referenced in the Commission's governing legislation and is a legally enduring body comprising the Federal, State and Territory Ministers responsible for energy. On 1 July 2011 the MCE was amalgamated with the Ministerial Council on Mineral and Petroleum Resources. The amalgamated council is now called the COAG Energy Council.

²⁰ Section 291(1) of the NGL.

²¹ Section 23 of the NGL.

with respect to price, safety, reliability and security of supply of natural gas.”

2.5 Assessment framework

For this rule change request, the Commission considers that the relevant aspect of the NGO is the efficient investment and efficient operation of natural gas services for the long term interests of consumers with respect to the price and reliability of supply of gas.

In assessing the rule change request against the NGO the Commission has considered the following principles:

- Role of information - the provision of accurate market signals to STTM participants. STTM parameters that are set at the most appropriate level support efficient investment decisions. Efficient investment decisions are critical to achieving sufficient gas supply to meet demand at the lowest possible cost.
- Regulatory and administrative burden - the reduction in the administrative burden on AEMO. Completing multiple reviews in a short time frame is unlikely to be an efficient use of AEMO's resources.

The Commission has also considered whether there is a material risk in delaying the commencement of any new STTM parameters in light of the recent trends in gas prices. A material risk has not been identified by any stakeholders.

2.6 Final rule

The Commission has determined to make a more preferable rule.

In line with the proposed rule, and so as not to further delay the current STTM review, the final rule requires AEMO to complete the current STTM review by 30 April 2018.²²

The final rule also requires that AEMO complete each subsequent STTM review within six months of the completion of each NEM review, i.e. every four years rather than every five years as under the previous rule. This aspect of the final rule differs from the proposed rule for the reasons set out in the next section.²³

The final rule does not change rules 492(2) or (3) relating to the effective date of any new parameters recommended in the STTM review.²⁴ However, the impact of changing the completion date for the current and subsequent STTM reviews is that any revised STTM parameter values would come into effect on the same date as any NEM parameter values revised pursuant to the NEM reviews.²⁵ For the current STTM review, the final rule means that any new parameters would take effect on 1 July 2020, rather than 1 July

²² New rule 492(1)(f) of the NGR.

²³ New rule 492(1)(g) of the NGR.

²⁴ These dates are expressed as "1 July in the year commencing 2 years after the year in which the review is completed" (rule 492(2)), or "1 July in the year following the year in which the review is completed" where there were material issues with the previous parameters (rule 492(3)).

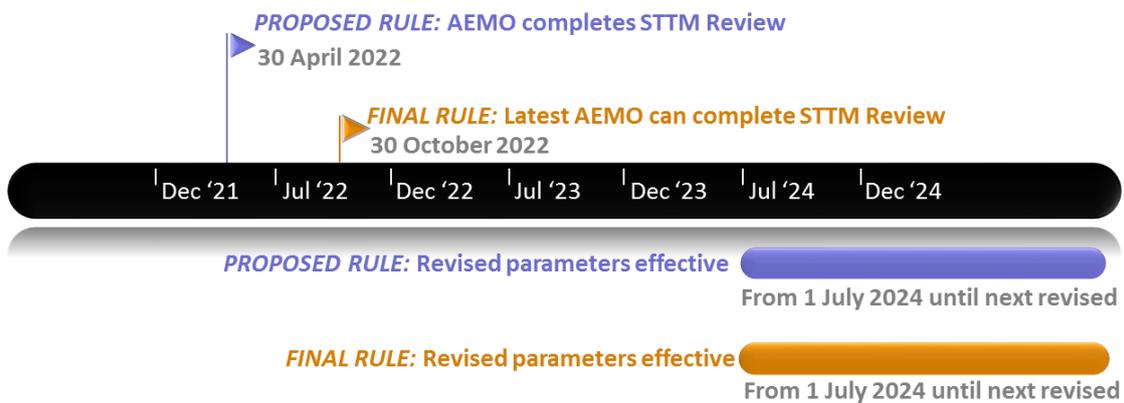
²⁵ This assumes that the Commission changes the NGR and NER to implement the revised parameter values recommended by the STTM review and NEM review respectively, and that AEMO does not seek expedited implementation of the STTM parameter values under rule 492(3).

2019 under the previous version of this rule (or if expedited, 1 July 2019 rather than 1 July 2018).

The Commission's more preferable rule provides AEMO with more flexibility to conduct each subsequent STTM review taking into account any new NEM parameters recommended in the NEM review, or to conduct the STTM review at the same time the Reliability Panel conducts the NEM review.

Figure 2 shows how completion dates would differ for subsequent STTM reviews under the proposed rule and the final rule.

Figure 2 Proposed and final rules - time frames for subsequent reviews



2.7 Commission's reasons

Having regard to the issues raised in the rule change request and submissions, the Commission is satisfied that the final rule will, or is likely to, contribute to the achievement of the NGO.

The Commission considers the final rule, which allows AEMO to complete subsequent STTM reviews up to six months after the completion of the NEM review, will better contribute to the achievement of the NGO than the proposed rule. The six month window affords AEMO the opportunity to consider any revised NEM reliability settings in its STTM review. Hence, AEMO is better informed and better able to determine the most appropriate STTM parameters that underpin efficient investment in gas services. Efficient investment drives the reliable and cost-effective supply of gas to consumers.

Two submissions were received to the consultation paper, from AEMO and Origin Energy. Both submissions supported the Commission's alternative approach as reflected in the final rule.²⁶

²⁶ AEMO submission, p. 2. and Origin Energy submission, p. 1.

2.7.1 Alignment of reviews in inter-related markets

AEMO considers that the misalignment in timing of electricity and gas market parameter reviews under the previous rules could have impeded its ability to determine the most appropriate STTM parameters. AEMO indicates that this may:²⁷

- hinder participants from effectively managing risks in the STTM, and
- contribute to higher long term costs to consumers.

Considering gas and electricity market parameters within aligned time frames will ensure that there is no relative advantage in terms of investment incentives or risk management from participating in one market, to the detriment of others. For example, if following a NEM review, the market price cap in the NEM was increased, this may diminish the strength of existing price signals in the STTM. This is because the existing STTM administered price cap may not be high enough to encourage gas powered generators to constrain their demand due to greater potential revenue to be earned in the NEM.²⁸

Origin Energy echoed the point above and considered that the alternative approach as specified in the final rule will "address the current misalignment between gas and electricity market parameter reviews and ensure the interrelationship between those markets is adequately accounted for".²⁹

On the basis that the value of the NEM reliability settings is a key input to the STTM review, the Commission considers it is appropriate to allow AEMO to complete its subsequent reviews of the STTM parameters up to six months after the completion of the NEM review.³⁰ This would provide AEMO with the opportunity to incorporate any revised NEM reliability settings into its STTM modelling. The Commission considered AEMO's comment that the six month delay would mean "the NEM review would not necessarily have access to proposed changes to any STTM parameters".³¹ The Commission notes that STTM parameters are not a fundamental input to the modelling for the NEM review.³²

Incorporating any changes made to the NEM reliability settings into the STTM review will support the determination of appropriate market parameters in the STTM, thereby

²⁷ Rule change request, p. 10.

²⁸ Administered price events have historically been triggered at times of systems issues. Such events occurred on 29 May 2013 for the Sydney hub and 1-3 June 2014 for Adelaide and Sydney hubs.

²⁹ Origin Energy submission, p. 1.

³⁰ In its submission AEMO interpreted this to mean it would be required to complete subsequent STTM reviews by the end of November (AEMO submission p. 1). The Commission wishes to clarify that as shown in Figure 2, subsequent STTM reviews are required to be completed by the end of October.

³¹ AEMO submission, p. 1.

³² Since the commencement of the STTM, the ex-ante market price has never reached the maximum market price (MMP) and the cumulative price threshold has not been exceeded. The ex post price has only reached the MMP once, due to a data error (Rule change request, p. 8). The low likelihood of these parameters coming into effect means they are not a critical input to the modelling for the NEM review.

providing participants with accurate information and price signals on which to manage their risks, reducing costs to consumers in the long term.

In line with AEMO's original proposal a six month lag has not been introduced for the current STTM review. The Commission notes that AEMO staff have liaised closely with the Panel Secretariat team leading the 2018 NEM review and AEMO has made substantial progress on the current STTM review. AEMO's modelling consultant has already commenced work on the current STTM review.

The Commission has also considered AEMO's comments that "following completion of the combined STTM/DWGM review, AEMO will consider proposing more comprehensive changes to the NGR and NER so that market parameters for all energy markets are reviewed on a similar basis".³³ So as not to delay these comprehensive changes and any efficiencies they may deliver the Commission requires AEMO to complete its current review by 30 April 2018.

2.7.2 Inefficient and duplicative process

AEMO believes significant inefficiencies could have arisen under the previous rule. Previously, AEMO was required to complete its next STTM review by 14 December 2017. However if the Reliability Panel recommends changes to the reliability settings in the NEM in April 2018, the rules require AEMO to consult with interested parties to determine if the market parameters for the STTM should be further reviewed.³⁴

The Commission agrees that the potential requirement to conduct multiple reviews in a short period of time may result in a duplication of effort by:

- AEMO (in consulting on the need for, and potentially conducting, a subsequent review), and
- stakeholders (in participating in the consultation, and potentially review, processes).

The time and resources dedicated to this process are likely to be better focussed elsewhere.

By requiring AEMO to complete subsequent STTM reviews by six months after the completion of the NEM review, the final rule will potentially reduce AEMO's and stakeholders' costs through the avoidance of multiple reviews in a short time frame, leading to lower costs to consumers.

2.8 Implementation approach

The rule change commences and is effective as of 10 October 2017. AEMO has already progressed the current STTM review.

Under the more preferable rule there is no delay in the implementation time of any revised STTM parameter values, compared to the proposed rule. These values would still be implemented (subject to the Commission making a final rule to change the settings) by 1 July in the year commencing two years after the year in which the review

³³ Rule change request, p.4.

³⁴ NGR rule 492(4).

was completed.³⁵ As the year in which the current review is completed will be 2018, rather than 2017 under the previous version of the rule, any new parameter values will commence on 1 July 2020.

2.9 Civil penalty and conduct provisions

The final rule does not amend any rules that are currently classified as civil penalty or conduct provisions under the NGL or National Gas (South Australia) Regulations. The Commission does not recommend to the COAG Energy Council that any of the proposed amendments made by the final rule be classified as civil penalty or conduct provisions.

³⁵ NGR 492(2).

Abbreviations and defined terms

AEMO	Australian Energy Market Operator
Commission	Australian Energy Market Commission
GWCF	Gas Wholesale Consultative Forum
MCE	Ministerial Council on Energy
NEM	National Electricity Market
NEM review	Review of the reliability standard and settings in the NEM conducted by the Reliability Panel under NER clause 3.9.3A
NER	National Electricity Rules
NGL	National Gas Law
NGO	National Gas Objective
STTM	Short Term Trading Market
STTM review	Review of STTM parameters conducted by AEMO under NGR rule 492