

Improving Market Operator Services (MOS) in the Short Term Trading Market (STTM) for Gas

Draft rule aims to improve competition in MOS services provision

The Australian Energy Market Commission (AEMC) has made a draft rule that aims to facilitate greater levels of competition in the provision of MOS services in the STTM for gas. MOS services, the mechanism used to balance pipeline deviations, are enhanced through lower barriers to entry in MOS services provision and possible increases in the liquidity of MOS services.

Draft rule determination

The Commission has made a more preferable rule regarding MOS timing and eligibility requirements for participating in the STTM for gas. The draft rule largely adopts the changes proposed by the Australian Energy Market Operator (AEMO) and includes:

- specifying a reduced MOS period of one month in the National Gas Rules (NGR);
- broadening the eligibility requirements for MOS providers; and
- maintaining a requirement for AEMO to notify the market of upcoming MOS offers.

The draft rule also gives discretion to AEMO to determine the time frames associated with the MOS offer process through its STTM Procedures (Procedures) change process.

MOS period

Under current arrangements, AEMO receives MOS offers from eligible trading participants every three months (the MOS period). AEMO then collates all valid MOS offers into a price stack that applies to MOS services if required over the period. To support their MOS offers, trading participants need to ensure they can accommodate a range of possible demand scenarios over the MOS period. This may limit the volume of pipeline capacity that a trading participant allocates to MOS services.

The draft rule, which reduces the MOS period to one month, allows trading participants to adjust their MOS offers more frequently and in line with seasonal changes in demand.

In addition, by defining the MOS period in the NGR (previously in the Procedures), the draft rule requires that any further changes to the MOS period are determined through a rule change process, and not through a Procedure change process. This decision reflects the Commission's view that the MOS period is a critical market parameter that has the potential to financially and operationally impact on trading participants.

Broadening eligibility requirements

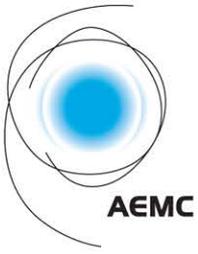
Under current arrangements, the provision of MOS services is limited to 'eligible contract holders'. That is, the entity that holds the contract with the pipeline facility operator.

The draft rule broadens the eligibility requirements to include 'trading right holders'. That is, gas shippers (or wholesalers) and end-users that may enter into sub-contracted arrangements with eligible contract holders for pipeline capacity. This change reflects similar arrangements that are in place in the gas day market.

Lower barriers to entry for the provision of MOS services is likely to increase competition between incumbent and new-entrant MOS providers which, in combination with a monthly MOS period, has the potential to increase liquidity of MOS services and place downward pressure on MOS prices.

What is MOS?

MOS is an on-the-day mechanism to balance pipeline deviations. It is calculated as the difference between the final nominations received by pipeline operators and the actual quantity of gas supplied to the STTM hub by that pipeline operator. If there is a difference between these two, then MOS is deemed to have provided the gas.



INFORMATION

MOS is managed by AEMO through supply arrangements established with MOS providers that have the capability to increase/decrease gas flows to manage daily pipeline deviations.

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