



STTM Data Validation and Price Setting Process

Final Rule Determination 5 May 2011

This Rule improves the efficiency and accuracy of price setting in the Short Term Trading Market (STTM) for natural gas. Its key purpose is to provide the market operator, AEMO, with more time to review and confirm the accuracy of STTM facility information. Its objective is to reduce the risk of errors in the setting of STTM schedules and prices. The commencement date for this Rule is 16 June 2011.

The AEMC's Rule and Final Rule Determination

On 5 May 2011, the Australian Energy Market Commission published its Rule as Made (Rule) and Final Rule Determination regarding the STTM Data Validation and Price Setting Process Rule change request. The Commission considered that the Rule:

- Provides measures that reduce the risk of erroneous STTM facility information affecting the setting of natural gas schedules and prices;
- Facilitates more accurate pricing signals which will help ensure efficient trading in the STTM and promote efficient investment in, and use of, natural gas services;
- Promotes price certainty and foster participants' confidence in the market, facilitating efficient investment in, and use of, natural gas services; and
- Reduces the risk of market participant failure (particularly for smaller market participants) flowing from incorrect STTM facility information – facilitating efficient investment in, and use of, natural gas services.

Key features

The Rule brings forward the deadline for the submission of STTM facility operational capacity information to AEMO from 11:00am to 9:30am. This is intended to give AEMO more time to validate the information and if the information fails validation or is not submitted in the first place, then AEMO may request that STTM facility operators confirm or resubmit this information in accordance with the STTM Procedures. AEMO will then use this information as an input in the setting of the provisional and ex ante market schedules.

The Rule delays the deadline for AEMO to publish the ex post imbalance price from 12:00 noon to 4:00pm in circumstances where AEMO finds that the STTM facility allocation information does not meet validation requirements or no information is provided. In these circumstances, this gives STTM allocation agents the opportunity to confirm and resubmit this information back to AEMO for substitution in accordance with the STTM Procedures. If the publication of the ex post imbalance price is delayed in this manner, then AEMO must notify trading participants of this delay.

The Rule requires AEMO to validate and substitute STTM facility information in accordance with the STTM Procedures.

The Rule requires STTM facility operators and STTM allocation agents to provide STTM facility information as required by the STTM Procedures to enable AEMO to validate and substitute this information.

This Rule improves the efficiency and accuracy of price setting in the natural gas market. Its key purpose is to provide the market operator, AEMO, with more time to review and confirm the accuracy of Short Term Trading Market (STTM) facility information.

Background to the STTM

The STTM is a daily wholesale market for trading natural gas. The STTM operates at specific hubs between transmission pipelines and distribution networks. At present, there are STTM hubs in Sydney and Adelaide.

In order to determine schedules and prices in the STTM, information is required. The relevant information is called STTM facility information. STTM facility information comprises of:

- STTM facility operational capacity information - refers to the capacity of natural gas that a STTM facility (pipeline, storage facility or production facility) is able to deliver to the relevant hub for a gas day. This information is provided by the STTM facility operator.
- STTM facility allocation information – refers to the total quantities of natural gas taken to be supplied or withdrawn from the relevant hub on a gas day using a registered facility service. This information is provided by the STTM allocation agent.

Background to this Rule change request

Towards the end of 2010, there were two high price events in the STTM. Specifically, the two high price events were:

- On gas day 8 October 2010, the ex post imbalance price was set at \$390/GJ leading to \$2.67 million in deviation charges due to erroneous STTM facility allocation information submitted by APA for the Moomba to Sydney Pipeline (MSP); and
- On gas day 1 November 2010, the ex ante market price and capacity price were set at \$150/GJ respectively and the ex post imbalance price was set at \$400/GJ resulting in ex ante charges and payments of \$34 million, deviation charges of \$335 247, deviation payments of \$4.3 million and Market Operator Services (MOS) commodity payments of \$2 million. This was largely due to erroneous STTM facility operational capacity information submitted by APA for the MSP.

As a consequence of these two high price events, AEMO submitted this Rule change request to address the risk of erroneous STTM facility information being used in the setting of schedules and prices in the STTM.

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