

Australian Energy Market Commission

CONSULTATION PAPER

National Gas Amendment (STTM Settlement Surplus and Shortfall) Rule 2014

Rule Proponent

Australian Energy Market Operator

20 February 2014

For and on behalf of the Australian Energy Market Commission

**RULE
CHANGE**

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About the AEMC

The Council of Australian Governments (COAG), through its then Ministerial Council on Energy (MCE), established the Australian Energy Market Commission (AEMC) in July 2005. In June 2011, COAG established the Standing Council on Energy and Resources (SCER) to replace the MCE. The AEMC has two main functions. We make and amend the national electricity, gas and energy retail rules, and we conduct independent reviews of the energy markets for the SCER.

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1 Introduction

On 1 November 2013, the Australian Energy Market Operator (AEMO, or the proponent) submitted a rule change request to the Australian Energy Market Commission (AEMC or Commission) in relation to the Short Term Trading Market (STTM) for gas. Specifically, AEMO has requested an amendment to the National Gas Rules (NGR) which sets out a principle for the allocation of any settlement surplus or shortfall to STTM Trading Participants.¹

The purpose of AEMO's rule change request is to rectify unintended potential financial consequences for Trading Participants arising from a rule made in June 2013,² prior to that rule starting on 1 May 2014.³

This consultation paper has been prepared to facilitate public consultation on the rule change proposal, and to seek stakeholder submissions on the rule change request.

This paper:

- sets out a summary of, and a background to, the rule change proposed by the proponent;
- identifies a number of questions and issues to facilitate the consultation on this rule change request;
- includes indicative drafting for an alternative rule to that proposed by the proponent, for the purpose of attaining stakeholder feedback; and
- outlines the process for making submissions.

¹ A STTM Trading Participant is a party with a financial role in the STTM, which can either be an STTM shipper or STTM user (AEMO, STTM Glossary of Terms v3.0, 1 December 2011, p.11).

² The National Gas Amendment (STTM Deviations and the Settlement Surplus and Shortfall) Rule 2013.

³ AEMO, rule change request cover letter, 31 October 2013, p.1.

2 Details of the rule change request

The proponent's rule change request seeks to amend the principle with regard to the allocation of the STTM settlement surplus or shortfall, as set out in rule 464(2A) of the NGR. This rule was, amongst others, the subject of a previous rule change which was completed by the AEMC in June 2013 (that is, the National Gas Amendment (STTM Deviations and the Settlement Surplus and Shortfall) Rule 2013).

Specifically, the rule change request proposes that:⁴

- rule 464(2A) of the NGR be amended to provide a principle which will enable the equitable allocation of settlement surplus payments and shortfall charges; and
- the NGR be amended to include transitional provisions that delay the effective dates of the June 2013 rule change,⁵ and the proposed rule change (if made), until 1 November 2014.

The proponent's rule change request seeks to amend one component of the June 2013 rule change.⁶ It would allow AEMO to develop and consult on proposed STTM Procedures that permit the allocation of settlement surpluses and shortfalls in a way that is equitable under all circumstances, while still supporting the "causer pays" principle.⁷

The proponent has also requested that the rule change request be considered as an urgent rule under section 304 of the National Gas Law (NGL).⁸

The proponent's rule change request includes a proposed rule, which is published on the AEMC's website.⁹

2.1 Rationale for the rule change request

AEMO considers that its proposed rule change is required to rectify a component of the June 2013 rule change¹⁰ (namely, rule 464(2A) of the NGR). The previously made rule introduced a principle to guide the allocation of any settlement surplus or shortfall

⁴ AEMO, rule change request cover letter, 31 October 2013, p.1.

⁵ The National Gas Amendment (STTM Deviations and the Settlement Surplus and Shortfall) Rule 2013.

⁶ The National Gas Amendment (STTM Deviations and the Settlement Surplus and Shortfall) Rule 2013.

⁷ The term "causer pays" refers to the economic principle that describes an approach to allocating costs. Under the causer pays principle, costs are allocated to parties that caused the cost in the first instance. This approach is considered to result in an efficient and equitable allocation of costs, and therefore, efficient market outcomes.

⁸ AEMO, rule change request cover letter, 31 October 2013, p.1.

⁹ See www.aemc.gov.au

¹⁰ The National Gas Amendment (STTM Deviations and the Settlement Surplus and Shortfall) Rule 2013.

between STTM Trading Participants that is, on implementation, inconsistent with the intended design outcomes of the previous rule change. AEMO considers that this principle impedes its ability to make STTM Procedures for the recovery of settlement shortfalls in a way that is equitable under all circumstances, as it is likely to prevent the equitable distribution of settlement shortfall charges where they are not attributable to identifiable causers (such as, those that may arise from counteracting MOS and contingency gas – this is explained further at Appendix A).¹¹

AEMO is also seeking to delay the commencement date of the previously made rule so that it will coincide with the commencement date of the proposed rule change (if made). This is for the purpose of avoiding adverse market outcomes and improving the administrative efficiency of the STTM.¹²

National Gas Objective

The proponent considers that the proposed rule change will contribute to the National Gas Objective (NGO) as it:¹³

- Supports the original policy objective of "causer pays" which was incorporated in the rule made in June 2013.¹⁴ In addition, the proposed rule will enable financial risks caused by factors outside the control of Trading Participants to be allocated appropriately. This, AEMO submitted, supports the efficient operation of the STTM.
- Reduces barriers to entry in the STTM for potential new Trading Participants. This is because AEMO considers that the proposed rule will reduce the potential for risk being allocated disproportionately to parties who have higher barriers to mitigate that risk.

Expected benefits and costs of the proposed rule change

AEMO considers that the parties who are affected by the proposed rule change will be existing and intending Trading Participants (that is, STTM shippers and users).

AEMO considers that the proposed rule change will not increase or decrease total costs in the market. Rather, it will result in a different, more equitable method of allocating costs.¹⁵

AEMO submitted that, without the proposed changes to rule 464(2A) of the NGR, there could be a transfer of risk (resulting from excessive MOS or over-scheduling of

¹¹ AEMO, rule change request, 31 October 2013, p.4.

¹² AEMO, rule change request, 31 October 2013, p.9.

¹³ AEMO, rule change request, 31 October 2013, p.10.

¹⁴ The National Gas Amendment (STTM Deviations and the Settlement Surplus and Shortfall) Rule 2013.

¹⁵ AEMO, rule change request, 31 October 2013, p.10.

contingency gas) from larger to smaller Trading Participants. It has estimated that this risk transfer may be valued at up to \$200,000 in a single month.¹⁶

AEMO also submitted that the administrative costs for implementing the proposed rule (if made) have already been captured in the costs to implement the rule made in June 2013.¹⁷

2.2 Consideration as an urgent rule

AEMO has requested that the rule change request be considered as an urgent rule under section 304 of the NGL.¹⁸

An urgent rule is defined in section 290 of the NGL as:

“...a Rule relating to any matter or thing that, if not made as a matter of urgency, will result in that matter or thing imminently prejudicing or threatening –

- (a) the effective operation or administration of a regulated gas market operated and administered by AEMO; or
- (b) the supply of gas.”

This rule change will be considered under section 304 of the NGL, subject to any written objections received which the Commission considers are not misconceived or lacking in substance.

Details on how to lodge a written objection to the AEMC's consideration of the rule change as an urgent rule, are provided in chapter 5.

¹⁶ AEMO, rule change request, 31 October 2013, p.11.

¹⁷ The National Gas Amendment (STTM Deviations and the Settlement Surplus and Shortfall) Rule 2013; and AEMO, rule change request, 31 October 2013, p.11.

¹⁸ AEMO, rule change request cover letter, 31 October 2013, p.1.

3 Proposed assessment framework

The Commission's assessment of this rule change request must consider whether the proposed rule promotes the NGO, as set out under 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.”

In assessing the rule change request against the NGO, it is the Commission's intention to consider the effect of the rule change request on:

- efficiency in the operation and use of gas services in the STTM;
- efficiency in administering the STTM; and
- market outcomes and on the substantive rights, obligations or duties of participants in the STTM.

The potential benefit of effectively allocating costs to parties that are responsible for creating such costs, is that the incentive to minimise such costs are better targeted. This would be in the long term interests of natural gas consumers.

The proposed rule will be assessed against the relevant counterfactual arrangements which, in this case, are the existing provisions in the NGR.

4 Issues for consultation

Taking into consideration the proposed assessment framework and potential requirements to implement the proposed rule change, the Commission has identified a number of issues for consultation that appear to be relevant to this rule change request.

These issues, outlined below, are provided for guidance only. Stakeholders are invited to comment on these issues, as well as any other aspect of the rule change request or this paper and the proposed assessment framework outlined in chapter 3.

4.1 Does the proposed rule change achieve the proponent's policy objectives?

AEMO considers that the proposed rule change is required to rectify unintended consequences it has identified with the implementation of the rule made in June 2013.¹⁹ That is, implementation of the existing NGR rule 464(2A) may result in the inequitable allocation of settlement surpluses and shortfalls between STTM Trading Participants.

For this reason, AEMO has proposed amendments to rule 464(2A) that are designed to allow it to develop and consult on possible changes to the STTM Procedures that permit the allocation of settlement surpluses and shortfalls in a way that is equitable under all circumstances, while still supporting the original policy objective of "causer pays".²⁰

Stakeholders are invited to comment on:

- whether the proposed change to rule 464(2A) achieves AEMO's policy objective of allowing for an equitable allocation of settlement surplus and shortfall, while maintaining the "causer pays" principle.

4.2 Efficient allocation of risk between Trading Participants

AEMO submitted that without its proposed changes to rule 464(2A), there could be a transfer of risk (resulting from excessive MOS or over-scheduling of contingency gas) from larger to smaller STTM Trading Participants. It has estimated that this risk transfer may be valued at up to \$200,000 in a single month.²¹

AEMO considers that the proposed rule will allow financial risks caused by factors outside the control of Trading Participants (such as, counteracting MOS and contingency gas) to be allocated appropriately, such that no parties are faced with a disproportionate risk. It also considers that the proposed rule supports the "causer

¹⁹ The National Gas Amendment (STTM Deviations and the Settlement Surplus and Shortfall) Rule 2013.

²⁰ AEMO, rule change request, 31 October 2013, pp.4&10.

²¹ AEMO, rule change request, 31 October 2013, p.11.

pays" principle.²² That is, financial risk that is caused by factors that are within the control of Trading Participants (such as, deviations) may be allocated to those parties who are responsible for the risk.

Stakeholders are invited to comment on:

- whether AEMO's proposed change to rule 464(2A) allows for the efficient allocation of risk between Trading Participants.

4.3 Are there other ways of achieving the proponent's policy objectives?

AEMO considers that its proposed rule change will allow it to develop equitable STTM Procedures that also support the "causer pays" principle.²³

An alternative way to achieve AEMO's policy objective could be for the "causer pays" principle to be set out in the rules as a requirement for AEMO to follow when developing the STTM Procedures. AEMO's proposed rule does not explicitly require it to follow the "causer pays" principle.

Alternative indicative drafting of rule 464(2A) has been included at Appendix B for stakeholder consultation.

The alternative drafting to that included in AEMO's rule change, does not predetermine that a rule would be made. Rather, the Commission is mindful of stakeholders being given the opportunity to comment on the alternative drafting. For an urgent rule (providing there are no objections to the proposed rule being considered as such), there is no subsequent opportunity for stakeholders to formally comment on a draft rule, as the next step in the rule making process is the making of a final rule determination by the Commission.

Stakeholders are invited to comment on:

- (a) the alternative indicative rule included at Appendix B; and
- (b) whether there are other ways of achieving AEMO's policy objective, other than its proposed change to rule 464(2A).

4.4 Transitional requirements

AEMO has proposed transitional provisions as part of its proposed rule change that will delay the effective dates of the rule made in June 2013,²⁴ and the proposed rule change (if made), until 1 November 2014.

²² AEMO, rule change request, 31 October 2013, p.10.

²³ AEMO, rule change request, 31 October 2013, pp.4&10.

²⁴ The National Gas Amendment (STTM Deviations and the Settlement Surplus and Shortfall) Rule 2013.

AEMO considers that delaying the commencement date of the previously made rule to coincide with the commencement date of the proposed rule change (if made) will avoid adverse market outcomes and will improve the administrative efficiency of the STTM.²⁵

A preliminary assessment of the proposed rule change, suggests that it is possible to delay the effective dates of the previously made rule and the proposed rule change (if made) without the need of transitional provisions.

In the alternative indicative rule included at Appendix B, the drafting has the effect of 'undoing' the changes made by the June 2013 rule²⁶, then 're-making' the majority of that rule, in addition to including a new rule 464(2A), with a commencement date of 1 November 2014. With this approach to the drafting, no transitional provisions are necessary.

Stakeholders are invited to comment on:

- AEMO's proposed transitional provisions, and whether these provisions are required for the effective and efficient implementation of the previously made rule and the proposed rule change (if made); and
- the alternative approach to transitional provisions, as provided by way of indicative rule drafting for stakeholder consultation, at Appendix B.

²⁵ AEMO, rule change request, 31 October 2013, p.9.

²⁶ The National Gas Amendment (STTM Deviations and the Settlement Surplus and Shortfall) Rule 2013.

5 Lodging a submission

The Commission has published a notice under sections 303 and 304 of the NGL to assess this rule change request under an expedited rule making process. The Commission is now accepting written requests not to make a rule under the expedited process, and also invites written submissions on this rule change request.

Written requests not to make a rule under the expedited process in section 304 of the NGL must include reasons for the request, and must be lodged with the Commission by no later than 6 March 2014, either online or by mail, in accordance with the requirements specified below.

Written submissions on the rule change request must be lodged with the Commission by no later than 20 March 2014, either online or by mail, in accordance with the requirements specified below.

Where practicable, submissions should be prepared in accordance with the Commission's Guidelines for making written submissions on rule change proposals.²⁷ The Commission publishes all submissions on its website, subject to a claim of confidentiality.

All enquiries on this project should be addressed to Trevor Johnston on (02) 8296 7800.

5.1 Lodging a submission electronically

Electronic submissions must be lodged online via the Commission's website, www.aemc.gov.au, using the "lodge a submission" function and selecting the project reference code ["GRC0023"]. The submission must be on letterhead (if submitted on behalf of an organisation), signed and dated.

Upon receipt of the electronic submission, the Commission will issue a confirmation email. If this confirmation email is not received within 3 business days, it is the submitter's responsibility to ensure the submission has been delivered successfully.

5.2 Lodging a submission by mail

The submission must be on letterhead (if submitted on behalf of an organisation), signed and dated. The submission should be sent by mail to:

Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Or by Fax to (02) 8296 7899.

The envelope must be clearly marked with the project reference code: GRC0023.

²⁷ This guideline is available on the Commission's website.

Except in circumstances where the submission has been received electronically, upon receipt of the hardcopy submission, the Commission will issue a confirmation letter.

If this confirmation letter is not received within 3 business days, it is the submitter's responsibility to ensure successful delivery of the submission has occurred.

Abbreviations

AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
Commission	See AEMC
MOS	market operator service
MSV	market schedule variation
NGL	National Gas Law
NGO	National Gas Objective
NGR	National Gas Rules
Proponent	See AEMO
Rule	See NGR
STTM	Short Term Trading Market

A Background

For the purposes of assisting stakeholders' understanding of this rule change request, this appendix provides descriptions of the STTM and payments and charges related to the balancing the STTM.

A.1 The Short Term Trading Market

The STTM is a "day ahead" market, whereby gas is traded a day before the actual "gas day" (that is, the day the gas is scheduled to flow). This means that relevant activities take place before (ex-ante), on (intra) and after (ex-post) each individual gas day.

The day before any gas day, pipeline operators submit pipeline capacity information to AEMO, who publishes this data to the market on its website.

STTM users (for example, gas retailers) and shippers (for example, gas wholesalers) can then place "bids" to buy quantities of gas at the STTM hub,²⁸ and STTM shippers can place "offers" to sell quantities of gas to the hub.

On the basis of the above information, AEMO matches offers and bids, determines the ex-ante market price and draws up the initial market schedule for the flow of gas to and from the hub on the gas day. All the gas that is supplied and withdrawn, according to the market schedule, is settled at the ex-ante market price.

The market schedule is published by AEMO approximately 18 hours ahead of the gas day, so that shippers can use this information to nominate the quantity of gas they require to be transported by each pipeline operator (note, a process which occurs outside of the STTM). Pipeline operators then prepare pipeline allocation schedules, detailing the quantities of gas to be delivered to each shipper on each pipeline on the gas day.

On the gas day, shippers supply gas to the hub, and users withdraw gas from the hub. Shippers and users are able to re-nominate expected changes to their gas forecasts to pipeline operators during the gas day. The STTM has a market schedule variation (MSV) mechanism which allows these re-nominations to be recognised in the market. The variation must be matched by an opposite variation from either another shipper or user.²⁹

²⁸ A notional gateway in the gas supply system defined by custody transfer points between pipelines and distribution systems at which the STTM schedules gas deliveries and withdrawals (AEMO, STTM Glossary of Terms v3.0, 1 December 2011, p.5).

²⁹ AEMO, rule change request, 31 October 2013, p.2; and AEMO, Overview of the Short Term Trading Market v4.2, 14 December 2011, p.12.

A.2 Payments and charges related to balancing the STTM

A.2.1 Settlement surplus and shortfall

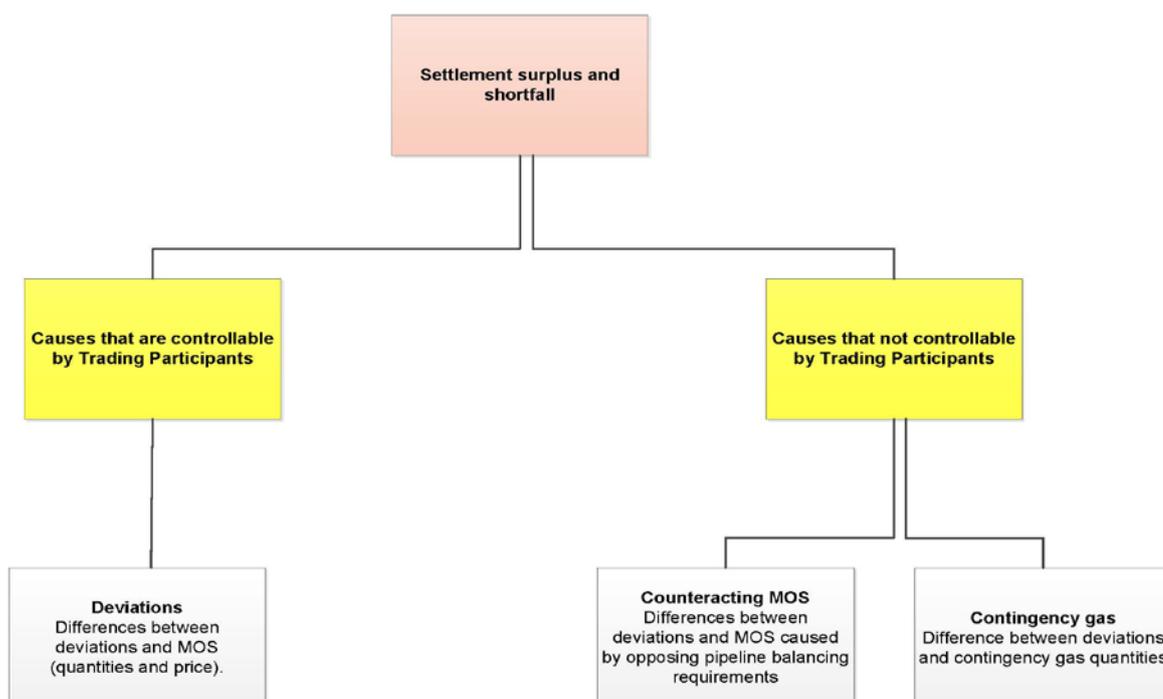
Settlement surplus payments and settlement shortfall charges are funds that accrue over a STTM monthly billing period, which result from differences between STTM market income and market outgoings.

Over the monthly billing period, AEMO accumulates the daily settlement surpluses and shortfalls at a STTM hub. AEMO then distributes the net settlement surplus (over-collection) or shortfall (under-collection) to Trading Participants at the end of the month. This is to ensure that over each month, the total market revenue balances the total market expenses.

Settlement surpluses and shortfalls are caused by differences in the way market operator service (MOS), deviations and contingency gas (defined in the following sections) are priced and balanced.³⁰ These differences result from circumstances that are either controllable by Trading Participants (such as, deviations), or are not controllable by Trading Participants (such as, counteracting MOS and contingency gas).

Figure A.2.1 shows the various factors that can lead to a settlement surplus or shortfall.

Figure A.2.1 Causes of settlement surplus and shortfall



³⁰ AEMO, rule change request, 31 October 2013, pp.2&4.

A.2.2 Factors that are controlled by Trading Participants

The primary cause of the settlement surplus or settlement shortfall is deviations. Deviations are a direct result of Trading Participants' activities in the marketplace.

Deviations

Deviations are the difference between quantities of gas allocated to Trading Participants and the market schedule (after adjustments for any MSVs). Deviations from the nominated schedules generally incur a financial penalty. This is to incentivise trading participants to forecast as accurately as possible and meet their gas schedules, and to recognise the costs caused by deviations.³¹

Market operator service (MOS)

If there is a deviation on a pipeline, the gas that is necessary to balance that deviation is provided (or withdrawn) by MOS. MOS is provided by Trading Participants who have contracts with a pipeline operator that enables them to vary the quantity of gas supplied from the pipeline or stored on the pipeline. MOS is managed by AEMO and is dispatched with reference to separate MOS stacks for "increase MOS" (where additional gas needs to be delivered to the hub) and "decrease MOS" (where excess gas needs to be withdrawn from the hub).

Differences in the way deviations are priced, and how MOS is priced, can result in either a settlement surplus or shortfall, as there is not a single clearing price for balancing gas (the difference between scheduled and actual flows) after the gas day.³²

As deviations are a direct result of Trading Participants' activities in the marketplace, any settlement surplus or shortfall resulting from deviations can be allocated to Trading Participants on the basis of their total deviations for the month – that is, applying the "causer pays" principle.³³ The "causer pays" principle was the policy intent of the June 2013 rule change³⁴ with respect to providing a guiding principle for the allocation of settlement surplus and shortfall.

A.2.3 Factors that are not controlled by Trading Participants

The settlement surplus or settlement shortfall may also be caused by factors that are outside the control of Trading Participants. These factors, such as counteracting MOS and contingency gas, can result in costs which AEMO regards as general market

³¹ AEMO, rule change request, 31 October 2013, pp.2&4.

³² AEMO, rule change request, 31 October 2013, p.2.

³³ The term "causer pays" refers to the economic principle that describes an approach to allocating costs. Under the causer pays principle, costs are allocated to parties that caused the cost in the first instance. This approach is considered to result in an efficient and equitable allocation of costs, and therefore, efficient market outcomes.

³⁴ The National Gas Amendment (STTM Deviations and the Settlement Surplus and Shortfall) Rule 2013.

operational costs, and therefore should be "socialised" among Trading Participants according to their withdrawals.³⁵

Counteracting MOS

Counteracting MOS occurs where there are two pipelines supplying a STTM hub (for example, Sydney and Adelaide). Circumstances may arise as a result of each pipeline's opposing balancing requirements, such that the MOS that is acquired is in excess of the hub's balancing requirements. In such circumstances, as there will be more MOS to be paid for than there are deviations in the market, the market will accrue a settlement shortfall. AEMO's view is that counteracting MOS appears to be caused by factors related to the physical characteristics of the pipeline, rather than particular actions taken by individual Trading Participants.³⁶

Contingency gas

Contingency gas is called upon when MOS arrangements are unlikely to meet the balancing requirements of the market.³⁷ That is, AEMO can call on additional gas supplies, or withdrawals, to balance the market and safeguard the continuity of supply.

Where deviation quantities are greater than the amount of contingency gas scheduled for a particular gas day, then a settlement surplus may result. Conversely, where deviation quantities are less than the amount of contingency gas scheduled, then a settlement shortfall may result.³⁸

³⁵ AEMO, rule change request, 31 October 2013, pp.3-5.

³⁶ AEMO, rule change request, 31 October 2013, pp.3&5.

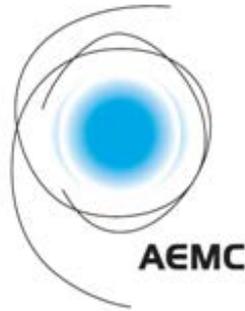
³⁷ Contingency gas is defined as the increase or decrease in the quantity of gas, which is supplied or withdrawn from a hub by a Trading Participant in accordance with the rules, to address a contingency gas requirement (rule 364 of the NGR).

³⁸ AEMO, rule change request, 31 October 2013, p.5.

B Alternative indicative rule (for consultation only)

The alternative indicative rule provided below:

- is not a proposed rule, but is an indicative drafting for stakeholder consultation only; and
- does not indicate that a rule will be made.



Proposed National Gas Amendment (Settlement Surplus and Shortfall) Rule 2014

Under the National Gas Law to the extent applied by:

- (a) the National Gas (South Australia) Act 2008 of South Australia;
- (b) the National Gas (ACT) Act 2008 of the Australian Capital Territory;
- (c) the National Gas (New South Wales) Act 2000 of New South Wales;
- (d) the National Gas (Queensland) Act 2008 of Queensland;
- (e) the National Gas (Tasmania) Act 2008 of Tasmania;
- (f) the National Gas (Victoria) Act 2008 of Victoria; and
- (g) the National Gas (Northern Territory) Act 2008 of Northern Territory;
- (h) the Australian Energy Market Act 2004 of the Commonwealth,

the Australian Energy Market Commission makes the following Rule under the National Gas Law.

John Pierce
Chairman
Australian Energy Market Commission

Proposed National Gas Amendment (STTM Settlement Surplus and Shortfall) Rule 2014

1 Title of Rule

This Rule is the Proposed *National Gas Amendment (Settlement Surplus and Shortfall) Rule 2014* .

2 Commencement

Schedule 1 commences operation on 1 May 2014.

Schedule 2 commences operation on 1 November 2014.

3 Amendment of the National Gas Rules

The National Gas Rules are amended as set out in Schedule 1.

4 Amendment of the National Gas Rules

The National Gas Rules are amended as set out in Schedule 2.

Note:

The National Gas Amendment (STTM Deviations and the Settlement Surplus and Shortfall) Rule 2013 No. 4 commences operation on 1 May 2014.

Schedule 1 Amendment to the National Gas Rules

(Clause 3)

[1] Rule 364 Definitions

In rule 364 substitute the following definitions:

deviation charge means an amount payable to AEMO by a Trading Participant in respect of a short deviation quantity.

deviation payment means an amount payable by AEMO to a Trading Participant in respect of a long deviation quantity.

[2] Rule 364 Definitions

In rule 364, omit the definition "deviation price".

[3] Rule 364 Definitions

In rule 364 insert the following definitions:

graduated deviation parameters means the parameters used to determine the amount of a deviation charge or deviation payment, specified in rule 462.

settlement surplus cap means an amount for a billing period that AEMO is to use in calculating settlement surplus payments in accordance with the STTM Procedures, being \$0.14/GJ.

[4] 461 Amount for gas days

Omit rule 461(2)(g) and substitute:

(g) the deviation charges payable by, or deviation payments payable to, a Trading Participant at a hub; and

[5] Rule 462 Graduated deviation parameters

Omit rule 462 and substitute:

462 Graduated deviation parameters

In determining deviation charges and deviation payments for a Trading Participant, AEMO must use the factors for the deviation percentage range and the deviation quantity range in the following tables in accordance with the STTM Procedures:

Deviation percentage range	Factor
> +10%	90%

Deviation percentage range	Factor
$> +5\%$ and $\leq +10\%$	95%
$\geq -5\%$ and $\leq +5\%$	100%
$\geq -10\%$ and $\leq -5\%$	105%
$< -10\%$	110%

Deviation quantity range	Factor
$> +1,200$ GJ	90%
$> +600$ GJ and $\leq +1,200$ GJ	95%
≥ -600 GJ and $\leq +600$ GJ	100%
$\geq -1,200$ GJ and ≤ -600 GJ	105%
$< -1,200$ GJ	110%

[6] Rule 464 Settlement amounts for billing periods

Omit rule 464(2A).

Schedule 2 Amendment to the National Gas Rules

(Clause 4)

[1] Rule 364 Definitions

In rule 364 substitute the following definitions:

deviation charge means an amount payable to or by a Trading Participant by or to AEMO in respect of a short deviation quantity.

deviation payment means an amount payable to or by a Trading Participant by or to AEMO in respect of a long deviation quantity.

settlement surplus cap means an amount for a billing period that, if included in the STTM Procedures, AEMO will use in calculating settlement surplus payments in accordance with the STTM Procedures.

[2] Rule 364 Definitions

In rule 364 insert the following definition:

deviation price for a gas day means the price used to calculate deviation charges and deviation payments, in accordance with the STTM Procedures.

Note

The deviation price may be zero.

[3] Rule 364 Definitions

Omit the definitions "graduated deviation parameters" and "settlement surplus cap".

[4] Rule 461 Amounts for gas days

Omit rule 461(2)(g) and substitute:

- (g) the amount payable by or to a Trading Participant at a hub in respect of deviation charges or deviation payments; and

[5] Rule 462 Graduated deviation parameters

Omit rule 462 and substitute:

462 Determining deviation charges and deviation payments

The STTM Procedures must specify the basis and method for determining deviation charges and deviation payments payable to or by a Trading Participant in accordance with the following:

- (a) the principle that, to the extent practicable, the determination of deviation charges or deviation payments should:

- (i) promote the economically efficient operation of the STTM by efficiently allocating the risks of deviations from schedules;
 - (ii) reflect the costs of providing MOS; and
 - (iii) minimise any settlement shortfall charge or settlement surplus payment;
- (b) when determining the amount of the deviation charge or deviation payment for a gas day:
- (i) the maximum deviation price used to calculate a deviation charge must not exceed the dollar per GJ amount of the MPC plus the MOS cost cap; and
 - (ii) the minimum deviation price used to calculate a deviation payment must not be less than the dollar per GJ amount of the MMP minus the MOS cost cap,
- except if an administered price cap state has been determined under rule 428(1)(c), in which case the deviation price to be used for determining a:
- (iii) deviation charge, will be the administered price cap; and
 - (iv) deviation payment, will be the ex ante market price for that gas day.

[6] Rule 464 Settlement amounts for billing periods

After rule 464(2) insert:

- (2A) The STTM Procedures must specify the basis and method for calculating the settlement shortfall charge or settlement surplus payment under subrule (2)(b)(i) in accordance with the following principles:
- (a) any settlement shortfall or settlement surplus should be allocated to Trading Participants; and
 - (b) such allocation should promote the economically efficient operation of the STTM by efficiently allocating the proportion of any settlement shortfall or settlement surplus arising from:
 - (i) a deviation quantity, to the Trading Participants on the basis of their total deviation quantity, subject to any settlement surplus cap; and
 - (ii) MOS related services or circumstances that are beyond the reasonable control of the Trading Participants, to all Trading Participants,at that hub for that billing period