

4 March 2015

Mr Paul Smith
Chief Executive Officer
Australian Energy Market Commission

Online lodgement at www.aemc.gov.au

Dear Mr Smith

RE: Contingency Gas Evidentiary Changes (REF GRC0028)

GDF SUEZ Australian Energy (GDFSAE) appreciates the opportunity to comment on the Australian Energy Market Commission's (AEMC) draft determination in relation to proposed National Gas Rules (NGR) contingency gas evidentiary changes.

The aim of the proposed NGR rule change is to provide greater flexibility in how trading participants are able to structure their bids or offers for contingency gas in the Short Term Trading Market (STTM), and to clarify the Australian Energy Market Operator's (AEMO) ability to request evidence from participants following a contingency gas trigger event. Both of these aims are supported by GDFSAE.

As summarised in the draft determination, contingency gas is an emergency mechanism to allow AEMO to balance physical supply and demand at a STTM hub where other mechanisms are unlikely to achieve this balance. The contingency gas arrangements aim to avoid the need to impose involuntary gas curtailment on gas users, although it is noteworthy that contingency gas has not been used to date.

Under the current contingency gas arrangements, AEMO may request participants to make provisional offers or bids for contingency gas at any time up to 6:00 pm the day before the contingency gas is expected to be required. A participant's provisional bids or offers for contingency gas can include a stack of up to ten different quantity and price bands.

If AEMO then confirms that contingency gas is required, participants must confirm or revise the total quantity of contingency gas that they expect to make available. However, during this confirmation stage, the participant can only confirm or revise the total quantity of contingency gas, and is not able to adjust the quantities within individual price bands.

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AEMO procedures currently manage this by comparing each participant's confirmed quantity of contingency gas to their original provisional offer, and then shaving back the quantities in the high price bands from the provisional offer, until the total quantity of gas matches the confirmed offer. This could result in the price points for the confirmed offer being out of step with the trading participant's effective position.

In summary, the issues identified by AEMO are that the current arrangements:

- do not allow participants to confirm or revise quantities within each price step of a contingency gas bid or offer;
- limit the application of the good faith requirement for providing contingency gas to the total quantity of contingency gas and not to the price / quantity bands;
- prevent AEMO from accurately resettling contingency gas due limited evidentiary requirements for scheduled contingency gas;
- provide insufficient time for AEMO to consider each participant's evidence in preparing its contingency gas trigger event report; and
- require correction to a number of minor drafting errors.

As noted by the AEMC, when considering what price point to offer or purchase contingency gas, participants are likely to take account of a range of factors, including customer curtailment contracts, gas plant operating modes, and ability to interrupt gas consuming processes. As a result, each contingency gas price step could be linked to a specific source of gas.

GDFSAE agrees that the current arrangements place restrictions on each participant's ability to provide efficient contingency gas bids and offers, and further restrict AEMO's ability to accurately settle after the event.

GDFSAE supports the draft amendment to rule 445(2)(a) to allow participants to confirm or revise the quantity of each price step of their contingency gas bids or offers at the confirmation stage, and notes that these bids / offers would then be subject to the existing good faith provisions under rule 445(3).

GDFSAE supports the AEMC draft determination not to allow the changes proposed by AEMO to enable it to request evidence from participants to confirm the legitimacy of the participant's revised price step. As noted by the AEMC in the draft determination, these are functions which are more consistent with the role of the Australian Energy Regulator (AER), rather than AEMO in its role as market operator.

The decision by the AEMC to delete rule 449(2) and replace it with new rules 449(3)-(5) is supported, as this results in AEMO having the ability to request evidence from participants to confirm provision of contingency gas as scheduled, assists AEMO in its reporting requirements, and avoids the concern of AEMO going beyond its functions.

GDFSAE also supports the AEMC draft decision to specify the purpose for which AEMO can request evidence from trading participants. This will enable participants to have clarity regarding the reasons for which this information may be requested.

Finally GDFAE supports the draft rule changes to extend the timeframe for AEMO to publish its report on contingency gas trigger events by up to 30 business days if necessary, to allow AEMO to receive and consider evidence from participants. This is supported as it represents a reasonable balance between timely reporting, and ensuring that the information being used for the report is of suitable quality.

GDFSAE trusts that the comments provided in this response are of assistance to the AEMC in its deliberations. Should you wish to discuss any aspects of this submission, please do not hesitate to contact me on, telephone, 03 9617 8331.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Chris Deague". The signature is written in a cursive style with a large initial "C".

Chris Deague

Wholesale Regulations Manager