

Australian Energy Market Commission

RULE DETERMINATION

National Gas Amendment (STTM Market Schedule Variation Transactions) Rule 2012

Rule Proponent(s)

Australian Energy Market Operator

30 August 2012

**RULE
CHANGE**

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Reference: GRC0015

Citation

AEMC 2012, STTM Market Schedule Variation Transactions, Rule Determination,
30 August 2012, Sydney

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 announced it would establish the new Standing Council on Energy and Resources (SCER) to replace the MCE. The AEMC has two principle 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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Summary

The Commission has determined to make a rule in response to the market schedule variation transactions (MSV) rule change request (rule change request) submitted by the Australian Energy Market Operator (AEMO) on 7 June 2012.

Rule 423 of the National Gas Rules (NGR) will be amended in order to make it possible for users in the Short Term Trading Market for gas (STTM) to submit MSVs to AEMO.

MSVs are a mechanism for trading participants in the STTM¹ to administer, in a transparent way, differences between scheduled and delivered volumes of gas on a particular gas day.

By submitting MSVs to AEMO for changes that occurred, STTM participants' ex-ante market schedules are modified to better align with actual quantities of gas supplied to or withdrawn from the hub. This in turn reduces participants' exposure to deviation penalties afterwards in settlement as these are calculated on the basis of the difference between a participant's ex-ante scheduled quantity and actual allocated quantity of gas.

In its request, the proponent argued that the operational efficiency and usability of the MSV instrument is in practice hindered by the current rules which provide that MSVs can only be submitted to AEMO by STTM Shippers. Two STTM Users with opposite deviations who wish to initiate an MSV therefore always require an STTM Shipper as intermediary. The proponent argued this is inefficient as two separate MSVs need to be conducted (between the shipper and both users) in order to complete a 'user-to-user' MSV.

The Commission's reasons

The Commission has determined to make a final rule which enables STTM Users to submit MSVs to AEMO as an originating participant. The final rule is in line with the proposed rule, with minor modifications.² The Commission is satisfied the rule will, or is likely to, contribute to the achievement of the national gas objective (NGO).

In coming to this view, the Commission considered that the rule as made:

- enables participants to conduct MSVs more efficiently by reducing the number of transactions necessary to complete an MSV in user-to-user situations;
- better facilitates market practices by improving the flexibility and usability of the MSV instrument; and
- does not adversely affect overall market outcomes or the regulatory positions of market participants, as the same market outcome is achievable under the current rules but in a less efficient manner. STTM Users who nevertheless wish to transact an MSV between themselves via an STTM Shipper will still be able to do so.

For these reasons, the rule as made will benefit participants in the STTM. This in turn is likely to contribute to a more efficient use of gas services, from which, ultimately, consumers of gas would be able to benefit in terms of price (although this benefit is

¹ A 'Trading Participant' in the STTM can be either an STTM Shipper, who essentially supplies gas to the hub, or an STTM User, who demands gas at the hub; see NGR, rule 364.

² See paragraph 3.2 for further details.

likely to be marginal). The rule as made therefore will, or is likely to, contribute to the NGO.

The final rule will commence on 19 March 2013. This commencement date allows for the necessary changes to the STTM Procedures and relevant IT systems to be made by AEMO.

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1 AEMO's rule change request

1.1 The rule change request

On 7 June 2012, the Australian Energy Market Operator (AEMO or proponent) submitted a request to the Australian Energy Market Commission (AEMC or Commission) to make a rule regarding market schedule variation transactions (MSV) in the Short Term Trading Market (STTM) for gas (rule change request).

The rule change request proposes to amend the rules to enable STTM Users to submit MSVs to AEMO. According to the proponent, this would improve efficiency of operations in the STTM.

1.2 Rationale for the rule change request

Under the current rules, MSVs can only be submitted to AEMO by STTM Shippers (in the NGR referred to as the 'originating STTM Shipper'). Users in the STTM therefore have to initiate an MSV via a shipper, even in situations where they wish to transact an MSV between themselves ('user-to-user MSVs'). According to the proponent, on average over 30 user-to-user MSVs occur each month in Sydney and Adelaide.³

The proponent argues the current rules cause transaction inefficiencies in user-to-user situations, given that two separate MSVs have to be transacted and submitted (between both users and an STTM Shipper) in order to complete a user-to-user MSV. Shippers facilitate the actual submission to AEMO but do not perform any duties in relation to the MSVs on the basis of the NGR and, according to the proponent, do not receive financial gain from their intermediary role.

Further, the proponent observes that since commencement of the STTM, MSVs have become an instrument actively used by trading participants in the STTM, including between two users, as a risk mitigation tool in the days following a gas day. This is when participants' settlement positions with respect to a particular gas day typically become clearer. The proponent therefore argues that the current rules do not accommodate the flexibility in the MSV instrument sought by the market.

Background to the STTM

The STTM is the trading market for natural gas at the wholesale level, currently operating at established hubs in Adelaide, Brisbane and Sydney. It is operated and administered by AEMO. The STTM is a day-ahead market, meaning that gas is traded the day before the day it is scheduled to be transported to a hub (the 'gas day').

The day before a gas day, STTM Shippers submit offers to sell gas to the hub and STTM Users submit bids to buy gas at the hub. On the basis of these bids and offers, AEMO determines, via an automated process, the ex-ante market price and ex-ante market schedules for the gas flow to and from the hub the next day. The ex-ante market schedules are used by pipeline operators to make pipeline allocation schedules, detailing the amount of gas to be delivered to each shipper on each pipeline the next day.

³ See rule change request, p. 7.

Typically, the quantities of gas that shippers and users actually supply to, and withdraw from, the hub on the gas day differ from the quantities scheduled in advance, for example as a result of forecasting inaccuracies. This difference is called a deviation. In order to incentivise STTM participants to forecast as accurately as possible, or to stay within their scheduled loads, a deviation may incur a financial penalty.⁴ Among other things, this assists AEMO in balancing the gas supply, thereby minimising market costs for balancing and maintaining the integrity of the operating system.

Recognising that forecasting is an imperfect process, MSVs are a mechanism in the STTM that allows shippers and users to make renominations to their ex-ante market schedules in response to fluctuations in demand or supply during the gas day. MSVs must be submitted to AEMO for further processing in the context of the settlement process.

By submitting changes in supply and demand through an MSV to AEMO, participants' ex-ante market schedules will be modified and will better reflect the actual volumes of gas supplied or withdrawn. This will in turn decrease participants' exposure to deviation penalties as these are calculated on the basis of the difference between a participant's (modified) scheduled quantity and actual allocated quantity. MSVs may also attract a penalty but these are significantly lower than those applied to deviations, and therefore allow participants in the STTM to minimise their costs in relation to those deviations.⁵

MSV transactions are voluntary, bilateral transactions between two trading participants with deviations in opposite directions. Under the current rules, the ability to submit MSVs to AEMO as originating participant is restricted to STTM Shippers, while the counter party (the 'receiving' participant) can be an STTM User or an STTM Shipper. Once submitted to AEMO by the originating participant, the receiving participant needs to confirm the MSV transaction. MSVs can be submitted to AEMO until seven days after the gas day to which they relate.⁶

1.3 Solution proposed in the rule change request

The proponent proposes a rule that would amend rule 423 of the NGR regarding MSVs so that user-to-user MSVs can be transacted more efficiently. The rule change request includes a draft rule. The proposed rule adds STTM Users to the category of participants in the STTM who are eligible to submit MSVs to AEMO. As a result, both STTM Shippers and STTM Users could be the 'originating Participant' of an MSV.

The proponent also states that the proposed rule, if made, would require implementation of a number of changes to STTM Procedures and IT systems. The

⁴ This penalty is calculated and administered by AEMO as part of the settlement process. To settle the market, AEMO issues invoices on a monthly basis and a revised invoice (taking into account actual metering data after nine months) for final settlement.

⁵ MSVs may attract a charge if they result in an overall change in demand at the hub. This is the case, for example, when processing the MSV requires additional gas to be shipped to the hub (in excess of the total quantity scheduled ex ante). If the MSV can be met without changing overall net demand at the hub (that is, if the shipper can meet the extra demand from a user entirely within the quantity of gas already allocated to the hub for that day), the MSV does not attract a charge.

⁶ See STTM Procedures, section 7.3 (aa).

request therefore includes a transitional rule, according to which the amended rule would come into effect when changes to the STTM Procedures have been made.

1.4 Relevant background

In 2011 AEMO conducted a review of the STTM, as required by the NGR.⁷ The option of allowing STTM Users to submit MSVs to AEMO in order to facilitate direct user-to-user MSVs was discussed in the final report published on 30 March 2012. The final report noted that allowing user-to-user MSVs has strong industry support.⁸

1.5 Commencement of rule making process

On 19 July 2012, the Commission published a notice under s. 303 of the National Gas Law (NGL) advising of its intention to commence the rule making process and consultation in respect of the rule change request. A consultation paper prepared by staff of the AEMC identifying specific issues or questions for consultation was also published with the notice under s. 303 of the NGL.

The Commission determined that the rule change request was a request for a non-controversial rule, as defined in s. 290 of the NGL, as the rule is unlikely to have a significant effect on a market for gas or the regulation of pipeline services.

Accordingly, the Commission commenced an expedited rule change process, subject to written requests not to do so. The closing date for receipt of written requests was 2 August 2012. No requests were received and, hence, the rule change request has been considered under an expedited process in accordance with s. 304 of the NGL.

Submissions to the proposed rule and consultation paper closed 16 August 2012. The Commission received one submission, which is available on the AEMC website.⁹ A summary of the issues raised in this submission and a response to each issue is contained in Appendix A.

⁷ Rule 489 of the NGR requires AEMO to conduct a review on the operation of the STTM, while rule 490 of the NGR requires AEMO to conduct a review that examines the potential for a short term trading market to operate at prospective additional hubs. Both reviews had to be completed by 31 March 2012. AEMO combined the two reviews and undertook a two-stage consultation with stakeholders, releasing a consultation paper on 16 August 2011 and a draft report on 19 December 2011.

⁸ Australian Energy Market Operator, *STTM Operational Review and Demand Hubs Review*, final report, AEMO, 30 March 2012, Melbourne. Retrieved via the AEMO website: <http://www.aemo.com.au>.

⁹ www.aemc.gov.au

2 Final rule determination

2.1 Commission's determination

In accordance with s. 311 of the NGL, the Commission has made this final rule determination in relation to the rule proposed by AEMO. In addition, the Commission has determined to make, with amendments, the rule proposed by the rule proponent.

The Commission's reasons for making this final rule determination are set out in section 3.1.

The *National Gas Amendment (STTM Market Schedule Variation Transactions) Rule 2012 No 1* (rule as made) is published with this final rule determination. The rule as made commences on 19 March 2013. The key features of the rule as made are described in section 3.2.

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;
- submissions received during consultation;
- other information relevant to the rule change request; and
- the Commission's analysis as to the ways in which the proposed rule will or is likely to, contribute to the achievement of the national gas objective (NGO).

There is no relevant Ministerial Council on Energy (MCE) statement of policy principles relating to this rule change request.¹⁰

2.3 Commission's power to make the rule

The Commission is satisfied that the rule as made falls within the subject matter about which it may make rules, as set out in s. 74 of the NGL. More specifically, it relates to:

- the operation of a short term trading market of an adoptive jurisdiction (s. 74(1)(a)(va)); and also to
- the activities of Registered participants, users, end users and other persons in a regulated gas market (s. 74(1)(a)(vi)).

2.4 Rule making test

Under s. 291(1) of the NGL, 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. This is the decision making framework that the Commission must apply.

The NGO is set out in s. 23 of the NGL as follows:

¹⁰ Under s. 73 of the NGL the AEMC must have regard to any relevant MCE statement of policy principles in making a rule.

“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.”

The Commission considers that the relevant aspect of the NGO for this rule change request is the efficient operation of natural gas services for the long term interest of consumers of natural gas.¹¹

Enabling STTM Users to directly submit MSVs to AEMO, without requiring an STTM Shipper as intermediary, reduces the number of transactions needed to complete a user-to-user MSV. The rule will therefore increase the efficiency with which user-to-user MSVs can be undertaken. As user-to-user MSVs are already possible under the current rules (but in an indirect manner), the rule will not affect overall market outcomes. Also, two users who wish to engage in an MSV with a shipper as intermediary will continue to be able to do so. The rule as made will not eliminate this option.

By increasing flexibility in how an MSV transaction can be processed, the rule will better facilitate market practices and is therefore likely to benefit trading participants in the STTM. This in turn is likely to contribute to a more efficient use of gas services, from which, ultimately, consumers of gas would be able to benefit in terms of price (although this benefit is likely to be marginal).

For these reasons, the Commission is satisfied that the rule as made will, or is likely to, contribute to the achievement of the NGO.

2.5 Other requirements under the NGL

Section 295(4) of the NGL

Under s. 295(4) of the NGL the Commission may only make a rule that has effect with respect to an adoptive jurisdiction if satisfied that the proposed rule is compatible with the proper performance of AEMO's declared system functions.

The Commission has considered this requirement and is satisfied the rule as made will not impact on AEMO's declared network functions as it does not make any changes to AEMO's statutory functions and duties but only extends the eligibility to submit MSVs to AEMO to STTM Users.

¹¹ Under s. 291(2), for the purposes of s. 291(1) the AEMC may give such weight to any aspect of the NGO as it considers appropriate in all the circumstances, having regard to any relevant MCE statement of policy principles.

3 Commission's reasons

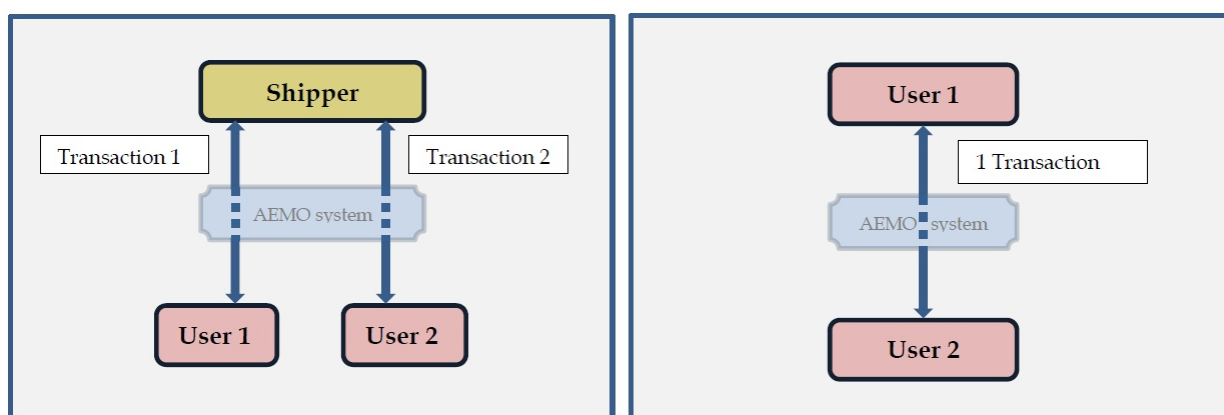
The Commission has analysed the rule change request and assessed the issues arising out of this rule change request. For the reasons set out below, the Commission has determined that a rule be made.

3.1 Assessment of issues

The rule change request seeks to improve an operational aspect of the STTM by allowing STTM Users to submit MSVs to AEMO. This would eliminate the need to require an STTM Shipper as an intermediary in situations where two users wish to transact an MSV between themselves. The figure below shows the current administrative arrangement for user-to-user MSVs, as well as the arrangement according to the proposed rule.

The figure demonstrates that, under the current rules, two separate MSVs need to be conducted, between a user and a shipper, where the shipper acts as intermediary. Only the shipper can submit the MSVs to AEMO via AEMO's system, after which the users need to accept. According to the proposed rule, users in the STTM would be able to directly submit MSVs with AEMO, which would reduce the number of MSV transactions necessary to complete a user-to-user MSV. In both situations, there will be an underlying agreement between the two users, in which they agree to conduct an MSV in the first place.

Figure 3.1 User-to-user MSV transactions under current rules and according to proposed rule



The Commission has considered that the substantive issues arising from the request are:

- the benefits to the operation of the STTM;
- the effect of the proposed rule on user-to-shipper MSVs; and
- the risk of the duplication of transactions.

Benefits to the operation of the STTM

MSVs are an important mechanism in the STTM for participants to align their ex-ante market schedules with actual allocated quantities of gas, thereby reducing their

exposure to deviation penalties. In practice, MSVs are used by and between all STTM participants, including between two users.

The Commission considers that the enhanced flexibility the rule as made will bring to the MSV instrument (by allowing STTM Users to submit MSVs to AEMO in addition to STTM Shippers) better supports MSV transactions and improves an operational matter in the STTM.

The rule as made does not change overall market outcomes: user-to-user MSVs are already possible under the current rules in an indirect manner. This option would still be available for users who wish to engage a shipper in user-to-user MSVs. The rule as made does also not alter the functions or characteristics of the MSV instrument or participants' fundamental positions.

In sum, the Commission considers that the proposed rule contributes to the operational efficiency and flexibility of this mechanism in the STTM, while otherwise not adversely affecting the market. Ultimately, more efficient transactions in the STTM will allow for a more efficient use of gas services. This would, in turn, benefit consumers of gas in terms of price (although this benefit is likely to be marginal).

User-to-shipper MSVs

Although the primary objective of the rule change request is to facilitate user-to-user MSVs, the proposed rule also allows STTM Users to submit MSVs to AEMO where the counter party is not another STTM User but an STTM Shipper.

The proponent did not explicitly contemplate this effect in its request, but has indicated that it does not see a reason to oppose this additional effect of the rule. The outcome of a user-to-shipper MSV is essentially the same as a shipper-to-user MSV, which is already possible under the NGR.

The Commission is not aware of a reason to limit STTM Users' ability to submit MSVs to AEMO to situations where the counter party is another STTM User. The rule as made will provide market participants with maximum flexibility in the use of the MSV mechanism.

Risk of duplication

With the increased flexibility the rule as made will bring to the MSV instrument, there is potentially a small risk that counter parties to a particular MSV could both submit that same MSV to AEMO. This could result in administrative errors when the same MSV would be submitted and administered twice. However, this risk is minimal, having regard to the submission-and-acceptance process in the rules. In addition, AEMO has foreseen this risk and has indicated that it intends to implement changes to its IT systems such that the risk of duplication is minimised. Further, MSVs can be reversed, rejected or can be allowed to lapse, so that a duplicate MSV would have no final effect on the two participants.

Conclusion

For the reasons set out above, the Commission is of the view that the rule as made will improve usability of the MSV instrument and will better facilitate market practices. Participants in the STTM will be able to benefit from gains in transactional efficiency. This in turn is likely to contribute to a more efficient use of gas services, from which,

ultimately, consumers of gas would be able to benefit in terms of price (although this benefit is likely to be marginal). The rule as made therefore will, or is likely to, contribute to the NGO.

3.2 Assessment of rule

The Commission has assessed AEMO's proposed rule. In light of the proposal and submissions from stakeholders, the Commission has made a rule to include STTM Users in rule 423 as a category of STTM participants who are eligible to submit MSVs to AEMO. The rule as made is consistent with AEMO's proposed rule, with minor modifications.

The rule as made makes the following amendments to rule 423:

- it adds STTM Users in rule 423(1) to the category of participants who are eligible to submit MSVs to AEMO, by substituting 'STTM Shipper' in rule 423(1) for 'Trading Participant'. This is a slight alteration compared to proponent's draft rule, which proposed to modify rule 423 91) into 'An STTM Shipper or an STTM User (the originating Participant)'. The rule as made is materially the same as the proposed rule, but the chosen wording is based on the STTM definitions in rule 364, according to which a Trading Participant can be either an STTM Shipper or an STTM User;
- the current definition of 'the originating Shipper' in rule 423(1) is changed accordingly to 'the originating Participant'; and
- subsequent subrules are changed accordingly, while the current definition of 'receiving Participant' in rule 423(2)(c) remains unchanged (referring to both STTM Shippers and Users).

Transitional rule

AEMO also proposed that, if a rule were made, a transitional rule be in place, specifying that the current rules continue to apply during a transitional period. This would allow AEMO and market participants to make necessary changes to the STTM Procedures and relevant IT systems to implement the rule as made.

The Commission recognises that preparations are necessary before the rule as made can be successfully applied in practice. However, it is generally desirable to include a specific commencement date for a rule. In consultation with the proponent, the commencement date of the rule has been set as 19 March 2013. Until this date, the current rules continue to apply.

3.3 Civil penalties and conduct provisions

The rule as made does not amend any rules that are currently classified as civil penalty provisions or conduct provisions under the NGL or Regulations. The Commission does not propose to recommend to the SCER that any of the amendments in the rule as made be classified as civil penalty provisions.

4 Commission's assessment approach

This chapter describes the analytical framework that the Commission has applied to assess the rule change request in accordance with the requirements set out in the NGL (and explained in Chapter 2).

In assessing any rule change request against the NGL criteria, the first step is to consider the counterfactual arrangements against which the rule change is being compared. In the present case the counterfactual arrangements are the current rules in the NGR. Specifically, that only STTM Shippers can submit MSVs to AEMO. Accordingly, MSVs between two users continue to require the transaction and submission of two separate MSVs, with an STTM Shipper as intermediary.

In assessing this rule change request, the Commission has considered the following issues:

- the impact of the proposed rule on operations in the STTM;
- in what way the proposed rule would affect MSVs between shippers and users; and
- whether the proposed rule would introduce a risk of duplication if multiple participants could potentially lodge a submission for the same MSV to AEMO.

These issues are addressed in more detail in the next chapters.

5 Efficient operation of the STTM

5.1 Rule proponent's view

The proponent considers that efficiency in the operation of the STTM could be enhanced by allowing STTM Users to submit MSVs direct to AEMO. In situations where two users wish to transact an MSV between themselves, the proposed rule would eliminate the requirement to have a shipper as intermediary. This would reduce the number of transactions necessary to complete a user-to-user MSV.

The proposed rule would, according to the proponent, otherwise not change overall market outcomes or market participant's positions, as user-to-user MSVs are already possible although in an indirect manner. Two users who nevertheless wish to engage in an MSV with a shipper acting as intermediary will continue to be able to do so, as the proposed rule would not remove this possibility.

MSVs are an important instrument for STTM participants to settle positive and negative deviation positions. The proponent considers that by improving the transactional efficiency with which MSVs can be conducted, the proposed rule contributes to the efficient operation of the STTM as a whole.

5.2 Stakeholder views

In its submission to the consultation paper, Alinta Energy (Alinta) notes that it expects that proposed rule will increase efficiency, as the proposed rule would facilitate efficient transactions between two users. It also notes that the proposed rule will not have any other material impact on the market.

Further, Alinta notes the proposal has been broadly discussed in the STTM Consultative Forum and that it has received industry support.

5.3 Commission's assessment

The STTM is still a relatively new market, having commenced operation in Adelaide and Sydney in 2010 and in Brisbane in 2011. The STTM continues to be developed, as market participants and AEMO as STTM market operator build up operational knowledge and experience. Some of these experiences are reflected in the proponent's final report of the STTM operational review, in which the subject of the present rule change request was addressed.

In its request, the proponent observes that MSVs have become an actively used tool for all trading participants in the STTM to trade opposite deviation positions in the days after a gas day, thereby reducing the risk of having to incur deviation penalties. It appears that this development (or the degree to which two users would conduct MSVs) was not anticipated when drafting the current rules, under which only STTM Shippers can submit MSVs to AEMO.

Given this development, the rule change request seeks to make it possible for STTM Users to submit MSVs to AEMO. In STTM terminology, it would mean STTM Users could also be the 'originating' participant of an MSV, in addition to STTM Shippers. Although the current rule identifies an 'originating' and a 'receiving' participant, this

distinction simply recognises that an MSV requires a bilateral agreement between two trading participants with opposite deviations.

The current rule does not attach particular rights or duties to either role. In the context of submission of MSVs to AEMO, the terminology reflects a principle of administration and control, namely that one participant submits the MSV after which the other accepts it.

The key issue of the proposed rule change therefore concerns an essentially operational aspect of the MSV mechanism. The proposed rule does not make changes to the function or characteristics of the MSV mechanism itself or to the rights and obligations of participants that are party to an MSV transaction.

5.4 Conclusion

For the reasons set out above, the Commission is of the view that the rule as made will improve usability of the MSV instrument and will better facilitate market practices. Participants in the STTM will be able to benefit from gains in transactional efficiency. This in turn is likely to contribute to a more efficient use of gas services, from which, ultimately, consumers of gas would be able to benefit in terms of price (although this benefit is likely to be marginal). The Commission considers that the rule as made therefore will, or is likely to, contribute to the NGO.

6 The effect on user-shipper MSVs

6.1 Rule proponent's view

The primary reason for the proponent to submit the rule change request is to increase flexibility and efficiency of the MSV instrument in user-to-user situations. As drafted, the proposed rule would also allow STTM Users to submit MSVs to AEMO where the counter party is an STTM Shipper. The proponent has not addressed this effect in its request, but has indicated that it does not see a reason to oppose this additional effect of the rule. The outcome of a user-to-shipper MSV is essentially the same as a shipper-to-user MSV, which is already possible under the NGR.

6.2 Stakeholder views

No submissions have been received on this issue.

6.3 Commission's assessment

The primary objective of the proposed rule is to facilitate the transaction of user-to-user MSVs, by allowing STTM Users to submit MSVs to AEMO directly. The rule as made would also make it possible for an STTM User to submit, as 'originating participant', an MSV to AEMO where the counter party is an STTM Shipper.

In view of its assessment of the rights and duties attached to roles of 'originating' and 'receiving' participant as set out above, the Commission is not aware of any reason to limit STTM Users' ability to submit MSVs to AEMO to situations where the counter party is another STTM User. The effect and outcome of an MSV transaction between an STTM Shipper and an STTM User with the user as originating participant are essentially the same as in the reverse situation, which is already possible under the current rules.

The Commission recognises that the rule would provide maximum flexibility in the use of the MSV mechanism, from which market participants are likely to benefit. In this, the Commission observes that MSVs are, and will continue to be, conducted on the basis of a bilateral agreement between two STTM participants. Once submitted to AEMO by the originating participant, the receiving participant always needs to confirm the MSV transaction. In other words, increasing the flexibility in the use of the MSV instrument does not impact on the nature of the MSV transaction.

6.4 Conclusion

The Commission sees no reason for limiting STTM Users' ability to submit MSVs to AEMO to situations where the counter party is another STTM User. The proposed rule provides market participants with maximum flexibility in the use of the MSV mechanism. As a result, the rule as made is likely to contribute to a more efficient use of gas services, from which, ultimately, consumers of gas would be able to benefit in terms of price (although this benefit is likely to be marginal). The Commission considers that the rule as made therefore will, or is likely to, contribute to the NGR.

7 The risk of duplication

7.1 Rule proponent's view

The rule proponent has indicated that it intends to implement system changes such that the risk of duplication (that is, duplication of MSV transactions) is minimised. In that respect, the proponent considers the issue to be an implementation matter, rather than a reason for not allowing users to submit MSVs to AEMO.

7.2 Stakeholder views

Alinta Energy is of the view that market participants will develop the systems necessary to manage the risk of duplication and is, on that basis, not concerned about the absence of a limitation on initiation of MSVs.

7.3 Commission's assessment

Given that the proposed rule would allow STTM Users to submit MSVs to AEMO in addition to STTM Shippers, there is potentially a small risk that trading participants who are counter parties in a particular MSV could both submit the same MSV to AEMO. This in turn could cause administrative errors if changes to market schedules are administered twice. If this occurs, such duplications could in fact introduce new deviations rather than 'netting out' existing deviations, as intended by the MSV.

However, the current rules, in particular the submission-and-acceptance procedure, provide for a sufficiently adequate arrangement to minimise the risk of duplication. This would still apply in a situation when STTM Users would also be enabled to submit MSVs. Further, MSVs can be reversed, rejected or can be allowed to lapse, so that a duplicate MSV would have no final effect on the two participants. In addition, the Commission notes that proponent has indicated that it intends to implement system changes that further reduce the risk of duplication.

7.4 Conclusion

The Commission is satisfied that any potential risk of transaction duplication is minimised by the current rules and the foreseen changes to the STTM IT systems. Accordingly, the proposed rule (and the rule as made) would not alter the risks to participants involved in MSV transactions. The improved efficiency the rule as made will bring will benefit participants in the STTM. This in turn is likely to contribute to a more efficient use of gas services, from which, ultimately, consumers of gas would be able to benefit in terms of price (although this benefit is likely to be marginal). The Commission considers that the rule as made therefore will, or is likely to, contribute to the NGO.

Abbreviations

AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
Commission	See AEMC
MCE	Ministerial Council on Energy
MSV	market schedule variation, as defined in section 364 of the NGL
NGL	National Gas Law
NGO	national gas objective
NGR	National Gas Rules
Proponent	See AEMO
STTM	Short term trading market, as defined in section 364 of the NGL

A Summary of issues raised in submissions

Stakeholder	Issue	AEMC response
Alinta Energy	<p>Alinta Energy (Alinta) supports the rule change, with the view that:</p> <ul style="list-style-type: none"> - the proposed rule will increase efficiency by facilitating transactions between users available under the current rules but only via a shipper as intermediary; - the proposed rule has industry support and has been broadly discussed as part of the STTM Consultative Forum, of which Alinta is a member; and - the proposal will not result in any significant costs or have a material impact on the market outside of the noted efficiencies. 	The comment is noted by the Commission.
Alinta Energy	In relation to the issue of duplication, Alinta expects that market participants will develop the systems necessary to manage the risk of duplication, and on that basis is not concerned about the absence of a limitation on initiation of MSVs.	The comment is noted by the Commission.
Alinta Energy	<p>Alinta also notes that it may have been opportune to examine other enhancements to the MSV mechanism, with automatic matching via a compulsory and transparent facilitation process as a particular area of interest to Alinta. It considers a matching scheme would reduce overall administration in the market, as participants will not be required to enter into individual contracts. It would improve transparency, allow for smaller trade volumes and would therefore reduce barriers to entry and limit the ability of parties to introduce uneconomic administrative charges.</p> <p>Alinta however recognises that further analysis of these issues is likely to be required and that, on that basis, the current rule change process should not be unduly delayed.</p>	As noted by Alinta, the issues raised fall outside the scope of the present rule change request.