

12 July 2017

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Dear John

## **Non-controversial rule change proposal**

### **Changes to periodic review of market parameters in STTM**

AEMO requests that the Australian Energy Market Commission considers non-controversial changes to National Gas Rule 492 to allow the periodic review of market parameters for the Short Term Trading Market (STTM) to be conducted at the same time as the National Electricity Market reliability standard and settings review.

AEMO considers that the rule change proposal is non-controversial as:

- A one year delay in implementation of any changed parameters is unlikely to have a significant effect on the STTM.
- It maintains the requirement for a periodic STTM market parameter review.
- It maintains the ability to have STTM parameters aligned to those of the NEM

A description and drafting of the proposed Rule and a statement of the issue that this rule change proposal addresses is included in the attachment.

For further details, please contact Violette Mouchaileh, Group Manager Market Enhancement on 03 9609 8551.

Yours sincerely



Peter Geers  
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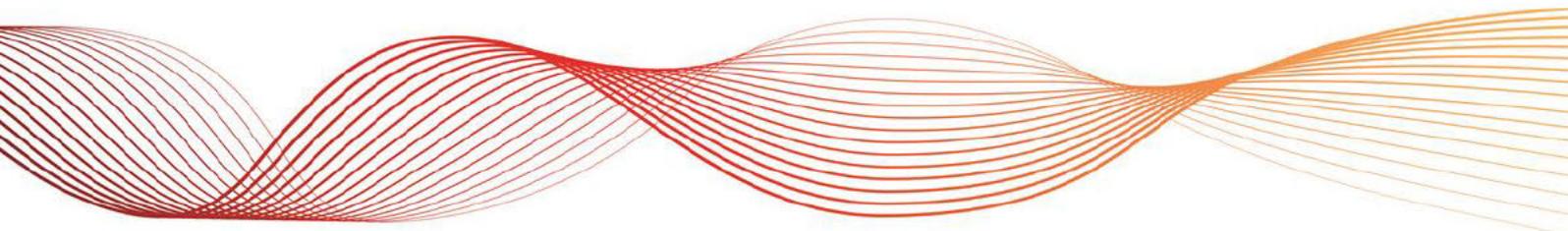
Attachments: Gas rule change proposal - Changes to periodic review of market parameters in STTM



# GAS RULE CHANGE PROPOSAL

CHANGES TO PERIODIC REVIEW OF MARKET PARAMETERS  
IN STTM

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## 1. SUMMARY

Market parameters (or pricing envelopes) are driven by the market frameworks, design and market inter-relationships. With increasingly interconnected markets in both gas and electricity, it is important that market parameters in related markets are considered together. This will ensure that there is no relative advantage in terms of investment incentives or risk management from participating in one market to the detriment of others. The interconnected nature of gas and electricity was recently recognised by the Reliability Panel:

*“Higher gas prices led to higher electricity prices, with sustained high prices for extended periods in June and July 2016. The high gas price was in part a function of the demand for gas as a fuel for power generation. The closure of Hazelwood power station – and the attendant increase in gas-fired power generation – is likely to strengthen the connection between gas and electricity prices.”<sup>1</sup>*

AEMO is requesting a non-controversial National Gas Rules (NGR) change for the Short Term Trading Market (STTM) to delay the market parameter review required by December 2017 until April 2018. The rule change will allow the review of the market parameters for the STTM to be conducted at the same time as the National Electricity Market (NEM) reliability standard and settings review.

AEMO considers this a non-controversial rule change because:

- A one year delay in implementation of any changed parameters is unlikely to have a significant effect on the STTM.
- It maintains the requirement for a periodic STTM market parameter review.
- It maintains the ability to have STTM parameters aligned to those of the NEM

Without the proposed rule change, AEMO is required to complete the STTM review before the NEM review, and may subsequently be required to conduct a further STTM review to take account of any new NEM market parameters.

In recognition of the interconnections between the NEM and gas markets, AEMO is reviewing market parameters for the Declared Wholesale Gas Market (DWGM) at the same time as the STTM review. There is no requirement under the NGR for a DWGM review<sup>2</sup>.

Following completion of the combined STTM/DWGM review, AEMO will consider proposing more comprehensive changes to the NGR and the National Electricity Rules (NER) so that market parameters for all energy markets are reviewed on a similar basis and timeframe.

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<sup>1</sup> Section 4.2.4 - Reliability Panel, Reliability standard and reliability settings review 2018, Issues paper, 6 June 2017

<sup>2</sup> The requirement for a periodic review in 3.2.4(d) of the Market & System Operations Rules was not duplicated in part 19 of the NGR.

## 2. RELEVANT BACKGROUND

Market parameters in energy markets are important to:

- Establish the price envelope within which energy supply and demand is balanced in wholesale markets.
- Allow the markets to send price signals to market participants relating to investment and risk strategies.
- Limit financial risk for market participants and therefore cost to end consumers.

### 2.1 Current Framework

NGR 492 mandates that AEMO conducts a market parameter review for the STTM no later than five years after the last review. Where any corresponding value in an associated gas market or the NEM changes, AEMO is required to consult with interested parties to consider if the next review should be held earlier than otherwise may have been required.

This rule was developed to establish a periodic review of market parameters, and ensure that they remained appropriately aligned with the market parameters in related markets.

### 2.2 Narrative of Issue and proposed changes

The NER mandates a review by the AEMC's Reliability Panel for the reliability settings (equivalent to market parameters in the STTM) by 30 April every four years<sup>3</sup>, with the next review scheduled to be completed by 30 April 2018<sup>4</sup>. The NGR mandates a review of STTM market parameters no later than five year after the last review is completed, with the next review due to be completed by 14 December 2017<sup>5</sup>.

While the NGR allows for a review to be conducted earlier than would otherwise be required if a market parameter in a related market changes<sup>6</sup>, they do not allow for a review to be conducted later than five years from the previous review. This means that, as the first STTM review was completed in December 2012 as required by NGR 492(1)(e), AEMO is required to complete a review by December 2017, and then consult on conducting a further review if any NEM parameters are changed in April 2018.

In recognition of the interconnections between the NEM and gas markets, AEMO is proposing that the rules are changed to align the STTM market parameter review with the periodic review of the reliability settings in the NEM.

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<sup>3</sup> 3.9.3A(d) of the NER

<sup>4</sup> See <http://www.aemc.gov.au/Markets-Reviews-Advice/Reliability-Standard-and-Settings-Review-2018#>

<sup>5</sup> The previous review was completed five years ago on 14 December 2012.

<sup>6</sup> NGR 292(4) – where a market parameter in a related market changes

## 3. STATEMENT OF ISSUE

### 3.1 Current Rules

NGR 492(1)(f) specifies that AEMO must conduct a review of STTM market parameters no later than 5 years after the last review was completed.

### 3.2 Issues with the current Rule

The first STTM review was completed on 14 December 2012<sup>7</sup> and NGR 492(1)(f) requires AEMO to conduct a review of market parameters no later than five years after the last review was completed, which means the next review must be completed by 14 December 2017. If the Reliability Panel recommends changes to the NEM settings in April 2018, NGR 492(4) requires AEMO to consult with interested parties to determine if the market parameters for the STTM should be further reviewed. This outcome has a potential for significant inefficiencies.

The review period for the NEM (NER 3.9.3A(d)) and the STTM is not aligned. This creates a potential for sub-optimal outcomes, as the market settings are best analysed taking into account current considerations in inter related markets. In addition, duplication in effort can occur where AEMO has completed a mandated STTM market parameter review, and is then required to consult with interested parties on a further review because the Reliability Panel recommends changes to the NEM reliability settings.

The proposed rule change would align the period of the review of market parameters in the STTM with that of the NEM reliability standard and settings review.

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<sup>7</sup> NGR 492(1)(e) required the first STTM review to be completed by 31 December 2012.

## 4. HOW THE PROPOSAL WILL ADDRESS THE ISSUES

### 4.1 How the proposal will address the issues

The proposed solution is to align the market parameter review for the STTM with those of the NEM:

- The completion of the next market parameter review for the STTM to be completed by 30 April 2018 (delayed from December 2017 and aligned with the next NEM reliability standard and settings review ); and
- Reviews of the market parameters for the STTM to be completed by 30 April every fourth year (aligned with the NEM reliability standard and settings reviews).

### 4.2 AEMO Procedure changes

This rule change proposal does not require any changes to the STTM Procedures.

### 4.3 Stakeholder Engagement

This change has been discussed at the Gas Wholesale Consultative Forum (GWCF) on 12 June 2018. The GWCF did not note any issues with the proposal, and unanimously supported AEMO's proposal to seek a rule change to align the timing of the STTM review with that of the NEM.

## 5. PROPOSED RULE

### 5.1 Description of the Proposed Rule

The proposed rule will:

1. Add a review by 30 April 2018;
2. Delete the requirement for subsequent reviews within 5 years, and replace by a requirement for reviews by the same time as the Reliability Panel must conduct each reliability standard and settings review.
3. Add definitions for National Electricity Law, National Electricity Rules, Reliability Panel and reliability standard and settings review.

### 5.2 Minor/Consequential Rule Changes

All references to rule 492(1) remain unchanged.

### 5.3 Non-controversial rule change

A non-controversial rule change is one that is ‘...unlikely to have a significant effect on a market for gas...’<sup>8</sup>. This proposed rule change is non-controversial because:

- A one year delay in implementation of any changed parameters is unlikely to have a significant effect on the STTM.
- It maintains the requirement for a periodic STTM market parameter review.
- It maintains the ability to have STTM parameters aligned to those of the NEM

Each is described in more detail below.

#### 5.3.1 One year delay unlikely to have a significant effect on STTM

The proposed rule change means that parameter changes should be effective from 1 July 2020.<sup>9</sup> This is one year after they would be effective for a review completed under current rules by December 2017.

While this could have an effect on gas markets, the likelihood of any parameters coming into effect during the one year delay is low. Since the commencement of the STTM, the ex-ante market price has never reached the maximum market price (MMP), and the cumulative price threshold has not been exceeded. The ex post price has reached MMP once (due to a data error), but changes to the NGR and STTM Procedures should prevent a re-occurrence on a similar basis.

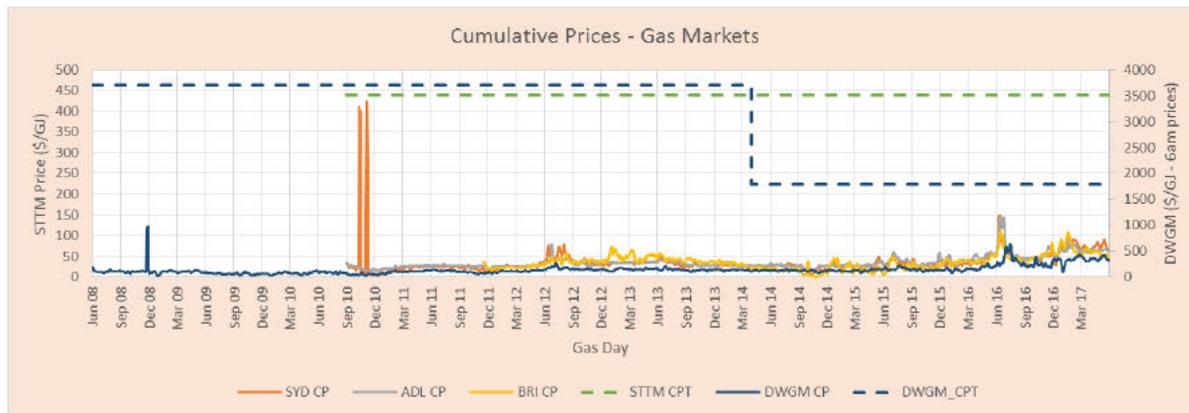
In the DWGM, the ex-ante market price has reached VoLL (\$800) on one occasion in Nov 2008.

In both markets, prices have been administered for reasons other than the cumulative price threshold exceedance, but were always determined at a price below the administered price cap.

Figure 1, illustrates historical cumulative prices in the gas markets which lead AEMO to the conclusion that it is unlikely that market parameters will impact the market in a given year. As such, the delay in implementing new market parameters by a year is unlikely to result in an impact to the market.

<sup>8</sup> NGL definition - A Rule that is unlikely to have a significant effect on a market for gas or the regulation of pipeline services

<sup>9</sup> 1 July in the year commencing two years after the review (NGR 492(2)).



**Figure 1 Cumulative Prices in gas markets**

### 5.3.2 Periodic STTM review maintained

Maintaining the periodic review of the STTM parameters means that there are regular opportunities to adjust parameters as the gas and electricity markets change.

The proposed rule change therefore has no significant effect on gas markets with respect to the ability to change market parameters.

### 5.3.3 STTM parameters can be aligned with those of the NEM

The proposed rule change allows STTM parameters to be aligned with those of the NEM as of 1 July 2020.<sup>10</sup> Under current rules, an additional STTM review before the end of 2017 would be needed to allow alignment of parameters.

The proposed rule change therefore has no significant effect on gas markets with respect to alignment with NEM parameters, but simply acts to align the market parameter reviews in a more efficient manner.

## 5.4 Stakeholders support the proposed change

The proposed rule change has the support of stakeholders at the Gas Wholesale Consultative Forum (GWCF). As noted in the draft minutes of the GWCF meeting<sup>11</sup> on 13 June 2017:

- Unanimous support was given by participants for AEMO to review market parameters for both the DWGM and the STTM by the end of April 2018.
- Unanimous support was given by participants for AEMO to submit a Rule Change to the AEMC which would seek to align the STTM review with the NEM Reliability Panel review

Additionally, the Draft Scope of Work for consultancy services for the review for completion by 30 April 2018 was circulated to the GWCF for comment after the June 2016 meeting. No comments were received by the submission closing time.

<sup>10</sup> NER 3.9.A(d)(2) – Reliability panel recommendations should apply on and from 1 July in the year commencing 2 years after the year in which the report is published – ie 1 July 2020.

<sup>11</sup> Available at [http://www.aemo.com.au/-/media/Files/Stakeholder\\_Consultation/Working\\_Groups/Wholesale/GWCF/2017/GWCF-19--13-June-2017-Draft-Minutes.docx](http://www.aemo.com.au/-/media/Files/Stakeholder_Consultation/Working_Groups/Wholesale/GWCF/2017/GWCF-19--13-June-2017-Draft-Minutes.docx)



## 6. HOW THE PROPOSED RULE CONTRIBUTES TO THE NATIONAL GAS OBJECTIVE (NGO)

The National Gas Objective is stated in the National Gas Law as:

*“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.”*

This rule change proposal is in the long term interest of consumers of gas because it will:

- Establish the most appropriate market parameter settings which will allow trading participants to better manage risks in the STTM, leading to lower long terms costs to consumers
- Potentially reduce AEMO’s and stakeholder’s costs through avoidance of multiple reviews in a short time frame, leading to lower costs to consumers



## 7. EXPECTED BENEFITS AND COSTS OF THE PROPOSED RULE

This rule change will not materially increase AEMO or STTM trading participant's costs. Although the period between market parameter reviews for the STTM will decrease, the requirement to align reviews between STTM and the NEM means that the number of reviews is likely to stay the same or potentially reduce.

Market Participants are likely to benefit from market parameters that allow the markets to send price signals to market participants relating to investment and risk strategies, and limit financial risk.

## APPENDIX A. DRAFT RULE

This draft is based on version 92 of the National Gas Rules.

Deletions are marked in blue strikethrough: ~~Proposed deletions~~

Insertions are marked in red underline: Proposed insertions

### NGR 364 Definitions

National Electricity Law means the National Electricity Law set out in the schedule to the National Electricity (South Australia) Act 1996 (SA).

National Electricity Rules has the same meaning as in the National Electricity Law.

reliability standard and settings review has the same mean as in the National Electricity Rules.

Reliability Panel has the same mean as in the National Electricity Rules.

### NGR 492 Review of market parameters

- (1) AEMO must conduct periodic reviews of:
- (a) the MPC; and
  - (b) the administered price cap; and
  - (c) the CPT horizon; and
  - (d) the cumulative price threshold; and
  - (d1) the MMP,
- to be completed:
- (e) in the case of the first review under this rule, by 31 December 2012; ~~and~~
  - (e1) in the case of the second review under this rule, by 30 April 2018; and
  - (f) for each subsequent review, by the same time as the Reliability Panel must conduct each reliability standard and settings review. ~~no later than 5 years after the last review was completed.~~



## APPENDIX B. GWCF PAPER AND MINUTES

The draft minutes for the GWCF meeting on 13 June include:

“Unanimous support was given by participants for AEMO to review market parameters for both the DWGM and the STTM by the end of April 2018.”

“Unanimous support was given by participants for AEMO to submit a Rule Change to the AEMC which would seek to align the STTM with the Reliability Panel.”

The paper and minutes from the meeting are available when published on AEMO’s website at:

[www.aemo.com.au](http://www.aemo.com.au) / Stakeholder Consultations / Industry forums and working groups / Gas Wholesale Consultative Forum (click [Link to GWCF page](#) )