

Australian Energy Market Commission

CONSULTATION PAPER

National Gas Amendment (Changes to periodic review of market parameters in STTM) Rule 2017

Rule Proponent

Australian Energy Market Operator

29 August 2017

RULE
CHANGE

1. Introduction

On 12 July 2017, the Australian Energy Market Operator (AEMO) submitted a non-controversial rule change request to the Australian Energy Market Commission (AEMC). The rule change request seeks to amend the National Gas Rules (NGR) 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 (NEM) reliability standard and settings review.¹

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

2. Background

The increased interconnection of gas and electricity markets is a key driver for this rule change.² AEMO has stated that parameters in gas markets are best analysed taking into account considerations in inter-related gas and electricity markets.³

The STTM parameters include: the market price cap, the administered price cap, the cumulative price threshold (CPT), the CPT horizon, the minimum market price and the market operator service cost cap.⁴

The last STTM parameter review was completed by AEMO in December 2012. Under the current rules, AEMO is required to:

- conduct a market parameter review for the STTM no later than five years after the last review, and
- consult with interested parties to consider if a review should be completed earlier if a parameter in a related market changes.⁵

If the review recommends a change to any of the parameters, AEMO is required to submit a rule change request to the AEMC to implement the change.

AEMO intends to review the market parameters for the declared wholesale gas market (DWGM) at the same time as the STTM parameter review. There is no requirement under the NGR for a DWGM review.

The Reliability Panel is required to conduct a review of the reliability standard and settings applicable in the NEM, every four years. The Panel must complete its latest

¹ The rule change request is available on the AEMC website: www.aemc.gov.au.

² See section 1 of the rule change request.

³ See section 3.2 of the rule change request.

⁴ The STTM parameters: establish the price envelope within which gas supply and demand is balanced in the STTM, allow the market to send price signals to market participants relating to investment and risk strategies, and limit financial risk for participants and therefore cost to end consumers.

⁵ Rule 492 of the NGR

review (2018 NEM review) by 30 April 2018. The 2018 NEM review is considering the standard and settings to apply in the NEM from 1 July 2020.⁶

3. Issues raised in the rule change request

Section 3.2 of AEMO's rule change request identifies a number of issues in relation to the rules for the STTM parameter review. These are summarised below.

1. Sub-optimal outcomes may be achieved if the STTM parameters are not analysed taking into account the market parameters and circumstances in inter-related markets.

AEMO considers that the current misalignment in the timing of electricity and gas market parameter reviews may impede its ability to determine the most appropriate STTM parameters. This may:

- hinder participants from effectively managing risks in the STTM, and
- contribute to higher long term costs to consumers.

Considering gas and electricity market parameters at the same time 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.

2. Duplication in effort can occur where AEMO is required to conduct multiple STTM reviews in a short timeframe.

Under the current rules, AEMO is required to complete its next review of the STTM parameters by 14 December 2017.⁷ However, if the Reliability Panel recommends changes to the reliability settings in the NEM in April 2018, the rules require 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.

Question One – Issues

- A. What are stakeholders' views on the issues raised by AEMO?
- B. Are there any other issues relevant to this rule change that the AEMC should consider?

4. Proposed rule

In section 4 of the rule change request, AEMO proposes to address these issues by amending a number of provisions in the NGR. Specifically, AEMO has proposed the following changes:

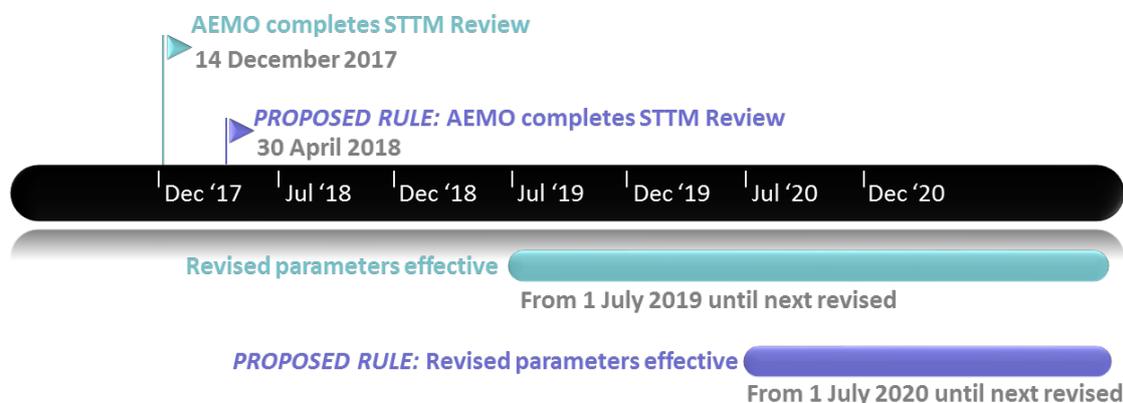
- Delay the upcoming STTM parameter review required by the NGR from 14 December 2017 until 30 April 2018.

⁶ See AEMC website for information on the Reliability Panel's Reliability Standard and Settings Review 2018: www.aemc.gov.au.

⁷ AEMO completed its previous review five years ago on 14 December 2012.

- Align subsequent reviews of the STTM parameters with future NEM reliability standard and settings reviews.

The figure below shows current and proposed STTM parameter review completion dates and the dates any revised parameters would become effective.



Question Two – Proposed solution

- Is it appropriate to delay the upcoming STTM parameter review from 14 December 2017 until 30 April 2018? Provide reasons.
- Is it appropriate to align subsequent reviews of the STTM parameters with future NEM reliability standard and settings reviews? Provide reasons.

Appendix A of AEMO’s rule change request sets out proposed rule drafting to implement the changes. The proposed drafting, if implemented, would introduce a number of new definitions into the NGR and link the timing of the STTM parameter review directly to the Reliability Panel’s reliability standard and settings review.

Question Three – Proposed rule

- Is the drafting of the proposed rule appropriate?
- What are stakeholders’ views on expressly linking the timing of STTM parameter reviews to NEM reliability standard and settings reviews?

AEMO’s consideration of the proposed rule in terms of its contribution to the National Gas Objective (NGO), and its costs and benefits are set out in sections 6 and 7 of the rule change request.

5. Assessment framework

The AEMC’s assessment of this rule change request must consider whether the proposed rule promotes the NGO as set out under s. 23 of the National Gas Law (NGL).

The NGO 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.”⁸

In determining whether this rule is likely to promote the NGO, the AEMC will assess the proposed changes having regard to the following factors:

- Role of information – whether the proposed changes promote the provision of accurate market signals to STTM participants. STTM parameters that are set at the most appropriate level support effective investment decisions.
- Regulatory and administrative burden – whether the proposed changes reduce the administrative burden on AEMO that arises from the need to complete multiple reviews in a short time frame.

In assessing the rule change the AEMC will also consider whether there is a material risk in delaying a review of the parameters in light of the recent trends in gas prices. If a material risk is identified, the AEMC will consider whether this risk outweighs the benefits of extending the completion date of the STTM parameter review in order to align it with the NEM reliability standard and settings review.

Question Four – Assessment framework

- A. Is the assessment framework appropriate for considering the changes in the proposed rule change request?
- B. Are there other relevant considerations that should be included in the assessment framework?

6. Process for this rule change

Treatment as a non-controversial rule change

AEMO submitted that the rule change request should be treated as non-controversial under section 290 of the National Gas Law (NGL). The AEMC considers that the rule change request should be subject to the expedited rule making process on the basis that the proposed changes are unlikely to have a significant effect on the STTM.⁹ This is because:

1. A delay in the implementation of any changes to the STTM parameters is unlikely to surprise STTM participants as the Gas Wholesale Consultative Forum (GWCF) has already discussed the rule change and unanimously supported it.¹⁰
2. The proposed rule, if made, would maintain the requirement for a periodic STTM parameter review.

⁸ Section 23 of the NGL

⁹ Under the section 290 of the NGL, a non-controversial rule is one that is unlikely to have a significant effect on a market for gas or the regulation of pipeline services.

¹⁰ See appendix B of the rule change request.

3. The proposed rule, if made, would maintain the ability to have STTM parameters aligned to those of the NEM.¹¹

Rule changes that are considered to be non-controversial may be progressed under an expedited (faster) process involving only one round of consultation. Under an expedited rule change, the AEMC must publish its final rule determination within six weeks of commencing the rule change process.

The AEMC has decided to use an expedited process to consider this rule change request provided that it does not receive any valid requests not to use the expedited process by **12 September 2017**. To be valid, an objection should set out the reasons why the rule change request will have a significant impact on the STTM.

If there are no valid objections to the expedited process, the final determination will be published on **10 October 2017**.

Key dates

The key dates for stakeholders in this process are as follows:

Milestone	Date (Expedited)
Commencement of this rule change process	29 August 2017
Close of period for stakeholders to object to expedited process	12 September 2017
Close of submissions	26 September 2017
Publication of final determination	10 October 2017

7. Lodging a submission

The AEMC invites requests not to make a rule under the expedited process and written submissions on this rule change proposal.

All enquiries on this project should be addressed to Thomas Lozanov on (02) 8296 7824.

Lodging a request not to make a rule under an expedited process

Written requests not to make a rule under the expedited process in s.304 of the NGL must include reasons for the request, and must be lodged with the AEMC by **12 September 2017**, either online or by mail, in accordance with the process specified below.

Lodging a submission to this rule change request

Written submissions on the rule change request must be lodged with the AEMC by **26 September 2017**, either by online or mail, in accordance with the process specified below.

¹¹ The proposed rule would align the STTM and NEM parameter reviews in a clearer and more efficient manner.

Where practicable, submissions should be prepared in accordance with the AEMC's guidelines for making written submissions on rule change requests.

Lodging a submission electronically

Electronic submissions, or requests not to make a rule under the expedited process, must be lodged online via the AEMC's website, www.aemc.gov.au, using the "lodge a submission" function and selecting the project reference code GRC0042.

The request or submission must be on letterhead (if submitted on behalf of an organisation), signed and dated.

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

Lodging a submission by mail

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

Australian Energy Market Commission

PO Box A2449

Sydney South NSW 1235

The envelope must be clearly marked with the project reference code: GRC0042. Alternatively, the submission may be sent by fax to (02) 8296 7899. Except in circumstances where the submission has been received electronically, upon receipt of the hardcopy submission the AEMC 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.
