



20 December 2012

Ms Electra Papas  
Australian Energy market Commission  
PO Box A2449  
Sydney South NSW 1235

Dear Ms Papas

### **STTM deviations and the settlement surplus and shortfall**

Alinta Energy welcomes the opportunity to comment on the abovementioned rule change proposal submitted by the Australian Energy Market Operator (AEMO).

Alinta Energy has repeatedly expressed concerns with the impact of Market Operator Services and the risk to new entrants of Short Term Trading Market (STTM) participation.

#### *General comments*

Alinta Energy supports the principle of better alignment of costs of a deviation, including the costs of supplying Market Operator Services, with the causer of those costs on a particular gas day.

In assessing the AEMO proposal against the National Gas Objective, the AEMC is correct in considering the: effect of the proposal on STTM gas services; administrative efficiency and STTM operation; and whether the proposed rules are consistent with good regulatory practice. In broad terms, Alinta Energy believes the rule is appropriate when assessed against these criteria by better facilitating cost to cause.

Alinta Energy has noted on a number of occasions that delineation between the procedures and the National Gas Rules is imprecise. While this matter cannot be resolved in totality through consultation procedures it is a matter that requires consideration and greater consistency.

Alinta Energy supports an appropriate degree of flexibility to allow the market operator, AEMO, to consult on and amend the procedures based on experience and further analysis; however, it is the National Gas Rules and not AEMO's analysis in isolation which should guide development of the procedures.

In this regard, the National Gas Rules should be structured in a way that AEMO needs to have more than regard to principles contained within, where the National Gas Rules do not detail precise outcomes. AEMO's procedures should be consistent, and never inconsistent, with the principles and intent of the National Gas Rules.

As such, where a matter is removed from the National Gas Rules in favour of the AEMO procedures the National Gas Rules should contain principles which limit the judgement of AEMO, and not allow matters which conflict with the intent of the change or for the reintroduction of matters not contained in the National Gas Rules. In this way, silence on a matter within the National Gas Rules should not be construed as allowing AEMO unlimited discretion.

#### *Deletion of the settlement surplus cap*

Alinta Energy must assume based on AEMO's analysis that a better approach to cost to cause will overcome any concerns with removing the surplus cap. As such, it appears correct to conclude that it would be inefficient to over-recover costs from deviating parties in the context of a better aligned cost to cause approach. Removal of the settlement surplus charge is supported by Alinta Energy so any over-recovery from deviating parties can be distributed back to those parties.

Alinta Energy is interested in the development of additional principles which encourage accurate forecasting; however, it is unclear how these would benefit the operation of the market in excess of the benefits that can be achieved by better aligning cost to cause.

#### *Deletion of the graduated deviation parameters*

Alinta Energy understands that the graduated deviations parameters are not used to determine deviation prices in the majority of circumstances and can have the effect of disincentivising deviations that would benefit the market by reducing the cost of Market Operator Services.

Alinta Energy supports the inclusion of principles regarding deviation pricing and supports the wording included on pg. 21 of the consultation paper with one change. That being, the first sentence is deleted and replaced with wording that has the effect that: when determining deviation charges and deviation payments for a Trading Participant pursuant to the STTM Procedures AEMO must not make a determination which is inconsistent with the listed principles.

#### *Use of average MOS cost*

Alinta Energy appreciates the rationale for introducing average MOS charges for deviations; however, Alinta Energy does not believe long deviations are necessarily as problematic as short deviations.

As understood, if a price-taking participant paid for 100GJ, but drew 90GJ from the market, that participant could also be charged the average decrease MOS cost. This would effectively mean the participant paid for 10GJ they did not use at the ex-ante price, then pays the average decrease MOS cost for that 10GJ. If Alinta Energy's interpretation is correct, this penalty seems quite severe for a participant who is also unlikely to be deriving any benefit from the MOS stack and may also be exposed to counter-acting MOS charges.

In the absence of an automated Market Schedule Variation mechanism Alinta Energy has some concerns with how participants are able to manage this risk.

#### *Definitions of market parameters*

Alinta Energy understands that a number of definitional changes are required to facilitate AEMO's proposal. Alinta Energy supports these amendments to enable better alignment of cost to cause, in particular to enable negative deviation pricing to occur.

Alinta Energy does not believe that separate definitions for a floor and a cap are necessarily required to cover deviation pricing; however, it does seem somewhat inconsistent to have some matters contained in the rules and some matters not covered. Further, much of the logic behind minimum and maximum prices is to contain risk to participants. This applies equally to gas and electricity for example.

As such, whether a separate floor and cap is needed for deviation pricing seems less relevant than is there safeguards in the rules that ensure participants are not exposed to unlimited liability. In this instance, it would appear that the boundaries for deviation charges would rely on the Market Operator Service pricing parameters. This may be appropriate and if so, there is a view it should be specifically bounded as such via an explicit connection to Market Operator Services.

*Counteracting Market Operator Service*

Alinta Energy expects the proposal to better account for deviations but not counteracting Market Operator Services. Nevertheless, this proposal continues to progress the market's development to better allocate costs and manage risk.

Should you have any queries in relation to this submission or wish to discuss these matters please contact me on, telephone, (02) 9372 2633.

Yours sincerely



**Jamie Lowe**  
Manager, Market Regulation