



**Australian Energy Market Commission**

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# RULE CHANGE

## **RULE DETERMINATION**

### **National Gas Amendment (Timetable for Prescribed Gas STTM Reviews) Rule 2010**

**Rule Proponent**

Australian Energy Market Operator (AEMO)

**Commissioners**

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Spalding

9 December 2010

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For and on behalf of the Australian Energy Market Commission

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## **About the AEMC**

The Council of Australian Governments, through its Ministerial Council on Energy (MCE), established the Australian Energy Market Commission (AEMC) in July 2005 to be the rule maker for national energy markets. The AEMC is currently responsible for rules and providing advice to the MCE on matters relevant to the national energy markets. We are an independent, national body. Our key responsibilities are to consider rule change proposals, conduct energy market reviews and provide policy advice to the MCE, as requested, or on AEMC initiative.

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## Summary

On 9 December 2010, the Australian Energy Market Commission (AEMC or Commission) published this final Rule determination and Rule as Made on the Rule change request from the Australian Energy Market Operator (AEMO or Proponent) in relation to realigning the timetable for prescribed gas Short Term Trading Market (STTM) reviews. The Rule as Made will commence operation on 16 December 2010. The Rule as Made provides for the following:

- the first three prescribed gas STTM reviews will be consolidated, which will now have to be completed by 31 March 2012; and
- the review of the Minimum Market Price (MMP) will be moved to the fifth prescribed market review so that the MMP can be reviewed at the same time as the other STTM parameter settings.

The Rule as Made will allow AEMO sufficient time to collect, analyse and consult on live market operations experience when undertaking its prescribed market reviews, in particular for a winter peak demand period which was the original intent for the first and third prescribed market reviews. This will likely lead to more useful and better informed reviews and recommendations by AEMO. The Rule as Made will also allow AEMO to holistically review the MMP together with the other STTM parameter settings at a later date. Overall, the Commission considers that delaying and consolidating the reviews will reduce the administrative and operational burden and costs placed on AEMO and STTM Participants. This will therefore reduce administrative and operational costs compared to earlier and much less well informed reviews.

The Commission considers that allowing AEMO sufficient time to undertake the prescribed market reviews will also avoid potential overlap of the first three reviews and allow AEMO to meet the timeframe required under the extended consultative procedure, which AEMO must comply with when conducting the prescribed market reviews. This will ensure greater certainty and stability of the development of the STTM for STTM Participants.

The Commission considers that the Rule as Made is likely to have a limited impact on STTM Participants and consequently on consumers. This is because the Rule as Made only realigns the timetable for the prescribed gas STTM reviews and maintains the original intent of the STTM Consultative Forum (STTM-CF), the Gas Market Leaders Group (GMLG) and the Ministerial Council on Energy (MCE) Standing Committee of Officials (SCO) for these reviews.

# Contents

<b>1</b>	<b>AEMO’s Rule change request.....</b>	<b>1</b>
1.1	The Rule change request .....	1
1.2	Rationale for Rule change request .....	1
1.3	Solution proposed in the Rule change request .....	2
1.4	Relevant background.....	2
1.5	Commencement of Rule making process .....	7
<b>2</b>	<b>Final Rule Determination.....</b>	<b>8</b>
2.1	Commission’s determination .....	8
2.2	Commission’s considerations.....	8
2.3	Commission’s power to make the Rule .....	8
2.4	Rule making test.....	9
2.5	Other requirements under the NGL.....	10
<b>3</b>	<b>Commission’s reasons.....</b>	<b>12</b>
3.1	Assessment.....	12
3.2	Rule as made.....	12
3.3	Civil Penalties.....	13
3.4	Conduct Provisions.....	13
<b>4</b>	<b>Commission’s assessment approach .....</b>	<b>14</b>
<b>5</b>	<b>Consolidating and delaying the first three prescribed STTM reviews .....</b>	<b>15</b>
5.1	Proponent’s view .....	15
5.2	Stakeholder views .....	15
5.3	Commission’s analysis .....	15
5.4	Conclusion .....	16
<b>6</b>	<b>Moving the MMP review .....</b>	<b>17</b>
6.1	Proponent’s view .....	17
6.2	Stakeholder views.....	17
6.3	Commission’s analysis .....	17

6.4	Conclusion .....	17
	<b>Abbreviations.....</b>	<b>18</b>
<b>A</b>	<b>Summary of issues raised in submissions .....</b>	<b>19</b>



# 1 AEMO's Rule change request

## 1.1 The Rule change request

On 16 September 2010, the Australian Energy Market Commission (AEMC or Commission) received a Rule change request from the Australian Energy Market Operator (AEMO or Proponent) to make a Rule in relation to realigning the timetable for the prescribed gas Short Term Trading Market (STTM) reviews and moving the review of the Minimum Market Price (MMP) to a later date (Rule change request).

Under Division 11 of Part 20 of the National Gas Rules (NGR), AEMO is required to conduct six prescribed market reviews of the STTM. The first market review was originally intended to begin after the STTM commenced operation on 4 June 2010,<sup>1</sup> and was to be completed by 31 December 2010. This would have enabled STTM operational experience for a winter peak demand period to inform the review. However, the commencement of the operation of the STTM was delayed until 1 September 2010 (after the 2010 winter peak demand period) because AEMO had to resolve some market readiness issues.

The Proponent sought an amendment to the timetable for these prescribed market reviews<sup>2</sup> of the STTM to allow it sufficient time to collect, analyse and consult on live market operations experience, in particular for a full winter and two summer periods. This amendment would entail consolidating the first three market reviews into one review which would be completed by 31 March 2012. Additionally, the Proponent sought to move the review of the MMP from the third review to a later review (the fifth review) so that it could be reviewed alongside the other STTM parameter settings<sup>3</sup> to ensure these market settings are reviewed in a holistic manner.

The Proponent requested that the Rule change request be treated as non-controversial and expedited under section 304 of the National Gas Law (NGL). The Commission decided to expedite the Rule change request under section 304 of the NGL on the grounds that the Rule change request related to a 'non-controversial Rule'. No written objections were received and an expedited Rule making process was used.

## 1.2 Rationale for Rule change request

The Proponent provided the following reasons for its Rule change request:

- the delay in the commencement of the STTM from 4 June 2010 to 1 September 2010, which was required in order for AEMO to resolve some market readiness issues, meant that it could not collect, analyse and consult on

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<sup>1</sup> AEMO, Rule change request, 16 September 2010, p. 1.

<sup>2</sup> The first three prescribed market reviews of the STTM are defined in NGR rules 489(1), 489(2) and 490.

<sup>3</sup> These other STTM parameter settings include the Market Price Cap (MPC), the administered price cap, the cumulative price threshold (CPT), and the CPT horizon.

live market operations for the first winter peak demand period in June-August 2010. With the first STTM review currently due by 31 December 2010, AEMO would be in breach of the current timing requirements for the first review under the NGR unless the Rule making process was expedited;

- the proposed Rule addresses the original intent of the first and third prescribed market reviews, which was to provide sufficient time for AEMO to collect, analyse and consult on live market operations for a winter period;
- the proposed Rule addresses overlapping scope, content and timing of the first three reviews which may otherwise have created uncertainty for participants and instability for the new STTM market;
- the proposed Rule provides AEMO with sufficient time to meet the timeframe for the extended consultative procedure, which AEMO must comply with when conducting the prescribed market reviews; and
- the proposed Rule allows AEMO to conduct a holistic review of the MMP with the other STTM parameter settings.

### **1.3 Solution proposed in the Rule change request**

The Proponent proposed to resolve the issues discussed above by making a Rule that:

- consolidates the first three market reviews into one review (the consolidated review);
- requires the consolidated review be completed by 31 March 2012; and
- moves the review of the MMP to a later review in which other STTM parameter settings would be reviewed.

### **1.4 Relevant background**

This chapter provides an overview of the existing timetable for AEMO's STTM reviews as prescribed by the NGR.

#### **AEMO's existing review obligations**

The STTM commenced on 1 September 2010, a delay from the originally proposed commencement date of 4 June 2010. The commencement was delayed to enable AEMO to resolve some market readiness issues.

Under the NGR, AEMO must complete six market reviews of the STTM by particular dates as described below. These dates did not change when AEMO delayed the commencement of the operation of the STTM from 4 June 2010 to 1 September 2010. The six market reviews that AEMO must complete are:



- the first review by 31 December 2010, where AEMO must complete a review of the operation of the STTM that:
  - considers whether the Market Operator Service (MOS)<sup>4</sup> is operating effectively and efficiently; and
  - identifies any improvements in the operation of the STTM that can be implemented by 31 May 2011, by May 2012 or in a longer time period;<sup>5</sup>
- the second review by 30 June 2011, where AEMO must complete a review of the potential for the STTM to operate at prospective additional hubs, including the identification of options to integrate scheduling for hubs and prospective hubs that are connected by the same pipeline;<sup>6</sup>
- the third review by 31 December 2011, where AEMO must complete a review of the operation of the STTM that:<sup>7</sup>
  - considers whether the graduated deviation parameters,<sup>8</sup> the graduated variation parameters,<sup>9</sup> the MMP and the MOS cost cap<sup>10</sup> are set at appropriate levels;
  - considers whether the MOS is operating effectively and efficiently; and
  - identifies options for the allocation of settlement surpluses and shortfalls on a daily basis;
- the fourth review by 31 December 2012, where AEMO must complete a review of available options for additional or alternative STTM market processes that would operate within a gas day;<sup>11</sup>
- the fifth review by 31 December 2012 (and subsequently every five years), where AEMO must complete the first periodic reviews of the Market Price Cap (MPC), the administered price cap, the Cumulative Price Threshold (CPT), and the CPT horizon;<sup>12</sup> and

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4 MOS means the market operator service by which capacity (in GJ) is provided to balance pipeline deviations by increasing or decreasing the quantity of natural gas supplied to or withdrawn from a hub using an STTM pipeline.

5 NGR rule 489(1).

6 NGR rule 490.

7 NGR rule 489(2).

8 Graduated deviation parameters means the parameters used to determine the amount of a deviation charge or deviation payment, specified in rule 462.

9 Graduated variation parameters means the parameters used to determine the amount of a variation charge, specified in rule 463.

10 MOS cost cap means the maximum MOS price for a MOS increase offer or a MOS decrease offer that AEMO may include in a MOS stack, being \$50/GJ.

11 NGR rule 491.

12 NGR rule 492.

- the sixth review after the last gas day that contingency gas<sup>13</sup> was scheduled because of the first contingency gas trigger event, where AEMO must review the operation of Division 8 of Part 20 of the NGR.<sup>14</sup>

For each review, AEMO must comply with the extended consultative procedure under rule 9A.<sup>15</sup> Under the extended consultative procedure, AEMO would have to publish and consult on particulars of the matter,<sup>16</sup> consider submissions on the particulars of the matter and determine whether to hold meetings,<sup>17</sup> publish and consult on a draft report,<sup>18</sup> consider submissions on the draft report,<sup>19</sup> and publish a final report.<sup>20</sup> The Proponent estimated that the extended consultative procedure requires at least five months to complete.

### **Original policy intent behind the prescribed market reviews of the STTM**

A letter from the Ministerial Council on Energy (MCE) Standing Committee of Officials (SCO) to the Commission on 16 September 2010 stated the original policy intent behind the development of the six prescribed market reviews of the STTM:<sup>21</sup>

“During the development of the STTM, industry (through the GMLG) agreed to the prescription of six market reviews in the National Gas Rules (NGR), with the first review to be completed by 31 December 2010. In light of the delay to market start, carrying out these reviews in accordance with the currently-prescribed timetable will not allow sufficient time for AEMO to conduct the required consultation process and adequately review the operation of the market.

In addition, the intent behind the originally prescribed timing of the first review was to ensure that a review of market performance was undertaken following the initial winter peak demand period. With the market commencing on 1 September 2010, the first winter period of operation will now not be completed until August 2011...

...

The SCO believes that AEMO’s proposal is consistent with the original policy intent that the reviews are designed to evaluate market performance

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13 Contingency gas means a quantity of natural gas by which supply to or withdrawal from a hub by a Trading Participant is increased or decreased in accordance with Division 8 to address a contingency gas requirement.

14 NGR rule 493.

15 NGR rule 494.

16 NGR rule 9A(2).

17 NGR rule 9A(5).

18 NGR rule 9A(6).

19 NGR rule 9A(7).

20 NGR rule 9A(7)(a).

21 MCE SCO, Letter to AEMC, 16 September 2010, p. 1.

following the initial peak winter period and the subsequent full year of operation...”

The MCE SCO’s views are also consistent with the views previously expressed by the STTM Consultative Forum (STTM-CF) and the Gas Market Leaders Group (GMLG), with which the Proponent consulted before submitting its Rule change request.<sup>22</sup> In particular, at the STTM-CF meeting on 15 July 2010, the meeting attendees confirmed that “the policy objective behind the reviews was to ensure operational experience of key periods (e.g. winter) was gained to feed into the review process”.<sup>23</sup> At the GMLG meeting on 20 July 2010 meeting, the members “confirmed the original policy intent in determining the timing for these reviews was to ensure sufficient operational experience over peak periods as input to the review process”.<sup>24</sup>

In addition to the reasons above, the Proponent noted that it was also the original policy intent that the reviews would be conducted in the context of live market operations experience.<sup>25</sup>

### **Issues raised by the Proponent**

The Proponent raised the following issues in its Rule change request:<sup>26</sup>

- an appropriate period for review of live market operations will not be possible by the first review due on 31 December 2010 because of the delay in the commencement of the STTM;
- the delay in the commencement of the STTM meant that live market operation for the 2010 winter period could not be experienced to provide a useful first review;
- the extended consultative procedure of at least five months would make it difficult to meet the intent of the first and third reviews even without the delay; and
- the first and third reviews, along with the second review, overlap in terms of the timing, content and scope, resulting in insufficient time to undertake the review.

### **Previous consultation on the Rule change request**

The Proponent consulted with industry through the STTM-CF and the GMLG on its proposal to consolidate and complete the first three reviews by 31 March 2012. The

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<sup>22</sup> AEMO, Rule change request, 16 September 2010, pp. 20-22.

<sup>23</sup> Extract of the Minutes for the STTM-CF meeting on 15 July 2010. (AEMO, Rule change request, 16 September 2010, p. 20).

<sup>24</sup> Extract of the Minutes for the GMLG meeting on 20 July 2010 (AEMO, Rule change request, 16 September 2010, p. 21).

<sup>25</sup> AEMO, Rule change request, 16 September 2010, p. 3.

<sup>26</sup> Ibid, pp. 3-4.

Proponent received support from members at the STTM-CF meeting on 15 July 2010,<sup>27</sup> the GMLG meeting on 20 July 2010,<sup>28</sup> and MCE SCO.<sup>29</sup>

The Proponent also confirmed to the Commission in writing that it also consulted with these groups at those respective meetings in relation to the Proponent's proposal to move the review of the MMP to the fifth review.<sup>30</sup>

### **Other options to the proposed Rule**

The Proponent states that it considered a number of options before submitting its proposed Rule to the Commission. These alternative options included:<sup>31</sup>

- no change to the existing arrangements;
- extending the completion date of the review in rule 489(1) (the first review) by three months;
- aligning the timing of the first review with the review in rule 490 (the second review); and
- aligning the timing of the first review with the review in rule 489(2) (the third review) and the second review.

Of the options assessed, the Proponent considered that the proposed Rule would be best able to address its identified issues.<sup>32</sup> The Proponent's reasons that the other options were unsuitable included:<sup>33</sup>

- for all of the other options, the timing limitations under the extended consultative procedure would mean that there would be insufficient opportunity for AEMO to observe and review live market operations during the first winter period (in either 2010 or 2011); and
- the other options (with the exception of the option to align the first three reviews to be completed by 31 December 2011) would mean:
  - AEMO or external stakeholders would be unable to sufficiently examine live market operations required to determine whether the MOS is operating efficiently and effectively;
  - AEMO would be unable to review the first winter period; and

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<sup>27</sup> Ibid, p. 20.

<sup>28</sup> Ibid, pp. 21-22.

<sup>29</sup> MCE SCO, Letter to AEMC, 16 September 2010, p. 1.

<sup>30</sup> AEMO, Email to AEMC, 8 October 2010.

<sup>31</sup> AEMO, Rule change request, 16 September 2010, pp. 17-18.

<sup>32</sup> Ibid, p. 7.

<sup>33</sup> Ibid, pp. 17-18.

- there would be overlap between timing for completion, content and scope of the first three reviews.

## **1.5 Commencement of Rule making process**

On 28 October 2010, the Commission published a notice under section 303 of the 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 AEMC staff identifying specific issues or questions for consultation was also published with the Rule change request. Submissions closed on 25 November 2010. The Commission received one submission on the Rule change request from Origin Energy, which supported the Rule change request.

Under section 304 of the NGL, the Proponent requested that the Rule change request be treated as non-controversial and expedited. The Commission assessed whether the Rule change request met the test for a non-controversial Rule and decided to expedite the Rule making process under section 304 of the NGL, subject to any written requests not to do so. The closing date for receipt of written requests was 11 November 2010. No written requests were received asking the Commission not to expedite the Rule making process. Accordingly, the Rule change request was considered under an expedited Rule making process in accordance with section 304 of the NGL. The Commission's reasons for expediting the Rule making process are provided in section 2.5.

## **2 Final Rule Determination**

### **2.1 Commission's determination**

In accordance with section 311 of the NGL, the Commission has made this final Rule determination in relation to the Rule proposed by the Proponent. In accordance with section 313 of the NGL, the Commission has determined to make the Rule proposed by the Proponent with minor amendments.

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

The *National Gas Amendment (Timetable for Prescribed Gas STTM Reviews) Rule 2010 No 3* (Rule as Made) is published with this final Rule determination. The Rule as Made commences on 16 December 2010. The Rule as Made is the same as the Rule proposed by the Proponent with minor amendments. Its key features 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;
- the fact that there are no relevant MCE Statement of Policy Principles;<sup>34</sup>
- submissions received during consultation;
- 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); and
- the MCE SCO's letter to the Commission indicating its support for the Rule change request.

### **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 the Commission may make Rules. The Rule as Made falls within the matters set out in section 74 of the NGL as it relates to regulating:

- AEMO's STTM functions and the operation of a short term trading market of an adoptive jurisdiction (section 74(1)(a)(va)); and

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<sup>34</sup> Under section 73 of the NGL, the Commission must have regard to any relevant MCE statement of policy principles in relation to Rule making and reviews.

- the activities of Registered participants, users, end users and other persons in a regulated gas market (section 74(1)(a)(vi)).

## 2.4 Rule making test

Under section 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 section 23 of the NGL as follows:

“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.”

For the Rule change request, the Commission considers that the relevant aspect of the NGO is 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, reliability and security of supply of natural gas.<sup>35</sup>

The Commission is satisfied that the Rule as Made will, or is likely to, contribute to the achievement of the NGO by:

- allowing AEMO sufficient time to collect, analyse and consult on live market operations experience when undertaking its prescribed market reviews, in particular a winter peak demand period which was the original intent for the first and third prescribed market reviews. This will likely lead to more useful and better informed reviews and recommendations by AEMO. The Rule as Made will also allow AEMO to holistically review the MMP together with the other STTM parameter settings at a later date. Overall, the Commission considers that delaying and consolidating the reviews will reduce the administrative and operational burden and costs placed on AEMO and STTM Participants. This will therefore reduce administrative and operational costs compared to earlier and much less well informed reviews; and
- allowing AEMO sufficient time to undertake the prescribed market reviews potential overlap of the first three reviews is likely to be avoided and AEMO is likely to be able to meet the timeframe required under the extended consultative procedure, which AEMO must comply with when conducting the prescribed market reviews. This will ensure greater certainty and stability for STTM Participants. Certainty and stability of the development of the STTM is likely to promote efficient investment in natural gas services for the long term interests of consumers.

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<sup>35</sup> Under section 291(2), for the purposes of section 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.

## 2.5 Other requirements under the NGL

### MCE Statement of Policy Principles

In applying the Rule making test in section 291 of the NGL, the Commission has also had regard to any relevant MCE Statement of Policy Principles as required under section 73 of the NGL.<sup>36</sup> There are no MCE Statement of Policy Principles relevant to this Rule change request.

### Expedited Rule making process

If a Proponent requests for a Rule to be a non-controversial Rule, the AEMC may make the relevant Rule in accordance with section 304 of the NGL. A non-controversial Rule is defined as “a Rule that is unlikely to have a significant effect on a market for gas or the regulation of pipeline services”.<sup>37</sup>

Under an expedited Rule making process, the Commission has six weeks from the publication of the notice under section 303 of the NGL to publish a final Rule determination. No draft Rule determination is published under an expedited Rule making process. Stakeholders have two weeks from the publication of the notice under section 303 of the NGL to submit written requests not to expedite the Rule making process. Stakeholders have four weeks from the publication of the notice under section 303 of the NGL to provide written submissions on the content of the Rule change request.

### Non-controversial Rule

The Proponent requested that this Rule change request be considered non-controversial as it would be unlikely to have a significant effect on a market for gas or the regulation of pipeline services. The Proponent considered that:

- any such effects would only result from subsequent decisions to amend Procedures or Rules;
- the policy intent for the timing and scope of the prescribed reviews does not change;
- the proposed Rule does not limit progression of any changes to the STTM outside the prescribed review process where there is urgency or clear efficiency gains or reductions in costs via a Rule or Procedure change process. For instance, the MCE SCO notes that market issues at the Sydney and Adelaide hubs would not be precluded from being addressed through a Rule change request if they arise; and

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<sup>36</sup> Under section 73 of the NGL the AEMC must have regard to any relevant MCE statement of policy principles in making a Rule.

<sup>37</sup> A regulated gas market includes a short term trading market.



- the Proponent has consulted and received support for its Rule change request from industry through the STTM-CF, the GMLG and the MCE SCO.

The Commission considered that the Rule change request was a request for a non-controversial Rule for the following reasons:

- the contribution of the first and third reviews (a subject of this Rule change request) to improving the operation and efficiency of the STTM depends on experience of live market operations over a winter peak demand period. This will not be possible until the 2011 winter period due to the delayed commencement of the STTM. For this reason, the Commission concluded that the proposed consolidation of the first and third reviews is unlikely to have a significant effect on a market for gas or the regulation of pipeline services;
- the second review (in relation to the potential for the STTM to operate at other prospective hubs) does not appear to be directly affected by the requirement that the STTM operate over a winter period. However, the Commission notes that work on the STTM in Brisbane has already begun and the hub is due to commence operation in 2011.<sup>38</sup> In addition, the Commission notes that the STTM-CF and the GMLG at their respective meetings and the MCE SCO in its letter to the Commission support the alignment of the second review with the first and third reviews, and to defer the second review by nine months. The Commission is therefore of the view that the deferral of the second review is unlikely to have a significant effect on a market for gas or the regulation of pipeline services; and
- the Commission considers that the deferral of the review of the MMP (currently set at \$0/GJ) to the fifth review is unlikely to have a significant effect on a market for gas or the regulation of pipeline services because the delay will be for a short period of nine months when compared to the revised schedule for the consolidated review.

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<sup>38</sup> Queensland Department of Employment, Economic Development and Innovation, 'Gas policy - new initiatives', 10 August 2010, site: [http://www.dme.qld.gov.au/Energy/gas\\_policy\\_\\_\\_new\\_initiatives.cfm](http://www.dme.qld.gov.au/Energy/gas_policy___new_initiatives.cfm)

### **3 Commission's reasons**

The Commission has analysed the Rule change request and assessed the issues arising out of the Rule change request. For the reasons set out below, the Commission has determined that a Rule be made. Its analysis of the Rule proposed by the Proponent is also set out below.

#### **3.1 Assessment**

Currently, the timetable for the prescribed reviews of the STTM is specified under Division 11 of Part 20 of the NGR. The first review was to follow after live market operations experience of the first winter peak demand period and is required to be completed by 31 December 2010.<sup>39</sup> However, this is not possible due to the delay in the commencement date for the STTM from 4 June 2010 to 1 September 2010. Even without the delay, AEMO would not be able to meet the timeframe required for the extended consultative procedure, which AEMO must comply with when conducting the prescribed market reviews. This will also be the case with the third prescribed market review. Additional problems of overlapping scope, content and timing of the first three reviews will mean that there will be uncertainty for AEMO and STTM Participants, especially as the recommendations from these reviews may overlap, and there will be inefficient use of resources for AEMO and STTM Participants to meet these requirements.

The Rule as Made realigns the timetable for the prescribed STTM reviews to ensure that AEMO has sufficient time to collect, analyse and consult on live market operations experience, in particular for a winter peak demand period. The MMP will also be reviewed with the other STTM parameter settings at a later date. These amendments will allow for more useful and better informed reviews, and will improve the administrative and operational efficiency of administering the prescribed gas STTM reviews. The timetable realignment also ensures that the first three reviews do not overlap and allow AEMO to meet the timeframe required under the extended consultative procedure, leading to greater certainty and stability of the development of the STTM for STTM Participants. Certainty and stability of the development of the STTM is likely to promote efficient investment in natural gas services for the long term interests of consumers.

#### **3.2 Rule as made**

The Rule as Made realigns the first three prescribed STTM reviews, which will be completed by 31 March 2012. Under the amended rules 489, 490 and 492, the Rule as Made:

- consolidates the first three reviews into one review;

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<sup>39</sup> NGR rule 489.

- requires AEMO to complete the consolidated review by 31 March 2012; and
- requires AEMO to complete the review of the MMP and the other STTM parameter settings by 31 December 2012.

### **3.3 Civil Penalties**

The Rule as Made does not amend any Rules that are currently classified as civil penalty provisions under the National Gas (South Australia) Regulations. The Commission will not recommend to the MCE that any of the proposed amendments in the Rule as Made be classified as civil penalty provisions.

### **3.4 Conduct Provisions**

The Rule as Made does not amend any Rules that are currently classified as conduct provisions under the National Gas (South Australia) Regulations. The Commission will not recommend to the MCE that any of the proposed amendments in the Rule as Made be classified as conduct provisions.

## 4 Commission's assessment approach

This chapter describes the Commission's approach to assessing the Rule change request in accordance with the requirements set out in the NGL (and explained in Chapter 2).

The Commission's assessment of this Rule change request must consider whether the proposed Rule promotes the achievement of the National Gas Objective (NGO) as set out under section 23 of the NGL. In assessing the Rule change request against the NGO, the Commission has considered the following principles:

- administrative and operational efficiency - assessing the impacts on administrative and operational efficiency of changing the timetable for the prescribed market views of the STTM; and
- certainty and stability - assessing the impacts on certainty and stability to the STTM Participants and consumers of changing the timetable for the prescribed market views of the STTM.

The Commission has focussed on these issues because they relate to 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, reliability and security of supply of natural gas. These objectives and principles include:

- reducing administrative and operational burden and costs placed on AEMO and STTM Participants in complying with the timetable for the prescribed STTM reviews; and
- increasing certainty to STTM Participants and stability of the development of the STTM, which is likely to promote efficient investment in the STTM for the long term interests of consumers.

## **5 Consolidating and delaying the first three prescribed STTM reviews**

This chapter considers why the first three prescribed STTM reviews should be consolidated and delayed for completion until 31 March 2012.

### **5.1 Proponent's view**

The Proponent proposed an amendment to the timetable for prescribed market reviews of the STTM to allow it sufficient time to collect, analyse and consult on live market operations experience, in particular for a full winter and two summer periods. This amendment would entail consolidating the first three market reviews into one review which would be completed by 31 March 2012.

Due to the delay in the commencement of the STTM, the Proponent indicated that experience of live market operations during the 2010 winter peak demand period was missed. Also due to the existing timetable for prescribed market reviews, the Proponent has not been given sufficient time to meet the timeframe required under the extended consultative procedure, which the Proponent is required to comply with when undertaking each prescribed market review.

### **5.2 Stakeholder views**

Origin Energy generally supported the Rule change request stating that consolidating and delaying the first three prescribed market reviews would likely produce a better-informed assessment of the market's performance, allow AEMO to have sufficient time to collect and analyse market data, and undertake a comprehensive review, including stakeholder consultation.<sup>40</sup>

### **5.3 Commission's analysis**

The Commission considers that the proposed consolidation and delay of the first and third reviews will provide for a more useful and better informed review and recommendations by AEMO and reduce the administrative and operational burden and costs placed on AEMO and STTM Participants. This is because effectiveness of the first and third prescribed gas market reviews (which are subject to this Rule change request) depends on experiencing live market operations over a winter peak demand period. Due to the delayed commencement of the STTM, it would not be possible for the STTM to experience a winter peak demand period until after the 2011 winter period. Therefore, delaying the first and third reviews will ensure the administrative and operational efficiency of the prescribed market reviews.

The Commission considers that deferring the second review and incorporating it with the first and third reviews should allow for administrative and operational efficiency,

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<sup>40</sup> Origin Energy, Submission on the Rule change request, 25 November 2010, p. 1.

greater certainty, and stability in the development of the STTM for STTM Participants. The Commission notes that the second review in relation to the potential for the STTM to operate at prospective STTM hubs does not appear to be directly affected by the requirement that the STTM operate over a winter peak demand period. However, the Commission does not consider this to be an issue because work on the STTM in Brisbane has already begun and the hub is due to commence operation in 2011. The STTM-CF and the GMLG at their respective meetings and the MCE SCO's letter to the Commission support the alignment of the second review with the first and third reviews. Further, combining the first three reviews will only delay the second review by nine months.

The Commission also considers that by extending the completion date for the consolidated reviews, AEMO will have sufficient time to consult with STTM Participants, avoid overlapping reviews and will be able to meet the timeframe required for consultation under the extended consultative procedure, which AEMO must comply with when conducting the prescribed market reviews. This will ensure greater certainty and stability of the development of the STTM for STTM Participants.

#### **5.4 Conclusion**

The Commission concludes that consolidating the first three prescribed market reviews of the STTM and extending the date for its completion will ensure administrative and operational efficiency, and provide greater certainty and stability for STTM Participants and for administering the prescribed market reviews. Greater certainty and stability is likely to promote efficient investment in natural gas services for the long term interests of consumers of natural gas.

## **6 Moving the MMP review**

This chapter considers why the review of the MMP should be reviewed with the other STTM parameter settings, which would be completed by 31 December 2012.

### **6.1 Proponent's view**

The Proponent proposed that the review of the MMP (currently due for completion by 31 December 2011) be moved from the third prescribed review to a later date (the fifth review, which is due for completion by 31 December 2012), in which the other STTM parameter settings would be reviewed. It considered that reviewing the MMP with the other STTM parameter settings would ensure that these market settings are considered holistically.

The Commission notes support was given to AEMO (from the STTM-CF and the GMLG at their respective meetings and the MCE SCO's letter to the Commission) for the Proponent's proposed deferral of the review of the MMP to the fifth review.

### **6.2 Stakeholder views**

Although not explicitly referring to the review of the MMP, Origin Energy supported consolidating and delaying the prescribed reviews which it considered would allow for a better-informed assessment of the market's performance.<sup>41</sup>

### **6.3 Commission's analysis**

The Commission considers that the review of the MMP and other STTM parameter settings relate to efficient operation of the market by providing certainty and enabling appropriate risk management by STTM Participants. Combining the review of the MMP and the review of the other STTM parameter settings will ensure a holistic and coordinated review of all STTM parameter settings. A coordinated review will result in administrative and operational efficiency. Further, combining the MMP review with the review of the other STTM parameter settings will only delay the review by nine months when compared to the revised schedule for the consolidated review.

### **6.4 Conclusion**

The Commission concludes that allowing the MMP to be reviewed with the other STTM parameter settings at a later date will improve the administrative and operational efficiency when AEMO undertakes this prescribed market review.

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<sup>41</sup> Origin Energy, Submission on the Rule change request, 25 November 2010, p. 1.

## Abbreviations

AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
Commission	See AEMC
CPT	Cumulative Price Threshold
GMLG	Gas Market Leaders Group
MCE	Ministerial Council on Energy
MMP	Minimum Market Price
MOS	Market Operator Service
MPC	Market Price Cap
NGL	National Gas Law
NGO	National Gas Objective
NGR	National Gas Rules
SCO	Standing Committee of Officials
STTM	Short Term Trading Market
STTM-CF	STTM Consultative Forum



## A Summary of issues raised in submissions

Stakeholder	Issue	AEMC Response
Origin Energy	Supports the Rule change request. (p. 1)	Noted.
Origin Energy	Delaying and consolidating the first three prescribed reviews would likely produce a better-informed assessment of the market's performance. AEMO will have time to collect and analyse market data over a number of seasons and undertake a comprehensive review. This will allow for the reviews to be effective and likely to be efficient. (p. 1)	Noted.
Origin Energy	Important that ad hoc reviews of specific elements of STTM design and operation be undertaken should the need arise. (p. 1)	Noted.
Origin Energy	The Rule change request does not preclude AEMO from undertaking ad hoc reviews or initiating other Rule change requests to improve the functioning of the STTM. (p. 1)	Noted.