



Matched allocations in the STTM

Request to continue transitional provisions

The AEMC has commenced consultation on a rule change request submitted by Jemena Gas Network (NSW) Ltd. Jemena is seeking to make permanent a transitional arrangement which exempts it from having to procure gas, used for operational purposes, through the Short Term Trading Market.

Overview

On 15 September 2014, Jemena submitted a rule change request in relation to the matched allocation process.

The matched allocation process allows Jemena to procure gas, used for operational purposes, separately from the Short Term Trading Market (STTM). Although gas procured under this process is transported using STTM pipelines, it is excluded from STTM settlements.

The matched allocation process is a transitional arrangement in the National Gas Rules and is due to expire on 30 June 2015.

In its rule change request, Jemena is seeking to continue the matched allocation process as a permanent arrangement in the National Gas Rules.

Details of the rule change request

In their rule change request, Jemena outlines its rationale for supporting the proposed rule.

If the rule is not made, Jemena would be required to procure gas for its operational purposes through the STTM. It would therefore be subject to a range of market fees, prudential requirements and potentially deviation charges. According to Jemena, this would lead to higher network tariffs for customers.

Jemena also considers that gas used for operational purposes is distinct from other types of gas traded in the STTM. Specifically, this type of gas is necessary for the safe and reliable operation of the distribution pipeline and therefore not responsive to changes in prices or other incentives that the STTM provides to market participants. For this reason, Jemena consider they would be unable to efficiently manage the risks of participating in the STTM.

Issues for consultation

A consultation paper has been prepared to facilitate stakeholder comment on the issues raised by the proposed rule change. These issues include:

- Is it appropriate for gas purchased for operational purposes to be exempt from the STTM rules, including the deviation incentive arrangements?
- Would requiring Jemena to procure gas for operational purposes through the STTM lead to improved efficiency of the STTM and/or benefits for other market participants?
- Would making Jemena's proposed rule impede any future move towards harmonisation of the rules for procuring gas for operational purposes across the STTM hubs?

The consultation paper should be read in conjunction with the rule change request, which is available on the AEMC website.

Submissions are due by 29 January 2015.

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Background

The Short Term Trading Market

The STTM is a day ahead market for trading natural gas at the wholesale level at defined hubs in Adelaide, Sydney and Brisbane. Each hub is scheduled and settled separately, although all hubs operate under the same set of National Gas Rules.

Typically, the amount of gas that a STTM participant actually supplies to, or withdraws from, the hub on a gas day is different to the amount they nominated the day before. This might happen when anticipated demand is higher or lower than forecast. These differences in nominated and actual quantities of gas result in deviation charges and payments.

Subjecting STTM participants to deviation charges and payments recognises that there are costs associated with physically balancing and absorbing daily fluctuations that result from deviations. Deviation charges and payments are designed to act as an incentive for STTM participants to accurately forecast the quantity of gas they expect to either supply to, or withdraw from, the STTM hub each day.

Matched allocation process

The National Gas Rules contains transitional arrangements that exempt Jemena from procuring gas through the STTM. Gas quantities procured using this process are excluded from STTM settlements and are therefore not subject to the STTM pricing and deviation charges at the Sydney hub.

The matched allocation process works by allowing Jemena to enter into a contract with a STTM participant for the quantities of gas it uses for operational needs. The STTM participant agrees to provide Jemena with a quantity of gas prior to the STTM entry point, which matches the quantity of gas withdrawn by Jemena from the hub that same gas day.

For information contact:

AEMC Senior Director, **Chris Spangaro** (02) 8296 7800

Media: Communication Manager, **Prudence Anderson** 0404 821 935 or (02) 8296 7817

Date 18 December 2014