



STTM deviations and the settlement surplus and shortfall

Consultation paper: 8 November 2012

The Australian Energy Market Commission (AEMC) has published a rule change proposal by the Australian Energy Market Operator (AEMO) that relates to the determination of deviation payments and charges in the Short Term Trading Market (STTM). The AEMC has also published a consultation paper to facilitate stakeholder feedback on the proposed rule change.

Rule change proposal

AEMO propose amending the National Gas Rules (NGR) to allow a new system of calculating deviation payment and charges that more closely align prices for deviations with the costs caused by the deviations. The proposal has three key components: the removal of the settlement surplus cap that is currently set in the NGR, the deletion of the deviation parameter tables from the NGR and the amendment to a series of definitions including the Market Price Cap (MPC), Minimum Market Price (MMP), deviation payment and deviation charge.

Rule change process

The AEMC has published a staff consultation paper outlining how the rule change request will be assessed against the National Gas Objective (NGO). The majority of requirements for determining deviation prices are set out in the STTM Procedures. As a result, if the requested rule changes are made, AEMO intends to undertake a subsequent Procedures change process to determine the appropriate changes to the Procedures.

The consultation paper only addresses AEMO's proposed NGR amendments and the AEMC will not be assessing the details of AEMO's envisaged Procedures changes. Any Procedures changes that may be proposed by AEMO if this rule change is made will be consulted on by AEMO through its Procedures change process.

Submissions to this rule change request and consultation paper are invited by 20 December 2012.

Background

The STTM hubs operate as day ahead markets. Before each trading day participants submit offers and bids on the price and quantity of gas that they forecast they will supply and use at a hub. AEMO creates a schedule based on these bids and offers. A deviation is where the physical flows on a gas day differ from the schedule. When there is a net deviation across a hub, AEMO uses Market Operator Service (MOS) to balance the hub.

Currently, deviating parties receive a deviation payment or must pay a deviation charge depending on the direction of their deviation. These deviation charges and payments must be calculated with reference to the deviation parameter tables in the NGR. The process that AEMO uses to determine deviation payments and charges is set out in the Procedures.

At the end of the month, the total amount spent by AEMO on MOS and collected from participants through deviation prices are compared. If the amount spent on MOS is higher, then there is a settlement shortfall which must be collected from all parties that deviated over the month. If more money was collected than was spent on MOS, the surplus is returned to the deviating parties. However, this surplus payment is capped at \$0.14/GJ with the remainder returned to participants based on how much gas was withdrawn from the hub in total that month.

AEMO's rule change request

AEMO considers that the current system does not accurately allocate the cost to cause for deviations. In addition there are usually large settlement shortfalls each month which may act as a barrier to entry for participants. It considers that the proposed amendments to the NGR along with amendments to the STTM Procedures may resolve these issues.

AEMO propose the following changes to the NGR.

- The removal of the settlement surplus cap. AEMO considers that excess money from deviations should be returned to the deviating parties that contributed to a settlement surplus.
- The deletion of the deviation parameter tables. These tables are currently used to determine the penalty factors that are applied to deviation payments and charges. This change would leave the calculation of deviation prices entirely to the Procedures.
- Amendments to the definitions of the MMP and MPC so they no longer apply to deviation prices. Furthermore it proposes amendments to the definition of deviation payments so that they can be negative. It also proposes that the definition of deviation charge be amended for consistency.

The consultation paper sets out a number of questions for stakeholders to consider in relation to each of these proposed changes. A particular issue raised by the proposed changes is what matters should be contained in the NGR and what matters should be in the Procedures.

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