INFORMATION

Short Term Trading Market – Market Schedule Variation

Final rule determination 13 October 2011

This rule will facilitate the transition of an operational timing provision from the National Gas Rules (NGR) to the Short Term Trading Market (STTM) Procedures. This will allow AEMO, as the STTM market operator, to make future adjustments to the provision in a timely manner.

The AEMC's final Rule determination

The Commission has determined to make a Rule in regard to the timing requirements for STTM participants to submit Market Schedule Variation (MSV) transactions to the STTM market operator for inclusion in the market settlement process.

The effect of this Rule is to remove the provision relating to the MSV timing requirements from the NGR, with the intention that the Australian Energy Market Operator (AEMO), as the STTM market operator, will insert an equivalent provision into the STTM Procedures. The main provision, establishing the MSV mechanism and the parameters within which it may operate in the STTM, is to be retained in the NGR.

This means that any future changes to the MSV timing requirements, as necessary, will be managed by AEMO through the STTM Procedure change process and will not be required to be processed through the Rule change process.

The Commission has also incorporated a transitional measure into the Rule to ensure that there is no inadvertent regulatory gap as a result of moving the MSV provision from the NGR to the STTM Procedures.

The Rule commences operation on 13 October 2011.

Benefits of the Rule as made

Under the previous Rules, any amendments to the MSV timing requirements were required to be processed by the AEMC under the Rule change process. This Rule transfers responsibility for consideration of any proposed future changes to this provision to the STTM market operator. The framework for managing changes to STTM Procedures is set out in the NGR.

Where future amendments to the MSV timing requirements are considered necessary, the Rule:

- enables the STTM market operator to manage the STTM Procedure change process in a timely manner;
- avoids the inefficient use of the Rule change process for what is effectively an operational matter;
- maintains a similar level of regulatory certainty for trading participants as currently provided under the Rules; and
- enables the more operational aspects of the MSV mechanism to be managed under a single document and process.

The Commission considers that these benefits will help to minimise the impact on market and participant costs and resources in effecting future changes (where required), while continuing to promote good regulatory practice.

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Background to the STTM and MSV transactions

The STTM is a daily wholesale market for trading natural gas. It operates at defined, notional "hubs", each of which operates separately, but all under the same STTM rules. Hubs have been operating in Sydney and Adelaide since September 2010, and an additional hub is scheduled to start operating in Brisbane from 1 December 2011. The STTM is managed by AEMO as the market operator.

The Rule will help minimise the impact on market and participant costs and resources associated with future change to the MSV transaction window provision, while continuing to promote good regulatory practice.

The STTM is a day-ahead market, which means that gas is traded on the market a day ahead of the day that it physically flows (which is referred to as a 'gas day'). As a consequence of this, buyers and sellers of natural gas must nominate the volumes of gas that they wish to trade, the day before gas day.

Parties can make changes to their nominated gas volumes, but at a certain time before gas day, these are 'locked in' and are used by the STTM market operator to establish the trading schedules and the price at which that gas will be traded on gas day. Deviations from these schedules will attract financial penalties. This is because the physical balancing of the gas flows (between supply and demand) is an essential requirement of maintaining the integrity of the operating system.

The MSV is a market mechanism which provides STTM participants with some flexibility to meet gas demand fluctuations on a gas day. It allows participants to submit an MSV transaction to the STTM market operator to adjust their nominated volumes, after a gas day. While costs may still be incurred, these will be significantly lower than if no MSV transaction is submitted. In this way, the MSV mechanism provides a financial incentive for STTM participants to keep the gas system balanced.

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13 October 2011