



Australian Energy Market Commission

CONSULTATION PAPER

National Gas Amendment (Calculation of STTM Participant Compensation Fund Contributions) Rule 2011

Rule Proponent(s)

Australian Energy Market Operator

3 February 2011

**RULE
CHANGE**

Inquiries

Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

E: aemc@aemc.gov.au

T: (02) 8296 7800

F: (02) 8296 7899

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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 Ministerial Council as requested, or on AEMC initiative.

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1 Introduction

On 15 November 2010, the Australian Energy Market Operator (AEMO) (Proponent) submitted a Rule change request to the Australian Energy Market Commission (AEMC or Commission) in relation to changing the method of calculating Short Term Trading Market (STTM) Participant Compensation Fund contributions for STTM shippers.

This Consultation Paper was prepared by the staff of the AEMC to facilitate public consultation on the Rule change request and does not necessarily represent the views of the AEMC of any individual Commissioner of the AEMC.

This paper:

- sets out a summary of, and a background to, the Calculation of STTM Participant Compensation Fund Contributions Rule change request;
- identifies a number of questions and issues for stakeholder consultation on this Rule change request; and
- outlines the process for making objections to the expedited Rule making process and the process for making submissions on this Rule change request.

2 Background

This Rule change request seeks to change the method of calculating STTM Participant Compensation Fund contributions for STTM Shippers.

The STTM Participant Compensation Fund (PCF) is a fund designed to provide compensation to Trading Participants (STTM Shippers¹ or STTM Users²) for scheduling errors.

Scheduling errors may arise under the following circumstances:

- where the Trading Participant is scheduled to supply natural gas at a lower price than is specified in its corresponding ex ante offer;
- where the Trading Participant is scheduled to withdraw natural gas at a higher price than is specified in its ex ante bid;
- where the Trading Participant is scheduled to provide a quantity of contingency gas at a lower price than is specified in its contingency gas offer;
- where the Trading Participant is scheduled to provide a quantity of contingency gas at a higher price than is specified in its contingency gas bid;
- where the Trading Participant is a STTM User and AEMO has failed to schedule one or more price steps in a contingency gas offer submitted and confirmed by the STTM User or the STTM User's withdrawals of natural gas from that hub are curtailed by the STTM distributor.

Trading participants apply for compensation (and thus access to the funds in the PCF) to AEMO in circumstances where a scheduling error has led to a financial loss.

Trading participants make contributions to the PCF based on aggregate withdrawals of natural gas over a monthly billing period. The aggregate quantity of natural gas withdrawn by a STTM Shipper is calculated on the basis of its STTM facility allocation. Under the Rules, the definition of a STTM facility allocation includes Market Operator Services (MOS) and overrun MOS. Consequently, the way PCF contributions are calculated for STTM Shippers includes, as inputs, both MOS and overrun MOS.

In the STTM, MOS is a physical gas balancing mechanism that is used to address deviations between scheduled and actual gas that is injected or withdrawn for a particular gas day. Overrun MOS is additional MOS that is provided once the allocated MOS for a particular gas day has been exhausted.

¹ A STTM Shipper has a registered, contractual right to haul gas on an STTM facility and is able to offer gas for sale to, or bid to withdraw gas from, the STTM.

² A STTM User has a registered, contractual right to take gas from a STTM distribution system. Typically, STTM Users are retailers or large customers.

In order for MOS and overrun MOS to be included as inputs into the calculation of STTM Shippers' PCF contributions, it is necessary that a STTM Shipper be registered to withdraw gas from the STTM hub and be concurrently registered as a MOS provider. However, currently, there are no market participants that are registered both as a STTM Shipper withdrawing gas from the STTM hub and as a MOS provider.

3 Details of the Rule change request

The Rule change request from the Proponent proposes to:

- exclude MOS and overrun MOS from the calculation of STTM shipper's PCF contributions.

In its Rule change request the Proponent provided its rationale for the Rule change. A number of key points raised in the Rule change request are summarised as follows:³

- Under the current Rules, the method by which STTM Shippers' contributions to the PCF are calculated includes MOS and overrun MOS. However, MOS (and overrun MOS) is a physical gas balancing service and the design intent for the STTM was that MOS (and overrun MOS) should not be used in the calculation of PCF contributions;
- Under the current Rules, STTM Shippers and STTM Users are treated inconsistently in the calculation of PCF contributions. Unlike STTM Shippers, STTM Users exclude MOS and overrun MOS in the calculation of their PCF contributions; and
- Under the current Rules, MOS increase providers and MOS decrease providers are treated inconsistently in the calculation of PCF contributions. MOS decrease providers are subject to a PCF contribution whereas MOS increase providers are not subject to a PCF contribution.⁴

The proponent's Rule change request includes a proposed Rule.

The Proponent has requested that this Rule change request be considered non-controversial under section 304 of the National Gas Law (NGL) as it would be unlikely to have a significant effect on a market for gas or the regulation of pipeline services. The Proponent considers that:⁵

- The proposed Rule is unlikely to have a material impact on market participants. In order for this Rule change request to have a material impact on market participants, it is necessary for two conditions to hold: firstly, a STTM Shipper is registered to withdraw gas from the STTM; and secondly, this STTM Shipper must also be a MOS provider. Currently, there is only one STTM Shipper that withdraws gas and this particular STTM Shipper is not a MOS provider, therefore there are no market participants presently affected by this Rule change request. However, the STTM only began on 1 September 2010 and it is thus too

³ AEMO, Rule Change Request, pp. 4-6.

⁴ MOS decrease providers decrease the quantity of natural gas supplied or increase the quantity of natural gas supplied. MOS increase providers increase the quantity of natural gas supplied or decrease the quantity of natural gas withdrawn.

⁵ AEMO, Rule Change Request, 15 November 2010, pp. 7-8.

early to determine whether other market participants will be affected in the future;

- If MOS decrease providers were charged a PCF contribution (as stipulated in the current Rules), AEMO's analysis indicated that the impact on market participant's settlements accounts would be immaterial. This impact is immaterial compared to the estimated costs (\$48,000) incurred by AEMO in changing its market settlement systems if the current Rules were not changed;⁶ and
- AEMO consulted with industry through the STTM - Consultative Forum (24 August 2010). At this meeting, attendees unanimously supported a non-controversial Rule change request.

The Commission has decided to expedite the Rule change request (subject to written objections from stakeholders) under section 304 of the NGL on the grounds that the Rule change relates to a 'non-controversial Rule' because it is unlikely to have a significant effect on a market for gas or the regulation of pipeline services.

⁶ This item was not taken into account in the decision to expedite this Rule change request because the Commission was not able to validate this assertion.

4 Assessment Framework

The Commission's assessment of this Rule change request must consider whether the proposed Rule promotes the National Gas Objective (NGO) as set out under section 23 of the NGL. The proposed Rule will be assessed against the relevant counterfactual arrangements, which in this case are the existing provisions in the Rule. In assessing the Rule change request against the NGO the Commission may take the following issues into consideration:

- Efficient operation of gas services - does the proposed Rule improve the efficient operation of natural gas services in the STTM?
- Administrative efficiency - does the proposed Rule improve efficiency in administering the calculation of STTM PCF contributions?

5 Issues for consultation

Taking into consideration the assessment framework and potential requirements to implement the proposed Rule change, we have identified a number of issues for consultation that appear to be relevant to this Rule change request.

These issues outlined below are provided for guidance. Stakeholders are encouraged to comment on these issues as well as any other aspect of the Rule change request or this paper including the proposed assessment framework.

Question 1 The basis for funding PCF contributions

What is the appropriate basis for funding contributions to the PCF?

What is the relevance, if any, of MOS (and overrun MOS) in relation to calculating contributions to the PCF?

If contributions to the PCF should only be based on withdrawals of gas, should it then exclude MOS or overrun MOS?

If MOS and overrun MOS were to remain included as inputs to the calculation of STTM Shippers' PCF contributions, would this distort any incentives to provide MOS and overrun MOS?

Question 2 Consistent treatment between STTM Shippers and STTM Users

Are there any justifiable reasons to treat STTM Shippers and STTM Users differently with respect to the calculation of their PCF contributions?

6 Lodging a submission

The Commission has published a notice under sections 303 and 304 of the NGL to assess this Rule change request under an expedited Rule making process. The Commission now invites written submissions on this Rule change request and accepts written objections on the expedited Rule making process.

Written objections (with reasons) not to expedite the Rule making process must be lodged to the Commission by 17 February 2011. Submissions on the content of the Rule change request are to be lodged online or by mail by 3 March 2011.

Written requests not to expedite the Rule making process and submissions on the Rule change request are to be lodged online or by mail in accordance with the following requirements.

Where practicable, submissions should be prepared in accordance with the Commission's Guidelines for making written submissions on Rule change request.⁷ The Commission publishes all submissions on its website subject to a claim of confidentiality.

All enquiries on this project should be addressed to Marc Tutaan on (02) 8296 7800.

6.1 Lodging a submission electronically

Electronic submissions must be lodged online via the Commission's website, www.aemc.gov.au, using the "lodge a submission" function and selecting the project reference code "GRC0006". The submission must be on letterhead (if submitted on behalf of an organisation), signed and dated.

Upon receipt of the electronic submission, the Commission will issue a confirmation email. If this confirmation email is not received within 3 business days, it is the submitter's responsibility to ensure the submission has been delivered successfully.

6.2 Lodging a submission by mail

The submission must be on letterhead (if submitted on behalf of an organisation), signed and dated. The submission should be sent by mail to:

Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Or by fax to (02) 8296 7899.

The envelope must be clearly marked with the project reference code: GRC0006.

⁷ This Guideline is available on the Commission's website.

Except in circumstances where the submission has been received electronically, upon receipt of the hardcopy submission the Commission will issue a confirmation letter.

If this confirmation letter is not received within 3 business days, it is the submitter's responsibility to ensure successful delivery of the submission has occurred.

Abbreviations

| | |
|------------|-------------------------------------|
| AEMC | Australian Energy Market Commission |
| AEMO | Australian Energy Market Operator |
| Commission | See AEMC |
| MOS | Market Operator Services |
| NGL | National Gas Law |
| NGO | National Gas Objective |
| PCF | Participant Compensation Fund |
| STTM | Short Term Trading Market |