



COAG
Energy Council
Senior Committee
of Officials

Mr John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Dear Mr Pierce *John*

The Council of Australian Governments Energy Council (Energy Council) has agreed to submit a rule change request to the Australian Energy Market Commission on harmonising the gas day start times of the Short Term Trading Markets, the Victorian Declared Wholesale Gas Market and the Wallumbilla Gas Supply Hub.

This rule change request has been developed by officials following Energy Council Ministers' agreement on 23 July 2015 to the recommendation of the Australian Energy Market Commission in its Stage One Final Report for the East Coast Wholesale Gas Markets and Pipeline Frameworks Review, to harmonise the gas day start times of facilitated gas markets in eastern Australia.

Officials note that this rule change request is an element of the Energy Council's ongoing gas market development agenda and, as appropriate, further reforms may be pursued to achieve the Energy Council's vision for the future of Australian gas markets.

The rule change proposal and associated draft rules are at Attachment (i) for your consideration.

Sincerely

Dr Steven Kennedy
Chair
COAG Energy Council Senior Committee of Officials

19 November 2015

Enc

National Gas Rule Change Request and Proposal

Gas Day Start Time Harmonisation of Eastern Australian Gas Markets

Amendments to the National Gas Rules – Part 20 and 22

November 2015

Contents

1. Glossary.....	2
2. Summary	3
3. Background.....	3
3.1 Introduction.....	3
3.2 The Gas Day	4
3.3 Legislative Framework.....	4
4. Statement of Issues.....	5
4.1 Inconsistency of gas day start times between facilitated market types.....	5
4.2 Inconsistent timing of gas day events in the STTMs.....	6
4.3 Gas day start times for all facilitated markets not prescribed in single national legislative framework	6
4.4 Lack of harmonisation inhibits the development of financial risk management products ..	7
5. Proposed Solutions.....	7
5.1 Amend existing definition of STTM gas day.....	7
5.2 Prescribe the GSH gas day start time in the NGR.....	7
5.3 Consequential amendments to the Gas Supply Hub Exchange Agreement.....	7
6. Proposed Rule Changes.....	8
6.1 STTM gas day start time	8
6.2 GSH gas day start time	8
7. How the Proposed Rules Contribute to the National Gas Objective.....	9
8. Expected Benefits and Costs of the Proposed Rules.....	10
APPENDIX A: Draft Rule Change	11
APPENDIX B: Consultation Process and Stakeholder Views.....	13

1. GLOSSARY

AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
AMDQ	authorised maximum daily quantity
AMDQ CC	authorised maximum daily quantity credit certificate
COAG	Council of Australian Governments
DTS	Declared Transmission System
DWGM	Declared Wholesale Gas Market
EST	Eastern Standard Time
GSH	Gas Supply Hub
NGL	National Gas Law
NGO	National Gas Objective
NGR	National Gas Rules
STTM	Short Term Trading Market

2. SUMMARY

Council of Australian Governments (COAG) Energy Council officials are proposing changes to the National Gas Rules (NGR) to harmonise the gas day start times of the Short Term Trading Markets (STTM) and the Wallumbilla Gas Supply Hub (GSH) to be consistent with the gas day start time of the Victorian Declared Wholesale Gas Market (DWGM).

Harmonising gas day start times of the three facilitated market types is considered to be a necessary precondition to the development of a more integrated east coast gas market. The proposed changes are aimed at; reducing complexity for market participants who trade, or wish to trade, across multiple markets, promoting market integration, and reducing costs.

The draft rule change is at Appendix A and an outline of the consultation process and a summary of stakeholder views is at Appendix B.

Officials note that this rule change request is an element of the Energy Council's ongoing gas market development agenda and, as appropriate, further reforms may be pursued to achieve the Energy Council's vision for the future of Australian gas markets.

3. BACKGROUND

The Australian Energy Market Commission (AEMC) was tasked by the COAG Energy Council in December 2014 to review the number, type and function of facilitated gas markets and gas transportation arrangements in eastern Australia. As part of the Review, the AEMC was asked to consider opportunities to harmonise market parameters of facilitated gas markets, such as prudential obligations, gas day trading times and market price caps.

The AEMC published a Stage One Final Report on 23 July 2015 which included the recommendation that gas day start times in east coast facilitated markets be harmonised to commence at 6.00am EST, consistent with the gas day start time of the DWGM. The COAG Energy Council accepted this recommendation and tasked COAG Energy Council officials to prepare a National Gas Rules change request and proposal for submission to the AEMC.

3.1 Introduction

The eastern Australian gas market is supported by an interconnected network of gas transmission pipelines that connect gas production basins with demand centres across Queensland, New South Wales, the Australian Capital Territory, Victoria, South Australia and Tasmania. Gas is traded in eastern Australia through three distinct types of gas trading markets, particularly, the STTMs, the Victorian DWGM and the Wallumbilla GSH (collectively, 'facilitated markets'), which are operated by the Australian Energy Market Operator (AEMO).

The STTMs, located in Sydney, Adelaide and Brisbane, are mandatory markets for wholesale trading and balancing of gas at defined hubs located between transmission pipelines and distribution networks. Each STTM is scheduled and settled separately yet all STTMs operate under the same rules. Shippers deliver gas to be sold at the STTM hubs and users purchase gas for delivery to consumers. Gas is traded in the STTMs a day ahead of the actual gas day. Users place bids to purchase gas and shippers place offers to sell gas. Bids and offers for the

following gas day (D-1) close five and a half hours after the start of the current gas day (D) at that location.

The Victorian DWGM is a compulsory market whereby Victorian gas market participants physically sell or purchase gas. Participants submit bids to inject gas into or withdraw gas from the Declared Transmission System (DTS). Gas is priced on an ex-ante, intra-day pricing basis where there are five scheduling times (6.00am, 10.00am, 2.00pm, 6.00pm and 10.00pm). The DWGM is a net market which is settled on the difference between a participant's injections and withdrawals. The DTS is operated on a market carriage basis whereby the market operator (AEMO) manages pipeline capacity allocation via a pool approach. To facilitate the transportation of gas, AEMO allocates Authorised Maximum Daily Quantity (AMDQ) or an AMDQ credit certificate (AMDQ CC) to market participants via a competitive tender process. Victoria's approach is unlike that taken elsewhere in the east coast gas market where gas shippers arrange their own capacity needs on a bilateral basis, the so-called contract carriage approach.

The Wallumbilla GSH is a voluntary gas trading exchange located at Wallumbilla in south east Queensland where major gas transmission pipelines meet with gas from surrounding production facilities. The GSH operates under a brokerage hub model where bids and offers for trade in physical gas products are matched anonymously and cleared using the existing physical infrastructure at Wallumbilla. Trade at the GSH is designed to complement existing bilateral contract arrangements and trading hours are between 9.00am and 5.00pm. Given the physical limitations within the hub, three trading nodes were established to separately trade gas for flow on the three transmission pipelines connected to the hub. However, AEMO is currently undertaking a review to investigate options to consolidate the three trading existing trading nodes to a single node which would support increased liquidity.

3.2 The Gas Day

The 'gas day' is the period of 24 hours over which gas flows are measured for contractual and market purposes. The gas day start time determines the period in which operational, commercial and market activities occur. Most transactions, in both regulated and contract-based gas markets are conducted by reference to a defined gas day.

The different facilitated markets currently operate with different gas day start times:

- The Victorian DWGM gas day commence at 6.00am
- the Sydney and Adelaide STTM gas day commence at 6.30am
- the Brisbane STTM and Wallumbilla GSH gas day commence at 8.00am.

Market time is always measured in Eastern Standard Time (EST), regardless of the local time at the hub, and does not change for daylight saving time.

3.3 Legislative Framework

There are three levels of regulatory instrument associated directly with the facilitated markets; law, rules and procedures. These instruments operate together and provide the statutory basis for the governance and operation of the STTM, the DWGM and the GSH.

The STTM, the DWGM and gas trading exchanges (such as the Wallumbilla GSH) are prescribed within the National Gas Law (NGL). The National Gas Rules (NGR) have the

force of law, and are made under the National Gas Law. The NGR set out the processes by which the facilitated gas markets are operated and the responsibilities and obligations of the market participants. Amendments to the NGR are the responsibility of the Australian Energy Market Commission (AEMC) in accordance with the rule change procedures defined in the NGL. The Australian Energy Regulator (AER) is responsible for enforcing and monitoring compliance with the NGR and the relevant instruments.

While authority for gas trading exchanges (such as the GSH) is established in the NGL, and further detail is provided in the NGR, the majority of detail specific to the operation of the Wallumbilla GSH is contained within a separate framework: the GSH exchange agreement.¹ The exchange agreement establishes the terms of participation in the GSH and the terms governing transactions entered into through the exchange. AEMO, as the current market Operator, has authority to amend the exchange agreement in accordance with Rule 540.

The gas day start times for the STTMs and the DWGM are prescribed in the NGR, while the gas day start time for products offered at the Wallumbilla GSH are specified in the exchange agreement developed by AEMO. The NGR does not currently provide for the gas day start time for the Wallumbilla GSH.

4. STATEMENT OF ISSUES

The COAG Energy Council is pursuing greater consistency and harmonisation in jurisdictional approaches to gas supply and market development. In December 2014, the COAG Energy Council published its Australian Gas Market Vision to guide future gas market development and provide certainty for stakeholders.

The Vision reaffirms the Council's commitment to the NGO and identifies four specific policy work streams for gas market development and reform, including improving risk management and removing unnecessary regulatory barriers. A key outcome of the improving risk management work stream is achieving harmonised market interfaces across Australian gas markets that enable participants to readily trade between locations and find opportunities for arbitrage and trade. Removing unnecessary regulatory barriers and promoting the interconnectedness of Australian gas markets is important to reducing market complexity and cost, and enabling gas to flow to its highest value end use.

4.1 Inconsistency of gas day start times between facilitated market types

The eastern Australian gas market hosts three separate and dissimilar types of gas trading markets. Different gas day start times create complexity and inconsistency between the facilitated markets, which may contribute to additional costs to participants operating in these markets. This inconsistency may also be acting as a barrier to gas trading and opportunities for arbitrage between different regions of the interconnected east coast gas market.

While the number, type and function of facilitated gas markets is currently the subject of a COAG Energy Council-initiated review by the AEMC, Energy Council officials in making this rule change request proposal recognise that increased consistency between interconnected markets (such as harmonising gas day start times) may assist to remove barriers to inter-regional trade.

¹ <http://www.aemo.com.au/Gas/Market-Operations/Gas-Supply-Hub/Join-the-Market>

4.2 Inconsistent timing of gas day events in the STTMs

The STTMs' gas day start times are not consistent and are also not aligned with the gas day start time of the DWGM. This creates unnecessary complexity between the STTMs, which may be contributing to additional costs to participants operating in these markets. If market start times were harmonised, market participants could streamline their activities across the three STTMs and possibly find opportunities for cost savings. As the STTMs are mandatory trading markets, increased consistency is likely to further offer opportunities to reduce compliance costs and encourage participation.

Businesses participating in both the Sydney and Adelaide STTMs have the convenience of consistent gas day start times, deadlines for the submission of bids and offers, and publication of ex-ante schedules and prices. However, market participants operating in the Brisbane STTM and any other STTM do not have the same convenience.

In the STTMs, submission of bids and offers for the following gas day (D-1) close five and a half hours after the start of the current gas day (D) at that location. The inconsistent start times of the three STTMs result in different deadlines for the submission of bids and offers. In the Adelaide and Sydney STTMs offers and bids can be submitted to AEMO up until 12.00pm on the day before the Adelaide and Sydney gas day, while offers and bids for the Brisbane STTM can be submitted to AEMO up until 1.30pm on the day before the Brisbane gas day.

Rule 364 currently prescribes two different gas day definitions for the STTM relative to location: for the Brisbane hub, a period of 24 consecutive hours starting at 8.00am on each day; and for any other hub, period of 24 consecutive hours starting at 6:30am on each day. A consistent definition would be assumed when applied to gas supply or transportation agreements, rather than having to specify relative to location. Consistency in this regard would contribute to the increased connectivity of the eastern Australian gas market.

The amendment of the STTM gas day definition in the NGR is relatively straightforward. These changes do not give rise to consequential NGR amendments as gas day activities are not specified in the NGR by a specific time of day, rather they are specified relative to the start of the gas day. Therefore, amendments to the gas day start time will have the flow on effect to ensure consistency of gas day activities across the three STTMs. Activities that have specific business hour times prescribed in the NGR (such as activities related to settlement, contingency gas events, and timeframes for submission of market schedule variations) and are unaffected by amending the gas day start time definition. However, in cases where market participants' contractual obligations require them to complete activities, such as pipeline flow nominations, at times relative to gas day times, contractual arrangements and/or business processes may need to be altered.

4.3 Gas day start times for all facilitated markets not prescribed in single national legislative framework

The national framework currently does not prescribe a uniform gas day start time for the facilitated markets. Gas day start times of the STTMs and the DWGM are prescribed in the NGR while the exchange agreement that is developed and maintained by AEMO provides for the gas day relevant to products offered through the Wallumbilla GSH.

Specifying a uniform gas day start time for all facilitated gas markets in the NGR would provide market participants with greater certainty and confidence that the gas day start time would become and stay aligned. Specifying the gas day start time for gas trading exchanges in the NGR would require consequential amendments to the exchange agreement.

4.4 Lack of harmonisation inhibits the development of financial risk management products

Stakeholders commonly cite issues about the inability to fully encapsulate financial risk of a single gas day due to current design features of the STTMs and DWGM. Market design features such as MOS (Market Operator Services)² in the STTMs and uplift charges³ in the DWGM mean it is not currently possible to design a financial risk management product to fully hedge against price risk on a given gas day. While design features such as MOS and uplift charges are outside the scope of this rule change proposal, harmonising the gas day start time would reduce inconsistencies between facilitated markets. Gas day harmonisation is a sensible first step towards greater harmonisation of market design that could support the use of financial risk management products.

5. PROPOSED SOLUTIONS

It is proposed that the following solutions for the issues identified above be implemented. Officials note that consequential changes by AEMO to the STTM and Retail Market Procedures may also be required.

5.1 Amend existing definition of STTM gas day

Rule 364 defines the terms used and applied in Part 20: Short Term Trading Market Rules of the NGR. Amendment of Rule 364 is required to prescribe a single gas day definition in the STTM that would align the Adelaide, Sydney and Brisbane hubs with the gas day start time of the DWGM.

5.2 Prescribe the GSH gas day start time in the NGR

Drafting a new rule that establishes the GSH gas day start time as 6.00am EST would harmonise the GSH gas day with the DWGM gas day (and the STTM gas day, as per the proposed amendment to Rule 364). Providing for the gas day start time for the GSH in the NGR will provide certainty for participants that all facilitated markets have the same start time. This is relevant not only for the existing GSH but also to any future gas trading exchange.

5.3 Consequential amendments to the Gas Supply Hub Exchange Agreement

The current gas day start time for products traded at the GSH is 8.00am EST and the gas day is defined in the exchange agreement as a 24 hour period thereafter. Gas trading occurs on the GSH between the hours of 9.00am and 5.00pm EST and the expectation is that this would remain unchanged. Amending the exchange agreement consistently with the gas day

² MOS is a mechanism to supply AEMO with gas that is required to balance the difference between nominations for gas supply and actual gas deliveries.

³ Uplift charges are the mechanism used by AEMO to recover the costs from relevant participants for ancillary payments (e.g. charges to participants who fail to follow their schedules or have changed their forecasts).

commencement requirements in the NGR would affect the commencement time for deliveries of gas products traded at the exchange.

Schedule 3, 4, 5, 6 and 7 to the GSH exchange agreement will require consequential amendment to revise the gas day commencement detail of each product specification. These amendments would be managed by AEMO via established procedures to amend the exchange agreement, including a stakeholder consultation process.

Consideration would need to be given to transitional arrangements and allowing adequate time for AEMO and industry to develop and implement changes to business procedures and contractual arrangements.

6. PROPOSED RULE CHANGES

6.1 STTM gas day start time

Rule 364 defines the terms used and applied in Part 20: Short Term Trading Market Rules of the NGR. Amending the STTM ‘gas day’ definition would bring the Adelaide, Sydney and Brisbane hubs into line with the gas day start time of the DWGM. As provided in Appendix A, it is proposed the STTM gas day be defined as

... for any hub, a period of 24 consecutive hours beginning at 6:00am on each day.

6.2 GSH gas day start time

The proposed amendment to rules 539 and 541 in Part 22 of the NGR (Gas Trading Exchange) provides for the harmonisation of the start of the GSH gas day with that of the DWGM (and the STTM gas day, as per the proposed amendment to Rule 364).

Specifically, Rule 539(3) requires an exchange agreement to address the matters specified in Rule 541, being the minimum content of an exchange agreement. This includes the requirement in Rule 541(f) that the exchange agreement set out ‘procedures and timing requirements for conducting trading, concluding transactions, payment and settlement’. New Rule 539(4) will require the matters specified in this provision to be addressed in accordance with Rule 541(2). New Rule 541(2) will provide as follows:

Gas day begins at 6:00am

- (2) To the extent that the procedures and timing requirements referred to in paragraph (1)(f) apply by reference to a period of 24 consecutive hours expressed to be a ‘gas day’, that period must begin at 6:00am Australian eastern standard time (as distinct – when daylight saving operates – from summer time).*

This provision is expressed in terms that would not prevent an exchange agreement setting out, if necessary:

- procedures unrelated to time; and/or
- procedures and timing requirements that would apply by reference to business days.

It is also consistent with Rule 366 which provides that references to time of day in Part 20 (STTM Rules) are to Australian eastern standard time (and are not adjusted for daylight saving time in any jurisdiction). See also Rule 201 in Part 19 (DWGM Rules) which provides that, unless otherwise specified, a reference to a time of day is to standard time (as distinct – when daylight saving operates – from summer time) in the adoptive jurisdiction. While Rule 201 does not expressly refer to eastern standard time, this would be the effect in Victoria, which currently is the only jurisdiction with a DWGM. Consideration may need to be given to amendment of Rule 201 in the event that a DWGM was created in a jurisdiction that does not have eastern standard time.

The gas day start time provided for in the GSH exchange agreement will need to be amended so that it complies with rules 539 and 541 as amended. Exchange agreements for any new gas trading exchanges will also need to comply with these rules.

7. HOW THE PROPOSED RULES CONTRIBUTE TO THE NATIONAL GAS OBJECTIVE

Before the AEMC can make a rule change, it must apply the rule making test set out in the NGL, which requires it to assess whether the proposed Rule will, or is likely to, contribute to the National Gas Objective (NGO). The NGO as stated in section 23 of the NGL, being

‘... 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.’

The proposed rule changes would contribute to the NGO for the following reasons:

- The proposed rule changes would enhance national consistency by aligning the gas day start times for all facilitated gas markets in eastern Australia. Aligning the STTM start times would then consequently align all other key gas day events in the STTM, such as deadlines for the submission of bids and offers and the publication of the ex-ante market schedule and price. This alignment would enhance the efficient operation of facilitated markets and contribute to the NGO by promoting efficient operation and use of natural gas services.
- The proposed changes are expected to minimise compliance costs by negating the need for businesses to develop separate procedures to manage different gas day start times in different facilitated markets. The proposed changes are likely to therefore reduce complexity and cost and the benefits of which would be expected to flow on to consumers. Over time, consistency in gas day start times across facilitated gas markets on the east coast should promote the supply of natural gas at lowest possible cost, which is in the long-term interests of consumers. The proposed changes would contribute to the NGO by promoting the efficient provision of natural gas with respect to price.
- The proposed changes have no impact on the DWGM, the facilitated market which supports the greatest number of participants and hosts significant metering infrastructure. Aligning the STTM and GSH gas day start times with that of the DWGM, while disruptive to participants and infrastructure operators in these markets, minimises the costs and impacts associated with metering and contractual changes across the eastern market.

8. EXPECTED BENEFITS AND COSTS OF THE PROPOSED RULES

During the AEMC's *East Coast Wholesale Gas Market and Pipeline Frameworks Review* Stage One consultation some stakeholders indicated that there will be a number of one-off costs associated with harmonising gas day start times. However, these costs are anticipated to be less than the long-term benefits of a single gas day start time regime as the integration of the east coast market continues. Consideration would need to be given to: minimising disruption during the changeover period. This would include how to best synchronise the commencement of new gas day timings and how to best manage other transitional arrangements. Adequate lead time will be required for AEMO and industry to implement changes including:

- re-setting and modifying coding for each field flow computer;
- amending contracts including gas transportation agreements and gas supply agreements;
- modifying business procedures; and
- amending the exchange agreement.

In their submission to the AEMC Stage One Draft Report, APA stated "... initial estimates for the field work for this changeover process are in the order of \$1-2 million, including the costs of site visits, some system or hardware changes, and project management."⁴ APA noted that there would be system, administrative and legal costs for APA, but does not consider that this should be considered a material barrier to enacting a standard gas day, if corresponding benefits from such a change can be identified. Santos noted that, from its perspective, there would be minimal costs in changing start times.⁵

In its Stage One Review Final report submitted to the COAG Energy Council, the AEMC acknowledged that a more detailed assessment of the costs and benefits of specific gas day start time options need to be undertaken.⁶ The AEMC further recognised that the most appropriate process to undertake this assessment is through a rule change process. The rule change process will allow the AEMC to investigate in more detail the operational, commercial and legal work required to harmonise facilitated market gas day start times and to assess the expected benefits and costs of the proposed rules.

⁴ APA Group 2015, Submission to *East Coast Wholesale Gas Market and Pipeline Frameworks Review*

⁵ Santos 2015, Submission to *East Coast Wholesale Gas Market and Pipeline Frameworks Review*

⁶ AEMC 2015, *East Coast Wholesale Gas Market and Pipeline Frameworks Review*, (p.114)

APPENDIX A: Draft Rule Change

Part 20 Short Term Trading Market Rules

Division 1 Preliminary

363 Application of this Part

This Part contains rules applicable to a short term trading market.

364 Definitions

In this Part:

...

gas day means for any hub, a period of 24 consecutive hours beginning at 6:00am on each day.

~~(a) for the Brisbane hub, a period of 24 consecutive hours starting at 8:00am on each day; and~~

~~(b) for any other hub, a period of 24 consecutive hours starting at 6:30am on each day.~~

...

Part 22 Gas Trading Exchange

...

Division 4 Exchange Agreement

539 Requirement for exchange agreement

- (1) An exchange agreement must be in effect at all times during the period of operation of the gas trading exchange and must be published by the Operator.
- (2) AEMO must make and publish the first exchange agreement before the day on which the operation of the gas trading exchange first commences.
- (3) The exchange agreement must address each of the matters specified in rule 541(1) and, subject to this Part, may include any other matter relevant to the gas trading exchange.

(4) The matters specified in paragraph 541(1)(f) must be addressed in accordance with subrule 541(2).

...

541 Minimum content of exchange agreement

- (1) The exchange agreement must set out:
- (a) the criteria that a person must satisfy to become a gas trading exchange member, either generally or in any particular category of membership, which must include a requirement to enter into a membership agreement with the Operator; and
 - (b) the form of membership agreement; and
 - (c) a description of the products offered for trading on the gas trading exchange from time to time; and
 - (d) any criteria that a gas trading exchange member must satisfy in order to participate in the trading of a product; and
 - (e) a requirement to provide security for payment in respect of products traded, including the form and amount of acceptable security and the circumstances in which the Operator may call on security provided; and
 - (f) subject to subrule (2), procedures and timing requirements for conducting trading, concluding transactions, payment and settlement; and
 - (g) provisions for the calculation of net settlement amounts payable by or to gas trading exchange members from time to time, incorporating exchange fees and amounts determined under rule 536; and
 - (h) obligations of the Operator and gas trading exchange members to maintain the security and integrity of the trading platform; and
 - (i) the process for the suspension or limitation of access to the gas trading exchange, or trading in specified products, by a gas trading exchange member; and
 - (j) the events or circumstances that are default events in respect of a gas trading exchange member and the steps the Operator may take in respect of a default event; and
 - (k) the process for termination of a membership agreement; and
 - (l) the timing and content of market information to be made available by the Operator; and
 - (m) the process for amending the exchange agreement, subject to rule 540.

Gas day begins at 6:00am

- (2) To the extent that the procedures and timing requirements referred to in paragraph (1)(f) apply by reference to a period of 24 consecutive hours expressed to be a 'gas day', that period must begin at 6:00am Australian eastern standard time (as distinct – when daylight saving operates – from summer time).

APPENDIX B: Consultation Process and Stakeholder Views

In December 2014, the COAG Energy Council tasked the AEMC to review the number, type and function of facilitated gas markets and gas transportation arrangements in eastern Australia. Terms of Reference for the *East Coast Wholesale Gas Market and Pipeline Frameworks Review* ('the Review') were released on 23 February 2015.

As part of the Review, the AEMC was asked to consider opportunities to harmonise market parameters of facilitated gas markets, such as prudential obligations, gas day trading times and market price caps.

To facilitate consultation with stakeholders, the AEMC released a public forum paper which outlined key issues likely to be addressed by the Review. On 25 February 2015, the AEMC hosted a public forum in Sydney which welcomed participation from interested stakeholders and the general public. Approximately 70 people attended and presentations were provided by 10 organisations, spanning market institutions, gas producers, pipeliners, consumers, governments and consultants. Both the public forum and the public forum paper further explored issues relating to facilitated gas markets and frameworks governing transmission pipelines. Harmonising the gas day start times was explicitly raised in the public forum paper. Written submissions were invited by 26 March 2015, and 28 public submissions were received (including late submissions).

The AEMC released a Draft Stage One report on 7 May 2015, which put forward a series of possible short term reform measures that could be pursued by the COAG Energy Council, while medium to long term issues were considered during Stage Two of the Review. Harmonisation of the gas day start times across the east coast facilitated gas markets was included as a finding in the Draft Stage One report.

Stakeholders were invited to make submissions to the AEMC on the Draft Stage One report by 1 June 2015. A total of 26 public submissions were received. Of the submissions received, 20 of the 26 made specific reference to harmonising gas day start times of east coast facilitated gas markets. Stakeholders were unanimously supportive of the draft finding to harmonise gas day start times, with responses ranging from cautious in-principle or qualified support through to respondents who expressed full support for the draft proposal. No respondents expressed views that were unsupportive of the draft proposal.

Stakeholder views on the draft AEMC Stage One report have been categorised in the following table – *Summary of Stakeholder Positions*.

The AEMC published a final Stage One report on 23 July 2015 which included the recommendation that gas day start times in east coast facilitated markets be harmonised to commence at 6.00am EST, consistent with the gas day start time of the DWGM. The COAG Energy Council accepted this recommendation and tasked COAG Energy Council officials to prepare a National Gas Rules change request and proposal for submission to the AEMC.

Summary of Stakeholder Positions

Position	Stakeholder	Specific comments
Support	AEMO	<p>AEMO supports consideration of a harmonised gas day start time.</p> <p>AEMO notes that trading participants raised concerns associated with contract changes and costs associated with changes to metering when gas day start times were considered in the past. It is important to include the end-to-end gas production and delivery chain, not just the facilitated markets, when considering the harmonisation of gas day start times.</p>
	Alinta	<p>Alinta is pleased to see the draft report has broadly embraced the concept of integrating and consolidating operational arrangements of the existing distinctly separate gas markets. Alinta notes that the AEMC has proposed that stage 2 of the review process will address the following points of interest:</p> <ul style="list-style-type: none"> • Market parameters – consideration of alignment of the market price cap parameters between the existing facilitated markets the STTM and DWGM. • Common gas day – harmonising the start of gas days across the DWGM and STTM. • Prudential arrangements – consideration of greater alignment and consolidation of prudential arrangements between existing gas markets. Alinta suggests the review could move one step further and implement the netting off of gas positions across facilitated markets immediately. <p>Broadly, Alinta welcomes the above considerations and is of the view that reforms in this area would deliver tangible administrative, operational and prudential benefits. As such, Alinta strongly supports the AEMC recommending reforms in this area and looks forward to ongoing consultation with the AEMC on developing a consolidated long term strategy for facilitated markets.</p>
	APPEA	<p>APPEA reiterates its April 2015 recommendation that the AEMC investigate ways to more closely align the facilitated markets. Such alignment could improve the efficiency and effectiveness of the east coast gas market and produce market arrangements that are more closely aligned with the AEMC’s objective of ensuring natural gas flows to its highest value use. This includes moves to harmonise the gas day start times, as highlighted by the Draft Report on page 38.</p>
	ERAA	<p>The ERAA believes that any changes to the downstream arrangements with respect to the east coast must meet the National Gas Objective (NGO). The ERAA supports measures that will increase the transparency, productivity and economic efficiency of the east coast gas markets and which promote competition in upstream markets. The short term practical initiatives identified in the Draft Report are viewed as likely to achieve beneficial market outcomes, consistent with the NGO and are supported in principle by the ERAA.</p>

Position	Stakeholder	Specific comments
Support	EUAA	EUAA members' input includes matters such as general agreement that the gas trading day should be uniform. EUAA notes that this will become more important after the LNG plants are operational and the potential demand for gas from outside the jurisdictional boundaries will mean trades between those boundaries will increase.
	GDFSuez Australian Energy	GDFSAE states that it is surprising that the market has been unable to progress greater harmonisation in the absence of an AEMC review. It is perhaps telling that it has not been able to do so as it is a foundation issue that has been canvassed multiple times. GDFSAE welcomes this logical proposal by the AEMC. GDFSAE supports the alignment of gas days and also supports consideration of harmonisation with the electricity market. Aligning gas days is a change that could occur following the Stage 1 Report pursuant to a rule change. GDFSAE supports AEMO working to identify any <i>material</i> issues through the Gas Wholesale Consultative Forum and NEM Consultative Forum. Either AEMO or consultative forum members can lodge a rule change proposal for consideration by the AEMC.
	Jemena	Jemena is supportive of the proposed recommendations around the harmonisation of gas day start time.
	Santos	Santos encourages any adjustments that can be made that result in more commonality to the facilitated markets and states that harmonising the start times of all east coast gas markets is a simple, yet powerful step in moving to an east coast gas market as opposed to multiple regional markets. Santos supports aligning all gas day start times to 6am EST. Santos notes that NEM start times occur at 4 am, but see little relevance in joining the two markets. These are completely separate markets in fuel origination, structure, settlement and delivery, with only a few participants that cross both markets actively. From Santos' perspective there would be minimal cost in administrating the change to the start times.
	AGL	AGL supports development of a consistent national market framework with alignment of aspects of market design where appropriate. For instance, AGL supports alignment of the gas day across markets from midnight to midnight. A 12am start time would line up with the lowest level of activity across the gas day. While AGL does not believe the costs of changing systems or meters would be material, AGL would need to further consider the contractual implications of changing the gas start day.
Australian Paper	Australian Paper believes harmonising gas day start times across the east coast gas market is a welcome step to promoting an efficient and competitive market. The current misalignment of market time detract from competitive behaviour as it is possible for some sections of the market to know the ex-ante price of gas supply prior to nominating their own price.	

Position	Stakeholder	Specific comments
Support	EnergyAustralia	EnergyAustralia supports harmonisation and suggest that 6am would be appropriate. However, this is not urgent and can be considered as part the package to harmonise other key settings across the DWGM and STTMs.
	Major Energy Users	The MEU supports harmonising the gas day start times for the reasons provided in AEMC's the draft report.
	Orora	Orora believes it is important that there is an adequate gas market framework in place to enable harmonisation of the gas day start times across all east coast jurisdictions.
	QGC	<p>QGC notes some market operational issues are touched on in various aspects of the Draft Report, but combining them into a single area would focus attention. A dedicated work stream would consider the impediments to and options for creating a viable intraday gas market. Specific aspects include extended trading hours, harmonising the “gas day” and improvements to the operation of the Short-term Trading Markets (STTM) (which are already contemplated) and importantly facilitating intraday renominations.</p> <p>With respect to the start of the gas day, QGC supports harmonising the “gas day” across the interconnected Eastern Australian gas markets. Maintaining an 8am commencement would be reasonable as the majority of gas east coast market volumes already flow on pipes supplying markets with this start time. We acknowledge that market commencement could be linked to related markets such as the National Electricity Market (NEM) and see merit in exploring the costs and benefits further.</p>
	Visy	<p>Visy does not understand how various east coast markets have evolved with such varied start times and timelines for nominations and bids and notes that opportunities for alignment in the past have been missed. Visy strongly supports the alignment of gas day start times between markets. Visy states the particular start time is not import but should be determined based on minimising change and disruption when considering all east coast markets together. Additionally, mechanisms need to be in place to require gas sellers to accommodate new market times which do not strictly align with gas day start times agreed in the current and legacy gas supply contracts.</p> <p>Additionally, a change to gas day start times should be used as an opportunity to align windows and horizons for bidding and nominations in respective markets. This will reduce transaction and system costs for parties participating in or across multiple markets.</p>

Position	Stakeholder	Specific comments
Qualified Support	Origin Energy	<p>Origin broadly supports the issues identified by the AEMC as stage 1 “no regrets” measures. Origin generally considers these could be pursued immediately to boost the efficient and effective operation of the gas market. The only exception, however, is the measure to harmonise gas days which it considers requires a longer term approach. Origin supports this measure in principle but suggest there are a number of practical complexities that need to be worked through first.</p> <p>The principle of harmonised gas days has merit but its implementation has some practical complexities. These include the need for system and, operational changes as well as contractual review and potential amendment as often contracts refer to a set time (e.g. 6am) rather a set period before or after the gas day (e.g. 2 hours after the start of the gas day). This issue was identified in the process to implement the Brisbane hub given a different gas day start time in Queensland compared with in NSW and South Australia. The Brisbane hub process concluded that harmonising the gas days was too difficult just for the commencement of the hub. The result was that the differing gas days were maintained and instead the National Gas Rules uses the latter approach of stating a period before or after the gas day in the section covering the STTM (Part 20).</p> <p>While Origin supports exploring harmonisation of gas day start times, including whether the electricity day should also be harmonised, it notes there is a significant body of work required around this. As such, the no regrets measure should outline a process to initiate this work, which should include canvassing the range of system and contractual changes required and their associated costs, rather than a definitive recommendation to move to a particular start time for the gas day.</p>
	Stanwell	<p>Stanwell supports harmonising the start time of the "gas day". However, it is Stanwell's understanding that this would require a manual change at every meter. Accordingly, the proposal could be costly and time consuming to implement and so the change should be effective for a start date at some time in the future, say 5 years hence. While it would suit Stanwell to start the gas day at the current Queensland start time, it seems more reasonable to start the gas day based on the minimum cost of change. This is likely to occur where the minimum number of meters needs to be changed. The time should be set using Australian Eastern Standard Time rather than Australian Eastern Daylight Savings Time.</p>
	APA Group	<p>APA supports in principle the alignment of market arrangements, including gas day start times, prudential requirements and market parameters. In respect of alignment of gas day start times, this would involve widespread system changes for APA, as well as administrative and legal changes, for which APA will incur costs that it would expect to pass through to customers.</p>

Position	Stakeholder	Specific comments
Qualified Support		<p>APA does not consider that this should be considered a material barrier to effecting a change to a standard gas day, if corresponding benefits from such a change can be identified. An important piece of work should therefore be to seek to quantify the likely benefits and, if positive, to determine an appropriate standard time and a timetable for implementation.</p> <p>APA supports in principle the alignment of market arrangements, including gas day start times, prudential requirements and market parameters. The alignment of gas day start times is the most relevant of these areas for APA, as it will involve both system and contractual changes to execute. In respect of system changes, the main task will be to reset field flow computers. Flow computers are located at every metering site, and each are uploaded locally with a hard coded time and date (with no field adjustment for day light saving).</p> <p>Changing to a standard time will require modification to the coding of each flow computer at over 200 sites across Victoria, Queensland and New South Wales, some with multiple meter runs. This will need to happen via a field site visit, with all computers ideally changed on a single changeover day, in order to minimise billing disruption. Depending on the approach, there may be scope to focus on a smaller (though still significant) number of flow computers on the changeover day to allow for accurate gross metering.</p> <p>APA's initial estimates for the field work for this changeover process are in the order of \$1-2 million, including the costs of site visits, some system or hardware changes, and project management.</p> <p>There are further changes required to APA systems in relation to pipeline measurement reconciliation, including line pack calculations, particularly to take account of the change day. There will also need to be arrangements put in place to ensure that shippers retain access to appropriate daily capacity over the change day, which is likely to create a long day and a short day on a number of pipelines, which will impact shipper linepack balances, daily variations and imbalances, and allocations. These costs will largely be commercial and legal costs, and will involve significant liaison and cooperation between pipeliners, shipper and other market participants.</p> <p>To enact a single standard gas day across all APA's pipelines, APA would also need to vary its contracts with shippers to redefine the gas day, to the extent they are inconsistent with what is proposed. For existing contracts, APA would need to gain each shippers' agreement to amend the contracts to standardise the time. Given the broad support for this measure expressed through submissions, this agreement could be readily expected from most shippers.</p> <p>These measures will involve considerable system changes, as well as administrative and legal workloads, for which APA</p>

Position	Stakeholder	Specific comments
Qualified Support		<p>will incur costs that it would expect to pass through to customers. APA does not consider that this should be considered a material barrier to effecting a change to a standard gas day, if corresponding benefits from such a change can be identified. An important piece of work should therefore be to seek to quantify the likely benefits and, if positive, to determine an appropriate standard time and a timetable for implementation.</p> <p>APA considers that the standard time should be between 6am and 10am across all pipelines, given the important system support and other information requirements related to the end of gas day. APA does not see that there is a strong case for aligning the gas day to the electricity market, and considers that a 4am start would considerably increase costs for the market without a clear benefit.</p>
	Energy Supply Association of Australia (ESAA)	<p>The ESAA supports harmonising gas day start times. But given the range of system, operational and contractual changes this may necessitate, additional consultation on this issue may be required. To address this, it would be more prudent for the Stage 1 report to recommend initiating a process to examine this issue in detail, rather than trying to settle on a particular gas day start time if there is no clear consensus at this time.</p> <p>With respect to harmonisation of other market parameters more fundamentally linked to the overall market design, the ESAA agrees these should be considered as part of the proposed Stage 2 analysis.</p>
	Hydro Tasmania	Hydro Tasmania notes the draft report suggests a number of incremental changes to the operation of the imbalance market and synchronisation of regional markets and time zones. It believes some of these changes will improve the efficiency of the operations of the current imbalance markets. However, Hydro Tasmania believes that they should be held off until the “blank sheet” design is completed. This will allow changes to be made which support the long term direction.
No Comment	Australian Pipelines and Gas Association, APLNG, Commercial Economics Consulting, CQ Partners, Qenos, South Australia Water Corporation	