Jemena Gas Networks (NSW) Ltd

Rule change proposal - National Gas Rules

Matched allocation process

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TABLE OF CONTENTS

List of tables

List of figures

List of appendices

GLOSSARY

AA	Access Arrangement
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
EGP	Eastern Gas Pipeline
FFC	Feedback Flow Control
JGN	Jemena Gas Networks (NSW) Limited
MAA	Matched Allocation Agreement
MAQ	Matched Allocation Quantities
MSP	Moomba to Sydney Pipeline
NGL	National Gas Law
NGO	National Gas Objective
NGR	National Gas Rules
Regulations	National Gas (South Australia) Regulations
STTM	Short Term Trading Market
UAG	Unaccounted for Gas

1. INTRODUCTION AND SUMMARY

1. Jemena Gas Networks (NSW) Ltd (**JGN**) is the owner and operator of the NSW Gas Network.[1] Under the transitional provisions set out in clauses 26 and 27 of Schedule 1 of the National Gas Rules (**NGR**), gas purchased by JGN to meet the operational requirements of its distribution system at the Sydney Short Term Trading Market (**STTM**) hub can be excluded from the operation of the STTM through a 'matched allocation' process. In short, this process allows JGN to avoid a number of STTM-related costs and risks, the benefits of which are passed directly through to JGN's customers.

2. By virtue of the operation of clause 26(9)(a) of Schedule 1, the matched allocation provisions pertaining to JGN's operational gas requirements are due to expire on 30 June 2015. To ensure that customers can continue to benefit from this lower cost procurement option beyond this date, JGN requests that the Australian Energy Market Commission (**AEMC**), in its rule making capacity under the National Gas Law (**NGL**), convert transitional clauses 26 and 27[2] into permanent rules by moving them from Schedule 1 into Part 20 of the NGR.

1.1 RULE MAKING REQUIREMENTS

3. JGN understands that the AEMC may only make a rule if it is satisfied that the rule will, or is likely to, contribute to the achievement of the National Gas Objective (**NGO**)[3] as set out in section 23 of the NGL:

> *'The objective of this Law is 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.'*

4. JGN also understands that any request for the making of such a rule must address the specific matters set out in clause 13 of the National Gas (South Australia) Regulations (**Regulations**), including setting out the expected benefits and costs of the proposed rule change and the potential impacts it may have on other parties.

1.2 CONSISTENCY OF THE PROPOSED RULE CHANGE WITH THE NGO

5. In keeping with the rule making requirements set out in the NGL, JGN has carefully assessed whether the proposed rule change will, or is likely to, contribute to the achievement of the NGO. In doing so, JGN has:

   - assumed that if the matched allocation process expires on 30 June 2015, JGN would be required to procure its operational gas either directly from the STTM, or from an STTM user after withdrawal from the hub (the STTM procurement option)
   - assessed whether the proposed rule change is consistent with the NGO using the STTM procurement option as the counterfactual.

6. The key findings of this assessment are set out below.

7. If JGN is required to use the STTM procurement option, it will incur a number of STTM-related fees, charges and set-up costs and will also be exposed to risks that it cannot directly hedge against. At a minimum, the

[1] The Network consists of the NSW Distribution System, the Wilton-Newcastle trunk line, the Wilton-Wollongong trunk line and the Central West Distribution System.

[2] Excluding transitional rule 26(1)(b), 26(2)(b), 26(3)(c), 26(7) and 26(10)-(12).

[3] Section 291 of the NGL.

STTM participation fees will add 8.2-8.8 cents per GJ[4] to the cost of operational gas, which over a five year period equates to an additional impost of $0.90-$0.96 million on network users, based on an operational gas requirement of 2.2 PJ per annum (**p.a**.).[5] If all the other costs and risks associated with the STTM are taken into account, the incremental costs of purchasing gas via the STTM would be considerably *higher*.

8. While JGN understands that other participants in the STTM are also exposed to these costs and risks, one factor that distinguishes JGN from other STTM participants is that it cannot respond to the price signals provided by the STTM, because to do so would place the safety, reliability and integrity of the pipeline at risk. It follows that the higher costs and risks associated with the STTM procurement option will not be offset by any allocative efficiency or other benefits. Network tariffs will therefore be higher under this procurement option, which will adversely affect both the efficient utilisation of the network and the long term interests of consumers.

9. If, rather than having to employ the STTM procurement option, JGN is able to continue to use the matched allocation process post 30 June 2015, it could avoid the STTM-related costs and risks outlined above by purchasing its gas prior to the entry point of the STTM, as it does at present. It could therefore avoid the deleterious effects that the STTM procurement option may otherwise have on the efficient utilisation of the network and the long term interests of natural gas consumers. Viewed in this way, it is clear that the proposed rule change will contribute to the achievement of the NGO and, in particular, the 'efficient…use of, natural gas services for the long term interests of consumers of natural gas with respect to price' element of this objective.

10. Finally, it is worth noting that JGN's decision to submit this rule change is *not* being driven by any vested interest in the matched allocation process, because irrespective of the procurement option that is used, the costs of acquiring operational gas (including where possible the costs of managing the risks associated with the procurement option) will be passed directly through to customers.[6] JGN's decision to submit the rule change is instead being driven by its desire for its customers to continue to benefit from the least cost procurement option for operational gas, consistent with the NGO.

11. JGN has also made commitments to its customers and their representatives to promote initiatives that support customers' long-term interests and make the NSW energy market work efficiently and effectively. This proposal reflects this commitment to our customers.[7]

1.3 STRUCTURE OF THE PROPOSAL

12. In keeping with the requirements set out in the NGL and clause 13 of the Regulations, the remainder of this rule change request is structured as follows:

- Chapter 2 provides further detail on how JGN currently procures operational gas, how the matched allocation process operates, what the transitional rules currently provide for and how operational gas is dealt with at other STTM hubs

[4] The activity fee in 2014-15 is $0.08203 per GJ of gas withdrawn while the fixed fee is $30 per day per hub per ABN. See AEMO, STTM Gas Final Budget and Fees: 2014-15, p. 6.

[5] This volume is based on the average volume of UAG that JGN has purchased between 2008-09 and 2012-13. See JGN, 2015-20 Access Arrangement Information (**AAI**) - Appendix 7.5 UAG methodology and justification, p. 5.

[6] Under the MAA option the cost of operational gas include the costs of acquiring the gas and transportation costs, while under the STTM procurement option it includes the costs of acquiring the gas, transportation costs, STTM participation fees, the costs associated with meeting AEMO's prudential requirements, any deviation and/or market schedule variation charges that may be payable if the operational gas requirements deviate from the *ex ante* schedule, other STTM-related administrative costs, system set up and operational costs.

[7] See Customer Overview, JGN's 5-year plan, pp. 14-15.

- Chapter 3 outlines the nature and scope of the issue that the matched allocation process is designed to address and what would occur if the transitional rules that currently provide for the operation of this process are allowed to lapse. This chapter also explains how the proposed rule change would address this issue
- Chapter 4 contains a description of the proposed rule change and sets out the proposed draft rules
- Chapter 5 explains how the proposed rule change will, or is likely to, contribute to the achievement of the NGO and sets out the expected benefits and costs of the proposed rule change and the potential impacts it may have on other parties.

2. BACKGROUND

13. To provide further context for the proposed rule change, this chapter provides an overview of:

- how JGN currently procures operational gas
- how the matched allocation process works
- what the matched allocation provisions in clauses 26 and 27 in Schedule 1 of the NGR provide for
- the differences between the operational gas arrangements in the Sydney, Brisbane and Adelaide STTM hubs.

2.1 HOW JGN CURRENTLY PROCURES OPERATIONAL GAS

14. JGN is required under the terms of its Access Arrangement (**AA**)[8] to replace any gas lost whilst in its custody (unaccounted for gas (**UAG**)).[9] In certain circumstances JGN may also need to purchase gas for other operational purposes. For ease of reference, these two different uses are collectively referred to in the remainder of this rule change proposal as 'operational gas'.

15. When procuring its operational gas requirements, JGN is required under the terms of the AA to purchase gas on a competitive commercial basis, which may include (without limitation) either, or a combination, of the following:[10]

- utilising a competitive open tender for the supply and/or haulage of gas
- sourcing gas directly from the STTM.

16. To date, JGN has used the first of these options, with gas purchased through an annual competitive tender and delivered to JGN prior to the STTM hub at Wilton.[11]

17. It is worth noting in this context that in each of the competitive tenders that have been conducted since the STTM came into effect, JGN has offered tenderers the choice of supplying the gas:

- prior to the entry point of the STTM hub and using the matched allocation process to exclude those quantities of gas from the operation of the STTM; or
- after withdrawal from the STTM hub (i.e. after the gas has been traded through the STTM).

18. In each case, the tenderers have favoured the option of supplying gas to JGN prior to the STTM hub and using the matched allocation process (option 1) because they have viewed it as the least cost and lowest risk option.

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8 See clauses 9.4 and 9.5 of JGN's 2010-15 Reference Service Agreement and the proposed Reference Service Agreement for the 2015-20 regulatory period (Schedule 4 of the AA), which is currently under review by the AER.

9 The term UAG is used to refer to gas that is lost or unaccounted for in the network and is measured as the difference between the measured quantity of gas entering the gas distribution system and metered gas deliveries. The causes of UAG include physical leakage, metering inaccuracies, meter bypass and theft.

10 See clause 9.5(e) of the 2010 Reference Service Agreement and the proposed Reference Service Agreement for 2015-20.

11 Note that JGN actually takes delivery of this gas at the same physical injection point as the STTM, but because it is not traded through the STTM hub, it is referred to in the remainder of this briefing note as supply 'prior to the STTM hub'.

19. Further detail on how the matched allocation process works is provided in the following section. Before moving on though, it is worth noting that the costs JGN incurs when purchasing operational gas (including the costs of transmission haulage and other direct costs) are passed directly through to customers on a cost pass-through basis.[12] Customers are therefore the ultimate beneficiaries of any costs and/or risks that JGN can avoid when purchasing operational gas.

2.2 HOW THE MATCHED ALLOCATION PROCESS WORKS

20. Under the matched allocation process, flows to and from the STTM hub that are associated with a matched allocation agreement (**MAA**) registered with the Australian Energy Market Operator (**AEMO**), can be **excluded** from the operation of the STTM (i.e. excluded from STTM market settlements).[13]

21. An MAA is an agreement between JGN, the successful tenderer (the **MAA shipper**) and the operator of the transmission pipeline used by the MAA shipper (e.g. the operator of either the Moomba to Sydney Pipeline (**MSP**) or the Eastern Gas Pipeline (**EGP**)) (the **MAA facility operator**). In short, this agreement provides for the quantities of gas purchased by JGN from the MAA shipper to be treated by the MAA facility operator as matched allocation quantities (**MAQ**) and therefore excluded from the STTM. The agreement also sets out the processes and procedures to be followed by each party to ensure the quantities of gas delivered to the STTM, which are identified as a matched allocation, match the quantities of gas withdrawn from the hub by JGN (i.e. matched allocation injections = matched allocation withdrawals).

22. The exclusion of MAQ from the STTM is given effect by:

- the MAA facility operator excluding the MAQ from both:
  - the facility capacity information provided to AEMO
  - the facility allocation process
- AEMO, as the retail market operator, excluding the MAQ from the STTM distribution system allocations.

23. To the extent there is any difference between the quantity of gas supplied to the hub by the MAA shipper and the MAQ, the difference is attributed to the MAA shipper and forms part of the STTM traded volumes.

24. The manner in which MAQ are taken into account in the STTM and the information that both the facility operator and JGN[14] are required to provide to AEMO to facilitate the matched allocation process is set out in Figure 2–1, while Figure 2–2 illustrates the effect that the exclusion of the MAQ from the facility operator's capacity has on the STTM hub capacity.

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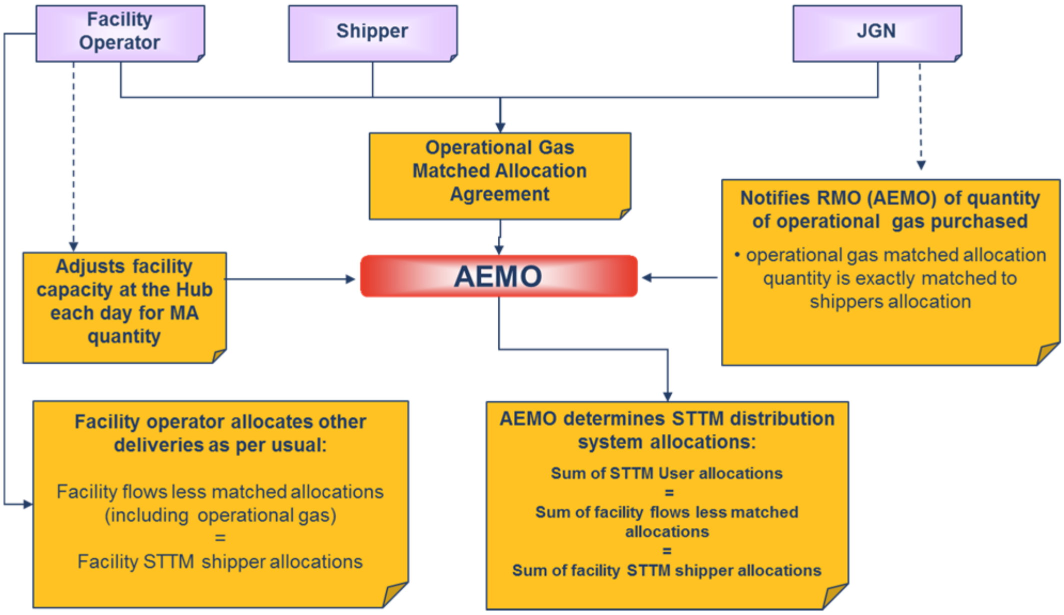
12 Under JGN's current AA the costs JGN incurs in acquiring operational gas are recovered through a cost pass-through mechanism, which provides for costs to be recovered with a one year lag (adjusted for the time value of money) through the annual tariff variation process (see cl. 3.4(e)-(f) of the 2010-2015 AA). Under JGN's proposed AA for the 2015-20 regulatory period, the costs will continue to be passed directly through to customers. While JGN's 2015 AA proposal includes some changes to the UAG pass through mechanism, the principle that cost variations due to changes in the purchase price are fully passed through has been maintained. Further detail on the proposed 2015 AA pass through mechanism can be found in section 14.1.1 of JGN's 2015-20 AAI and Appendix 7.5 of the AAI.

13 AEMO, Technical Guide to the STTM, 2013, p. 54.

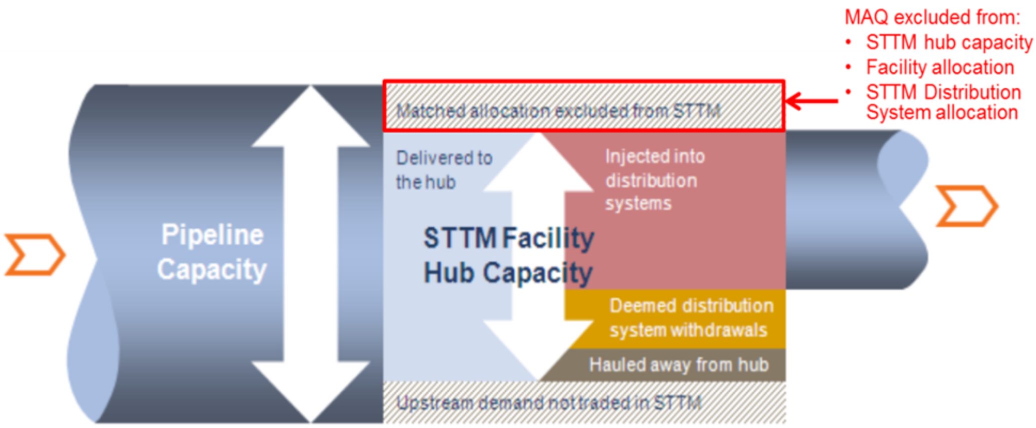
14 JGN's obligation to provide this information is set out in clause 33.1(1) of the NSW and ACT Retail Market Procedures. This information is used by AEMO to determine the injection and withdrawal allocations under these procedures.

Figure 2–1: How the matched allocation process is accounted for in the STTM and retail market operations



Source: AEMO, Matched Allocations, September 2009 (reproduced with AEMO's permission).

Figure 2–2: Relationship between pipeline capacity, STTM facility hub capacity and matched allocations



Source: AEMO, Industry Guide, 2013, p21 (amended by JGN to highlight the treatment of matched allocation quantities).

2.3 MATCHED ALLOCATION TRANSITIONAL RULES

25. The matched allocation process was implemented as part of the broader package of STTM rules in 2010, following a formal request by both:

- BlueScope Steel and JGN, that gas supplied under an existing feedback flow control (**FFC**) arrangement[15] involving JGN, the owner of the EGP and BlueScope Steel, be exempt from the operation of the STTM; and
- JGN, that gas purchased for operational purposes be exempt from the Sydney STTM.

26. These requests were accepted by a jurisdictional policy group of the Ministerial Council on Energy (**MCE**) in late 2009, and clauses 26 and 27 were incorporated into the transitional provisions in Schedule 1 of the NGR to give effect to the exemptions in the Sydney STTM[16] until 30 June 2015 (clause 26(9)(a)) for JGN's operational gas MAA and 31 August 2015 for BlueScope Steel's FFC MAA (clause 26(9)(b)). Changes were also made to the NSW and ACT Retail Market Procedures to accommodate the matched allocation process.

27. At the time these transitional provisions were developed, some consideration was given to the process that should be followed if an extension to the MAAs was required beyond the dates specified in clause 26(9), and policy makers decided that:[17]

- any extension of the matched allocation process applying to JGN's operational gas requirements beyond 30 June 2015 should be considered by the **AEMC** through the rule change process
- any extension of BlueScope Steel's FFC matched allocation process beyond 31 August 2015 should be assessed by **AEMO** having regard to the matters set out in clause 26(12) of Schedule 1.[18]

28. The reason why policy makers decided to adopt these two alternative extension avenues was not made clear in any of the material JGN has reviewed.[19]

29. The remainder of this section provides further detail on the transitional provisions that were included in Schedule 1 to give effect to the matched allocation process. For completeness, the discussion that follows includes a description of the provisions applying to both JGN's operational gas MAA and BlueScope Steel's MAA. It is important to note though that JGN is ***not*** seeking an extension of BlueScope Steel's MAA. Rather, the proposed rule change only relates to the matched allocation process applying to JGN's operational gas requirements.

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[15] This arrangement provides for FFC hardware to automatically inject amounts of gas from the EGP into the Port Kembla local area distribution network equivalent to that withdrawn by BlueScope preventing supply disruptions to other customers on the network and effectively mimicking a direct and dedicated connection from the EGP to BlueScope Steel.

[16] Definitions of the terms 'matched allocation quantity', 'registered matched allocation agreement' and 'Jemena' were also included in clause 13 of Schedule 1 to give effect to the matched allocation concepts in clauses 26 and 27.

[17] AEMO, Matched Allocations (confidential presentation), September 2009, slide 4.

[18] In accordance with clause 26(12), AEMO is required to have regard to the following matters when assessing a proposed extension of the BlueScope Steel FFC MAA:

- whether the registration criteria in clause 26(3) will continue to be met
- whether the operational requirements of the parties could be met through the STTM
- the operation of the arrangements under the MAA over the previous period and their impact on other trading participants
- the likely impact of the continued registration of the agreement on the STTM and other trading participants
- any other matter which AEMO has determined to be relevant.

[19] The documents JGN reviewed included:

- AEMO, Matched Allocations (confidential presentation), September 2009
- the Gas Market Leaders Group meeting synopsis between mid-2009 and late 2010, which is when the concept of matched allocations was being considered
- the explanatory material for the draft *National Gas (South Australia) (Short Term Trading Gas Market) Amendment Bill 2009*
- the MCE's response to submissions on amendments to the NGR and NGL for the STTM.

2.3.1 TRANSITIONAL CLAUSE 26 – MATCHED ALLOCATION AGREEMENTS

30. Clause 26(1) of Schedule 1 provides for the following agreements to be considered an MAA for the purposes of the rules:

- an agreement between JGN, an STTM pipeline operator(s) and an STTM shipper(s) for the matched allocation of gas purchased by JGN for operational purposes at the Sydney hub (clause 26(1)(a))
- an agreement between BlueScope Steel, JGN, the EGP and one or more STTM shippers for the matched allocation of gas delivered to the Sydney STTM hub and supplied under an FFC arrangement to the Port Kembla Steelworks, the Springhill Works and the CRM Works operated by BlueScope Steel (clause 26(1)(b)).

31. Clause 26(6) also provides for JGN to be exempt from the requirement in section 91BRD of the NGL to become a registered trading participant in the STTM for matched allocation withdrawals.

32. The remaining provisions in clause 26 set out:

a) The registration process and the matters AEMO must satisfy itself of when deciding whether or not to register the MAAs set out above, or an amendment or extension to these MAAs (clauses 26(3) and (5)), i.e:

  i) the agreement must provide for an agreed or determinable quantity of gas withdrawn from the Sydney hub to be exactly matched with the quantity allocated to a facility service, without applying the allocation methodology generally applicable to the STTM pipeline or STTM distribution system; and

  ii) any excess withdrawals or supplies to the Sydney STTM must be allocated to the relevant trading participant and not materially affect the allocation of quantities to other trading participants.

b) The restrictions on the ability of parties to an MAA to amend the agreement or extend its term without the prior approval of AEMO (clause 26(4)).

c) The circumstances in which AEMO can revoke the registration of an MAA (clause 26(8)).[20]

d) The specific arrangements applying to the BlueScope Steel FFC MAA (clauses 26(2)(b), 26(3)(c), 26(7), 26(10)-(12)).

33. Of the provisions set out in clause 26, the only ones that are required to give ongoing effect to JGN's operational gas MAA, which is the subject of this proposed rule change, are contained in clauses 26(1)(a), 26(2)(a) and (d), 26(3)(a)-(b), 26(4), 26(5), 26(6), 26(8) and 26(9)(a).

2.3.2 TRANSITIONAL CLAUSE 27 - EXCLUSION OF MATCHED ALLOCATION QUANTITIES

34. The provisions in clause 27 of Schedule 1, which apply equally to both the BlueScope Steel FFC MAA and JGN's operational gas MAA, set out:

- how MAQ are to be excluded from the operation of the STTM by trading participants and the STTM facility operator (clauses 27(1)-(3))
- the information that the STTM facility operator must provide AEMO to facilitate the matched allocation process and other general reporting obligations (clauses 27(4)-(5)).

[20] Clause 26(8) provides for AEMO to revoke the registration of an MAA at any time if a party to the registered MAA does not comply with a provision in clause 26 or AEMO determines the MAA no longer meets the MAA criteria specified in clause 26(3) of Schedule 1.

2.4 DIFFERENCES IN THE TREATMENT OF OPERATIONAL GAS ACROSS STTM HUBS

35. The matched allocation process can currently only be used for operational gas purchases in the Sydney STTM. The reason why policy makers decided not to extend these arrangements to the Adelaide and Brisbane STTMs has not been documented in any of the publicly available information that JGN has reviewed.[19] However, it would appear from JGN's understanding of how operational gas is dealt with in the South Australian and Queensland retail markets that the matched allocation process could not have been implemented in either the Adelaide or Brisbane STTMs without changes being made to the bespoke retail market procedures applying in these two jurisdictions (see Table 2–1 and Table 2–2).

Table 2–1: Treatment of operational gas in Adelaide STTM hub

Treatment of UAG governed by	South Australian Retail Market Procedures[21]
Responsibility for obtaining operational gas	The network operator (Envestra) is responsible for the purchase and physical supply of UAG each day. JGN understands through discussions with Envestra that it purchases UAG through a competitive tender process, with gas supplied by the successful tenderer after withdrawal from the STTM hub.
UAG definition	UAG is defined in the SA Retail Market Procedures as the daily difference between: • pipeline injections, being the total quantity of gas injected into the network; and • the sum of each network user's withdrawals (interval metered withdrawals and allocated and estimated basic metered withdrawals), being the total quantity of gas withdrawn from the network. The UAG for a day is calculated after the gas day and continues to be recalculated as new data comes to hand.
Could the matched allocation process be applied?	For the matched allocation process to be applied in the Adelaide STTM hub as it is in the Sydney STTM hub, the volume of UAG to be supplied into the network would have to be known in advance of each gas day to enable the STTM facility operator and AEMO to exclude this 'determinable' volume of gas from the operation of the STTM on that day. As the definition of UAG in the South Australian retail market procedures reveals, the quantity of UAG to be supplied by Envestra into the Adelaide STTM hub cannot be determined in advance because the actual injections and withdrawals are not known until after the gas day. It would not therefore be possible under these arrangements for Envestra to utilise the matched allocation process because it would be unable to nominate a determinable quantity of gas to be settled outside the STTM prior to the commencement of the gas day.

21 AEMO, Retail Market Procedures (South Australia), Version 6.

Table 2–2: Treatment of operational gas in Brisbane STTM hub

Treatment of UAG governed by	Queensland Retail Market Procedures[22]
Responsibility for obtaining operational gas	JGN understands that under the Queensland Retail Market Procedures, the host retailer in the Brisbane STTM hub is responsible for supplying UAG into the Brisbane STTM hub and a separate commercial arrangement is in place for the retailer to recover its costs from supplying UAG into the STTM hub from the network operators (Envestra and APA).
UAG definition	The term UAG is not defined in the Queensland Retail Market Procedures, but it is reflected in the volume of gas allocated to the host retailer, which is calculated as the difference between: • the total energy entering the network (i.e. the total quantity of gas injected into the network); and • all interval metered withdrawals and the profiled basic metered withdrawals of any users who are not the host retailer, being the total quantity of gas withdrawal from the network less the quantity of gas withdrawn by the host retailer.
Could the matched allocation process be applied?	In a similar manner to the Adelaide STTM hub, the treatment of UAG in the Brisbane STTM hub as the difference between the quantity of gas injected into and withdrawn from the network means that it is not possible for Envestra or APA to know in advance how much UAG to supply into the network. It would not therefore be possible under these arrangements for Envestra or APA to utilise the matched allocation process because they would be unable to nominate a determinable quantity of gas to be settled outside the STTM prior to the commencement of the gas day.

36. As the information in Table 2–1 and Table 2–2 highlights, there are some marked differences between the operational gas arrangements prevailing in the NSW retail market and those prevailing in the South Australian and Queensland retail markets. One of the more significant differences is that UAG allocations in the NSW and ACT retail market procedures are defined by nomination rather than by calculation after the gas day. The treatment of UAG in this manner under the NSW and ACT Retail Market Procedures means that JGN can nominate a determinable quantity of gas to be settled outside the STTM prior to the commencement of the gas day, which is a key requirement of the matched allocation process (cl. 26(3)(a) of Schedule 1).

37. In addition to these differences, JGN understands from its discussions with AEMO that at the time the STTM and transitional provisions in Schedule 1 were developed, the same participants that attended the working group forums for the Sydney STTM did not consider it necessary to implement the matched allocation process in the other STTMs. This point is reflected in the following advice that JGN received from AEMO:

> *'As no such arrangements existed at other hubs, MAAs were considered to be not required at the other hubs by the same participants as represented by the STTM industry working group and the Gas Market Leaders Group.*
>
> *Following the introduction of the STTM, no market participant has sought matched allocation arrangements for the Brisbane and Adelaide STTM hubs. As a result, AEMO has not assessed the suitability of matched allocation arrangements in these hubs.'*

38. In the course of these discussions, AEMO also confirmed that each STTM hub is governed by a different set of retail market procedures and that any decision to try and harmonise the retail market procedures and/or the operational gas arrangements across STTM hubs would be a policy decision that would need to be driven by market participants or governments.

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[22] AEMO, Retail Market Procedures (Queensland), Version 9.

3. STATEMENT OF ISSUES

39. Clause 26(9)(a) of Schedule 1 currently provides for JGN's registered operational gas MAA to automatically expire on 30 June 2015. While not explicitly stated in the rules, it would appear that once the registration expires, the transitional provisions in clauses 26 and 27 and the matched allocation process will cease to operate. The implications of this are explored in further detail in the remainder of this chapter.

3.1 WHAT WOULD OCCUR IF THE MATCHED ALLOCATION PROCESS EXPIRES?

40. If the matched allocation process expires, JGN will have to procure its operational gas requirements either directly from the STTM, or from an STTM user after withdrawal from the hub (herein referred to as gas procured 'through the STTM' or the 'STTM procurement option'). JGN will therefore have to pay a higher price for operational gas than it currently does under the matched allocation process. This is because JGN will be required to pay (either directly or indirectly if it purchases gas from another STTM user), the following STTM-related fees and charges:

- STTM market participation fees, which are currently recovered by AEMO through an activity fee ($/GJ withdrawn) and a fixed fee ($/day per hub per ABN).[23] Assuming an operational gas requirement of 2.2 PJ p.a.,[24] the participation fee in 2014-15 would ***add*** approximately **8.2-8.8 cents per GJ** to the cost of operational gas.[25] Over a five year period, this would equate to an additional impost on network users of **$0.90-$0.96 million.**
- Any costs associated with meeting AEMO's prudential requirements[26] for the STTM.
- Deviation and/or market schedule variation charges to the extent the operational gas requirements on a particular day deviate from the *ex-ante* schedule.
- Any other STTM-related administrative costs.

41. Additional costs will also be incurred by JGN to set up the systems and to make the other operational changes required to either directly or indirectly participate in the STTM.

42. JGN, and by extension network users and gas consumers, will also be exposed to more risks under the STTM procurement option because, as noted in the AEMC's 2013 Gas Market Scoping Study, there is currently no way of hedging against all of the risks associated with operating in the STTM.[27] The additional constraint that JGN would face when trying to mitigate its risk exposure is that it is prevented by the ring fencing provisions in sections 137 and 139 of the NGL from buying and selling gas, except to the extent it is necessary for the safe and reliable operation of the pipeline. Unlike other STTM participants, JGN could not therefore hedge against:

- price variability by becoming a seller in the market
- the cost of deviations by becoming a market operator service (MOS) provider.

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23 The activity fee in 2014-15 is $0.08203 per GJ of gas withdrawn while the fixed fee is $30 per day per hub per ABN. See AEMO, STTM Gas Final Budget and Fees: 2014-15, p. 6.

24 Between 2008-09 and 2012-13 the UAG level for JGN's network has ranged from 1.94-2.53 PJ p.a. and the average was 2.2 PJ p.a.. See JGN, 2015-20 AAI - Appendix 7.5 UAG methodology and justification, p. 5.

25 The difference between these estimates just reflects the inclusion of the fixed fee.

26 AEMO's STTM Industry Guide currently suggests that credit support of approximately 2.55 times the trading participant's maximum monthly exposure should be adopted. See AEMO, Industry Guide to the STTM, 2013, p. 58.

27 KLC, Gas Market Scoping Study, July 2013, p. xiv.

43. Another important point of distinction between JGN and other STTM participants that should be borne in mind when considering this procurement option it that operational gas is required for the safe and reliable operation of the pipeline. JGN is not therefore in a position to respond to the daily price signals provided by the STTM in the same manner as other STTM participants (i.e. by disconnecting or curtailing demand), because it would place the integrity of the pipeline at risk. Requiring JGN to procure its gas through the STTM would *not* therefore give rise to any allocative efficiency or other benefits.

AEMC Note: paragraphs 44-46 of the published version of Jemena's rule change request has been omitted on the basis that the information contained in those paragraphs is commercial in confidence.

3.2 OTHER CONSEQUENCES

47. Apart from the direct effects outlined above, if the matched allocation process expires, revisions will need to be made to the NSW and ACT Retail Market Procedures to remove the matched allocation provisions currently included in those procedures, and to ensure that any consequent changes are also made to the procedures. The IT and other systems that APA, AEMO and JGN have developed to give effect to the matched allocation process will also need to be mothballed, which will impose further costs on these parties.

3.3 HOW WILL THE PROPOSED RULE CHANGE ADDRESS THE IDENTIFIED ISSUES?

48. It follows from the discussion set out above that if the matched allocation process expires on 30 June 2015, then JGN's customers in the Sydney STTM will be worse off because the costs and risks of acquiring operational gas through the STTM will be higher. Further, there will be no offsetting efficiencies or other benefits to counter the price increase. It is for this reason that JGN is proposing that the NGR be amended to enable the matched allocation process to continue to operate in the Sydney STTM post 30 June 2015. The changes to the rules that would be required to give effect to this proposal are set out in the following chapter.

4. PROPOSED RULE

49. To enable JGN's customers in the Sydney STTM to continue to benefit from the lower cost and risk procurement option provided by the matched allocation process, JGN requests that the AEMC convert the operational gas-related matched allocation provisions in clauses 26 and 27 and the definitions section of Schedule 1 into permanent rules by moving them into Part 20 of the NGR.

50. The specific provisions that would need to be moved into Part 20 of the NGR are:

- clauses 26(1)(a), 26(2)(a) and (d), 26(3)(a)-(b), 26(4), 26(5), 26(6), 26(8) and 26(9)(a)
- clauses 27(1)-(5)
- the definitions of 'Jemena', 'matched allocation quantity' and 'registered matched allocation agreement' in the definitions section of Schedule 1 (clause 13).

51. The form of the proposed draft rule is set out below. Appendix A contains a tracked changes version of the proposed rule change and some explanatory notes for the drafting changes.

The following definitions are proposed to be relocated from clause 13 of Schedule 1 into rule 364 (which contains the defined terms for Part 20):

Jemena means Jemena Gas Networks (NSW) Limited (ABN 87 003 004 322) or its successor as the STTM distributor for the STTM distribution system at the Sydney hub.

matched allocation quantity means a quantity of natural gas allocated in respect of a gas day in accordance with a registered matched allocation agreement:

(a) to a contract holder for a facility service for the delivery of natural gas to the Sydney hub, being a quantity that is matched with an equal quantity allocated to:

(i) a contract holder for a distribution service for the withdrawal of gas from the Sydney hub; or

(ii) the STTM distributor for the Sydney hub; or

(b) to:

(i) a contract holder for a distribution service for the withdrawal of natural gas from the Sydney hub; or

(ii) the STTM distributor for the Sydney hub,

being a quantity that is matched with an equal quantity allocated to a contract holder for a facility service for the delivery of natural gas to the Sydney hub.

Note

To the extent that a quantity of natural gas is supplied to or withdrawn from a hub for the purposes of a registered matched allocation agreement, but is not matched as indicated in this definition, it will not be a matched allocation quantity and must therefore be supplied through the STTM.

registered matched allocation agreement means a matched allocation agreement that is registered by AEMO in accordance with rule 500A(4), and which has not expired or been revoked by AEMO.

In addition to the above, the following new definition is proposed to be inserted into rule 364 (it adopts wording from clause 26(1)(a) of Schedule 1):

matched allocation agreement means an agreement between Jemena, one or more STTM pipeline operators and one or more STTM Shippers providing for the matched allocation of quantities of natural gas purchased by Jemena to meet the operational requirements for its STTM distribution system at the Sydney hub.

A new Division 14 is proposed to be inserted into Part 20, after rule 500:

Division 14 Matched allocations for the Sydney hub

500A Matched allocation agreements

(1) In respect of any matched allocation agreement that the parties wish to be registered under this rule, Jemena must give to AEMO a copy of the matched allocation agreement as soon as practicable after that agreement is entered into.

(2) If required by AEMO, any party to a matched allocation agreement given to AEMO under subrule (1) must give to AEMO any additional information AEMO reasonably requires to satisfy itself that:

(a) the matched allocation agreement provides for an agreed or determinable quantity of natural gas withdrawn from the Sydney hub to be exactly matched with a quantity allocated to one or more facility services, without applying the allocation methodology that is generally applicable to the relevant STTM pipeline or STTM distribution system; and

(b) any quantity that is:

(i) withdrawn from the Sydney hub for the purposes of the agreement in excess of the quantity allocated under paragraph (a); or

(ii) supplied to the Sydney hub for the purposes of the agreement in excess of the quantity withdrawn under that agreement,

will be allocated to relevant trading rights of the parties in accordance with Division 7, and will not materially affect the allocation of quantities to other Trading Participants.

(3) A registered matched allocation agreement must not be amended or its term extended (whether or not that extension is contemplated in the agreement) without the prior approval of AEMO.

Note

This subrule is classified as a conduct provision under the National Gas (South Australia) Regulations. See clause 7 and Schedule 4 of the National Gas (South Australia) Regulations.

(4) If AEMO is satisfied that:

(a) a matched allocation agreement given to it under subrule (1); or

(b) a proposed amendment or extension of a registered matched allocation agreement,

meets the requirements in subrules (2)(a) and (b), AEMO must register the matched allocation agreement, or approve the amendment or extension, as applicable.

Note

A quantity of natural gas supplied or withdrawn from a hub cannot be treated as a matched allocation quantity unless the matched allocation agreement is registered by AEMO.

(5) For the purpose of section 91BRD of the NGL, Jemena is exempted from registration under Part 15A in respect of its withdrawal of matched allocation quantities under a registered matched allocation agreement.

(6) AEMO may revoke the registration of a registered matched allocation agreement if at any time:

(a) a party to that registered matched allocation agreement does not comply with a provision of this rule; or

(b) AEMO determines that the registered matched allocation agreement no longer meets the requirements of subrules (2)(a) or (b).

(7) If a registered matched allocation agreement is terminated in accordance with its terms, the registration of that agreement expires automatically.

500B Exclusion of matched allocation quantities

(1) Despite anything in rule 406, a Trading Participant is not required to include an expected matched allocation quantity in any ex ante offer, ex ante bid or price taker bid.

(2) An STTM facility operator must exclude from a quantity notified to AEMO under rule 414(1) for a gas day, any matched allocation quantity that the STTM facility operator expects to be supplied to the Sydney hub using the STTM facility on that gas day.

(3) An STTM pipeline operator that is a party to a registered matched allocation agreement must ensure that the allocation agent does not include any matched allocation quantity in an STTM facility allocation for the relevant STTM pipeline.

(4) If requested by AEMO, an STTM facility operator must provide a report to AEMO of the matched allocation quantities used under subrule (2) on a gas day or range of gas days.

(5) Within 30 business days after the end of each calendar quarter, each allocation agent referred to in subrule (3) must provide a report to AEMO of the matched allocation quantities determined for the relevant STTM pipeline on each gas day during that quarter.

Finally, in Schedule 1, Part 3, JGN proposes replacing clause 26 with the following, and deleting clause 27:

26 Matched allocation agreements

Any matched allocation agreement that:

(a) has been registered by AEMO on or after the STTM commencement date, but prior to the commencement of rule 500A; and

(b) has not expired or been revoked by AEMO prior to the commencement of rule 500A,

is deemed to have been registered by AEMO under rule 500A.

5. CONSISTENCY WITH THE NGO AND OTHER IMPLICATIONS OF THE PROPOSED RULE CHANGE

53. In keeping with the requirements set out in clause 13 of the Regulations, JGN has carefully examined:

- whether the proposed rule will, or is likely to, contribute to the achievement of the NGO
- the expected costs and benefits of the proposed rule change
- the potential impacts the proposed rule change may have on affected parties.

54. The results of this examination are set out in the remainder of this chapter, which commences with an overview of the feedback that JGN has received from interested parties on the proposed rule change.

5.1 FEEDBACK FROM INTERESTED PARTIES

55. In the course of developing this proposed rule change, JGN has consulted with a number of interested parties, including AEMO, APA and all of the network users taking supply in the Sydney STTM hub. Through this consultation process, JGN received the following feedback:

- AEMO has advised that it will not object to the proposed rule change.
- APA has stated that while it would prefer there was some degree of consistency across the STTMs, the continuation of the matched allocation process will *not* impose a significant burden on it because it already has the systems set up to facilitate the process. APA has therefore advised that it will not object to the proposed rule change if it allows JGN to minimise gas procurement costs.
- One network user indicated it will actively support the proposed rule change and, in doing so, made the following observations about the proposal:

  '…the Matched Allocation process makes eminent sense as there is little to be gained in terms of economic efficiency or meaningful price signals by subjecting UAG to ex ante prices and to deviations that arise out of the STTM, which would be the case if Jemena were to buy this as spot gas out of the hub. We also appreciate that there is material benefit in UAG being purchased with price certainty by the network operator so that the access arrangement process around this component is not any more complex than it needs to be. This benefit stemming from price certainty would accrue to both the network operator and to the network user.'

  '…gas for UAG should have as much price certainty as possible and subjecting UAG to the vagaries of STTM pricing do not provide any meaningful signals.'

- No objections were received from any other network users operating in the Sydney STTM.

5.2 CONSISTENCY OF THE PROPOSED RULE CHANGE WITH THE NGO

56. JGN understands that the AEMC can only make a rule if it satisfied that the rule will, or is likely to, contribute to the achievement of the NGO. JGN has therefore considered whether the proposed rule change is likely to promote this objective. In doing so, JGN has assumed the relevant counterfactual for the assessment is that it would have to purchase its operational gas requirements either directly from the STTM or from an STTM user after withdrawal from the hub (the STTM procurement option).

57. As noted in section 3.1, if JGN is required to purchase operational gas through the STTM then it will be required to pay a number of STTM related fees and charges and will also incur STTM system set up costs and ongoing operational costs to participate in the STTM. JGN will also be exposed to a number of risks to which it would be unable to directly hedge its exposure.

58. In its capacity as network service provider, it is difficult for JGN to determine with any degree of precision how much these costs and risks would add to the cost of operational gas. However, on their own the STTM market participation fees would add **8.2-8.8 cents per GJ** to the price of this gas, which equates to an additional impost on network users of **$0.90-$0.96 million** over a five year period. If all the other costs and risks associated with the STTM were taken into account, the incremental costs of purchasing gas via the STTM would be *considerably* higher.

59. While JGN recognises that other STTM participants are exposed to similar types of costs and risks, what distinguishes JGN from others in the market is that operational gas is required for the safe and reliable operation of the pipeline. JGN's demand for operational gas does ***not*** therefore exhibit any of the characteristics of a controllable load, such as being able to be disconnected, curtailed or to otherwise respond to price signals, because actions of this type would put the integrity of the pipeline at risk. It follows that there are no additional allocative efficiency or other benefits to be derived from pricing operational gas using daily price signals, which would offset the higher costs and risks associated with the STTM.[28]

60. Requiring JGN to pay a higher price for gas purchased through the STTM will therefore simply result in higher network tariffs, which will, in turn, adversely affect both:

- the efficient utilisation of the network and natural gas services, more generally, because network users are likely to respond to the higher tariffs by reducing their demand for gas
- the long term interests of consumers, because:
  - the volume of gas and transportation services procured by consumers will be lower than the efficient level (i.e. resulting in allocative inefficiency)
  - over time the reduced utilisation of the network will give rise to even higher network tariffs as the fixed costs of operating the network will be recovered from a smaller customer base (i.e. resulting in dynamic inefficiency).

61. If, rather than having to purchase its operational gas through the STTM, JGN was able to continue to use the matched allocation process, it would be able to avoid the STTM related costs and risks by purchasing its operational gas requirements prior to the entry point of the STTM, as it does at present. It would therefore be able to avoid the deleterious effects that the STTM procurement option would otherwise have on the efficient utilisation of the network and, more importantly, the long term interests of consumers of natural gas. When viewed in this way, it is clear that the proposed rule change will contribute to the achievement of the NGO and, in particular, the 'efficient…use of, natural gas services for the long term interests of consumers of natural gas with respect to price' element of this objective.[29]

[28] Further support for this view can be found in the following statement made by a network user in response to JGN's consultation process:

'…there is little to be gained in terms of economic efficiency or meaningful price signals by subjecting UAG to ex ante prices and to deviations that arise out of the STTM.'

[29] The efficient investment in and efficient operation of elements of the NGO are less relevant in this case because the costs of operational gas are passed straight through to network users, so any change in the costs should not affect JGN's investment in, or operation of, the network.

5.3 EXPECTED BENEFITS AND COSTS OF THE PROPOSED RULE CHANGE

62. The primary benefit of the proposed rule change is that the cost and risk of procuring operational gas will be lower than what it would otherwise be if JGN had to purchase gas through the STTM. Because of the cost pass-through nature of operational gas costs, this benefit will be passed directly through to retailers and other network users in the Sydney STTM in the form of lower network tariffs. If it is assumed that competition in the market in which retailers and network users compete is effective,[30] then these benefits can be expected to flow through to retail customers and customers in other downstream markets.

63. In terms of the costs associated with the proposed rule change, it is worth noting that JGN, APA and AEMO have already set up the systems that are required to give effect to the matched allocation process and that no additional systems related costs are expected to be incurred. JGN does *not* therefore expect the proposed rule change to give rise to a material increase in costs for affected parties.

64. Conversely, if the matched allocation process is allowed to expire then the systems JGN, APA and AEMO have set up will need to be mothballed. Apart from imposing costs on the various parties, mothballing these systems will result in a write down of what are otherwise productive and effective IT systems. An additional benefit of the proposed rule change is therefore the ability to avoid the costs and inefficiencies associated with mothballing these assets. A further benefit of the proposed rule change is that no changes will need to be made to the NSW and ACT Retail Market Procedures, so the costs that AEMO and other interested parties would otherwise incur through the consultation process will be avoided if the proposed rule change is made.

5.4 POTENTIAL IMPACTS ON AFFECTED PARTIES

65. For the reasons set out in sections 5.2 and 5.3, JGN expects the proposed rule change to have a positive impact on JGN's network users, retail gas customers and customers in other downstream markets because the cost of operational gas will be lower than it would otherwise be if gas is purchased through the STTM (as will occur if this rule change is not made).

66. For other potentially affected parties, the impact will depend on whether the effects are measured relative to:

- the existing arrangements (i.e. with the matched allocation process in place)—when measured on this basis the continuation of the matched allocation process is expected to have no effect on JGN, AEMO, APA or STTM participants; or
- the counterfactual of JGN purchasing gas through the STTM—when measured on this basis the rule change proposal is expected to have:
  - a positive impact on JGN and by extension, network users and consumers, because JGN would not be subject to the same degree of risk that it would be under the STTM and it would avoid STTM related system set up costs and any other operational costs required to participate in the STTM
  - a positive impact on AEMO and other retail market participants because they will be able to avoid the costs that would otherwise be incurred if changes had to be made to the NSW and ACT Retail Market Procedures
  - a slightly negative impact on APA and AEMO because of the additional processes and reporting obligations associated with the matched allocation process that would not be required if JGN purchased gas through the STTM

[30] See for example, AEMC, Final Report: Review of Competition in the Retail Electricity and Natural Gas Markets in NSW, 3 October 2013 p. vi.

- an indeterminable impact on STTM participants because it is unclear precisely what effect the addition of JGN's operational gas requirements into the STTM would have on market prices or volatility if it was required to purchase gas through the STTM.

67. In relation to the latter two sub-points, it is worth reiterating that:

- APA and AEMO have stated that they will not object to the proposed rule change; and
- one network user has stated it will actively support the rule change while other network users have raised no objections to the proposed rule change.

68. The position taken by these affected parties suggests that they expect the positive impacts of the proposed rule change to outweigh any negative impacts.

5.5 OTHER OBSERVATIONS ON THE PROPOSED RULE CHANGE

69. Some other general observations that JGN thinks the AEMC should bear in mind when considering the proposed rule change are set out below:

- The continuation of the matched allocation process will have no effect on the operation of the STTM or STTM participants. The same cannot necessarily be said though of any requirement that JGN purchase its gas through the STTM given both:
  - the scale of JGN's operational gas requirements (~2.2% of demand or average 2.2 PJ p.a.)[31] and the fact that the demand for operational gas tends to be highly correlated with the demand for gas by network users (i.e. JGN's demand for operational gas in the Sydney STTM will add to the peak)
  - the nature of JGN's demand for operational gas, which is highly inelastic (i.e. it is relatively insensitive to price changes) because it is required for the safe and reliable operation of the pipeline.
- If the matched allocation process is allowed to continue beyond 30 June 2015, no changes to the NSW and ACT Retail Market Procedures will be required. Some revisions to these procedures will, however, be required if the matched allocation option is no longer available and JGN is required to purchase gas traded through the STTM.
- Even if the matched allocation process is allowed to continue, JGN will not be precluded from using the STTM to procure its operational gas if it at any point in future it becomes more efficient to do so (i.e. if it became a cheaper or lower risk option).

70. Finally, it is worth noting that while harmonisation across the three STTMs may be considered an important objective, requiring JGN to purchase its operational gas once the gas has been traded through the STTM would not, on its own, be sufficient to achieve this objective. Harmonisation will instead, require fundamental changes to be made to both the retail market procedures in each jurisdiction and the way in which operational gas is dealt with in each market. As AEMO has indicated in its discussions with JGN, a change of this scale will need to be driven by market participants or governments.

[31] JGN, 2015-20 AAI - Appendix 7.5 UAG methodology and justification, p. 5.

Appendix A
Tracked Change Version of Proposed Rule Change

A1. TRACKED CHANGE VERSION OF PROPOSED RULE CHANGE

71. A tracked change version of JGN's proposed rule change is set out below.

[1] **Rule 364 Definitions**

In rule 364 insert the following definition:

Jemena means Jemena Gas Networks (NSW) Limited (ABN 87 003 004 322) or its successor as the STTM distributor for the STTM distribution system at the Sydney hub.

Explanation: *this definition is proposed to be relocated from clause 13, Schedule 1 NGR into rule 364, which contains the defined terms for Part 20. No changes are proposed to the wording.*

[2] **Rule 364 Definitions**

In rule 364 insert the following definition:

matched allocation quantity means a quantity of natural gas allocated in respect of a gas day in accordance with a registered matched allocation agreement: ~~under clause 26:~~

(c) to a contract holder for a facility service for the delivery of natural gas to the Sydney hub, being a quantity that is matched with an equal quantity allocated to:

(iii) a contract holder for a distribution service for the withdrawal of gas from the Sydney hub; or

(iv) the STTM distributor for the Sydney hub; or

(d) to:

(iii) a contract holder for a distribution service for the withdrawal of natural gas from the Sydney hub; or

(iv) the STTM distributor for the Sydney hub,

being a quantity that is matched with an equal quantity allocated to a contract holder for a facility service for the delivery of natural gas to the Sydney hub.

Note

To the extent that a quantity of natural gas is supplied to or withdrawn from a hub for the purposes of a registered matched allocation agreement, but is not matched as indicated in this definition, it will not be a matched allocation quantity and must therefore be supplied through the STTM.

Explanation: *this definition is proposed to be relocated from clause 13, Schedule 1 NGR into rule 364. JGN proposed only one minor change.*

[3] **Rule 364 Definitions**

In rule 364 insert the following definition:

matched allocation agreement means an agreement between Jemena, one or more STTM pipeline operators and one or more STTM Shippers providing for the matched allocation of quantities of natural gas purchased by Jemena to meet the operational requirements for its STTM distribution system at the Sydney hub.

Explanation: *this is a new definition, using wording relocated from clause 26(1)(a) of Schedule 1 (without amendment). For reasons previously noted, clause 26(1)(b) is no longer applicable, and therefore JGN has not included a second limb in this definition.*

[4] **Rule 364 Definitions**

In rule 364 insert the following definition:

registered matched allocation agreement means a matched allocation agreement that is registered by AEMO in accordance with rule 500A(4), and which has not expired or been revoked by AEMO ~~described in clause 26 that is registered by AEMO under that clause~~.

Explanation: *this definition is proposed to be relocated from clause 13, Schedule 1 NGR. JGN proposes some minor changes to link this definition to relevant provisions in the new rule 500A, which will govern the registration of MAAs, as well as containing a subrule dealing with the expiry of these agreements.*

Note: JGN also proposes that clause 26 will become a transitional provision, to deem MAAs in place at the commencement of Division 14, Part 20 to have been registered in accordance with rule 500A(4).

[5] **Rule 500 Time limits**

After rule 500 insert:

Division 14 Matched allocations for the Sydney hub

500A Matched allocation agreements

~~(1) The following are matched allocation agreements for the purposes of this Part:~~

~~(a) an agreement between Jemena, one or more STTM pipeline operators and one or more STTM Shippers providing for the matched allocation of quantities of natural gas purchased by Jemena to meet the operational requirements for its STTM distribution system at the Sydney hub; and~~

~~(b) an agreement between:~~

~~(i) Jemena; and~~

~~(ii) Jemena Eastern Gas Pipeline (1) Pty Ltd and Jemena Eastern Gas Pipeline (2) Pty Ltd, as the STTM pipeline operator for the Eastern Gas Pipeline; and~~

~~(iii) one or more STTM Shippers; and~~

~~(iv) BlueScope Steel Limited (ABN 16 000 011 058) or any of its subsidiaries (**BlueScope Steel**),~~

~~for the matched allocation of quantities of natural gas delivered to the Sydney hub and supplied under a feedback flow control arrangement to the Port Kembla Steelworks, the Springhill Works and the CRM Works operated by BlueScope Steel in Port Kembla, New South Wales.~~

Explanation: *as noted above, JGN proposes inclusion of a new definition of 'matched allocation agreement', and has relocated text from clause 26(1)(a) into that definition, with clause 26(1)(b) no longer required for reasons previously noted.*

~~(2)~~(1) In respect of any matched allocation agreement that the parties wish to be registered under this ~~clause~~ rule, Jemena must give to AEMO:

~~(a)~~ a copy of the matched allocation agreement ~~; and~~

~~(b) for an agreement under subclause (1)(b) any matched allocation agreement to which BlueScope Steel is a party, details of the quantity of natural gas allocated in accordance with the arrangements contemplated in that agreement for each gas day in a period of not less than 12 months starting on a date no earlier than 1 January 2003 and ending on the latest day for which that allocation information is available,~~

as soon as practicable after that agreement is entered into.~~at the following times:~~

~~(c) for an agreement entered into before the effective date, no later than 20 business days before the STTM commencement date; or~~

~~(d) for an agreement under subclause (1)(a) that is entered into after the effective date, as soon as practicable after that agreement is entered into.~~

Explanation: *the subrule above is taken from the former clause 26(2) Schedule 1, with subclause (2)(b) removed. JGN proposes that MAAs registered prior to the commencement of this rule will be addressed through a transitional provision, so (c) and (d) can be substantially simplified.*

~~(3)~~(2) If required by AEMO, any party to a matched allocation agreement given to AEMO under ~~subclause~~ subrule ~~(2)~~ (1) must give to AEMO any additional information AEMO reasonably requires to satisfy itself that:

(c) the matched allocation agreement provides for an agreed or determinable quantity of natural gas withdrawn from the Sydney hub to be exactly matched with a quantity allocated to one or more facility services, without applying the allocation methodology that is generally applicable to the relevant STTM pipeline or STTM distribution system; and

(d) any quantity that is:

(iii) withdrawn from the Sydney hub for the purposes of the agreement in excess of the quantity allocated under paragraph (a); or

(iv) supplied to the Sydney hub for the purposes of the agreement in excess of the quantity withdrawn under that agreement,

will be allocated to relevant trading rights of the parties in accordance with Division 7, and will not materially affect the allocation of quantities to other Trading Participants.~~; and~~

~~(e) for an agreement under subclause (1)(b), the maximum quantity of natural gas that can be allocated in respect of a gas day under that agreement does not exceed the highest quantity of natural gas allocated on any gas day in the period in respect of which details were provided under subclause (2)(b).~~

***Explanation:** the above subrule is taken from clause 26(3) Sch 1. JGN has deleted (c), as it relates to the BlueScope arrangement that is no longer required.*

~~(4)~~(3) A registered matched allocation agreement must not be amended or its term extended (whether or not that extension is contemplated in the agreement) without the prior approval of AEMO.

Note

This subrule is classified as a conduct provision under the National Gas (South Australia) Regulations. See clause 7 and Schedule 4 of the National Gas (South Australia) Regulations.

***Explanation:** the above subrule is clause 26(4) Sch 1, which JGN proposes is relocated without amendment.*

~~(5)~~(4) If AEMO is satisfied that:

(c) a matched allocation agreement given to it under ~~subclause (2)~~ subrule (1); or

(d) a proposed amendment or extension of a registered matched allocation agreement,

meets the requirements in ~~subclause (3)~~ subrules (2)(a) and (b), AEMO must register the matched allocation agreement, or approve the amendment or extension, as applicable.

Note

A quantity of natural gas supplied or withdrawn from a hub cannot be treated as a matched allocation quantity unless the matched allocation agreement is registered by AEMO.

Explanation: *the above subrule largely replicates clause 26(5) of Sch 1. Note that JGN proposes referencing subrules (2)(a) and (b), rather than simply referring to subrule (2), because of the drafting of subrule (2), which begins with a right for AEMO to request more information, before specifying the requirements relevant to AEMO's registration decision in (a) and (b).*

~~(6)~~(5) For the purpose of section 91BRD of the NGL, Jemena is exempted from registration under Part 15A in respect of its withdrawal of matched allocation quantities under a registered matched allocation agreement ~~described in subclause (1)(a)~~.

Explanation: *the above subrule largely replicates clause 26(6) of Sch 1, with a minor drafting change to recognised that registered matched allocation agreement is a defined term.*

~~(7) If:~~

~~(a) BlueScope Steel submits an ex ante bid or price taker bid for a gas day in respect of a quantity of natural gas intended for consumption at the Port Kembla Steelworks, the Springhill Works or the CRM Works; and~~

~~(b) the matched allocation quantity for that gas day is less than the maximum quantity permitted under the registered matched allocation agreement,~~

~~BlueScope Steel must notify AEMO as soon as practicable.~~

Explanation: *clause 26(7) of Sch 1 relates to the BlueScope arrangement, and accordingly is not required.*

~~(8)~~(6) AEMO may revoke the registration of a registered matched allocation agreement if at any time:

~~(a) it receives a notice under subclause (7); or~~

(a)~~(b)~~ a party to that registered matched allocation agreement does not comply with a provision of this ~~clause~~ rule; or

(b)~~(c)~~ AEMO determines that the registered matched allocation agreement no longer meets the requirements of ~~subclause(3)~~ subrules (2)(a) or (b)

Explanation: *this subrule largely replicates clause 26(8) Sch 1. (a) has been deleted, because in refers to subclause (7), which as noted immediately above is not required.*

JGN also proposes referencing subrules (2)(a) and (b), rather than simply referring to subrule (2), because of the drafting of subrule (2) (formerly clause 26(3)), which begins with a right for AEMO to request more information, before specifying the requirements relevant to AEMO's registration decision in (a) and (b).

~~(9)~~(7) If a registered matched allocation agreement is terminated in accordance with its terms, ~~T~~the registration of that ~~a matched allocation~~ agreement expires automatically.~~:~~

(a) ~~for an agreement under subclause (1)(a) – on 30 June 2015; or~~

(b) ~~for an agreement under subclause (1)(b) – on 31 August 2015 or on the last day of any extended period determined by AEMO under subclause (10).~~

***Explanation:** the above subrule incorporates wording from clause 26(9) of Sch 1, and is intended to operate so that if a registered MAA terminates by operation of that agreement, its registration will automatically expire.*

~~(10) Before:~~

~~(a) 31 August 2014; and~~

~~(b) the date that is one year before the expiry of any extended period previously determined under this subclause,~~

~~the parties to a registered matched allocation agreement specified in subclause (1)(b) may apply to AEMO to extend the period of registration of that agreement.~~

~~(11) The application must be made by all parties to the registered matched allocation agreement and must:~~

~~(a) specify the period of the proposed extension sought and the reasons for the extension; and~~

~~(b) address the matters to be considered by AEMO under subclause (12)(c); and~~

~~(c) include a description of any proposed amendments to the matched allocation agreement that will apply during the period of the proposed extension; and~~

~~(d) be accompanied by a copy of the matched allocation agreement that will apply (or is proposed to apply) during the period of the proposed extension; and~~

~~(e) specify any parts of the application that the parties consider to be confidential, with reasons.~~

~~(12) AEMO must:~~

~~(a) publish an application under subclause (10), other than confidential information included in that application;~~

~~(b) determine, in accordance with the standard consultative procedure, whether and on what conditions (if any) to extend the period of registration; and~~

~~(c) in making the determination, take into account:~~

~~(i) whether the requirements of subclause (3) will continue to be met; and~~

~~(ii) whether the operational requirements of the parties could be met through the STTM; and~~

~~(v) the operation of the arrangements under the matched allocation agreement over the previous period and their impact on other Trading Participants; and~~

~~(vi) the likely impact of the continued registration of the agreement on the STTM and other Trading Participants; and~~

~~(vii) any other matter which AEMO has determined to be relevant, in accordance with the standard consultative procedure, 30 business days before the date on which the application under clause (10) is due.~~

Explanation: *the above provisions relate to the BlueScope arrangement, and therefore are not required to be included in proposed rule 500A.*

500B Exclusion of matched allocation quantities

(6) Despite anything in rule 406, a Trading Participant is not required to include an expected matched allocation quantity in any ex ante offer, ex ante bid or price taker bid.

(7) An STTM facility operator must exclude from a quantity notified to AEMO under rule 414(1) for a gas day, any matched allocation quantity that the STTM facility operator expects to be supplied to the Sydney hub using the STTM facility on that gas day.

(8) An STTM pipeline operator that is a party to a registered matched allocation agreement must ensure that the allocation agent does not include any matched allocation quantity in an STTM facility allocation for the relevant STTM pipeline.

(9) If requested by AEMO, an STTM facility operator must provide a report to AEMO of the matched allocation quantities used under ~~subclause~~ subrule (2) on a gas day or range of gas days.

(10) Within 30 business days after the end of each calendar quarter, each allocation agent referred to in ~~subclause~~ subrule (3) must provide a report to AEMO of the matched allocation quantities determined for the relevant STTM pipeline on each gas day during that quarter.

Explanation: *the above provisions replicates clause 27 of Sch 1, without amendment (other than changing "subclause" references to "subrules".*

[7] **Schedule 1 Transitional Provisions**

In Schedule 1, Part 3, omit rule 26 and substitute:

26 Matched allocation agreements

Any matched allocation agreement that:

(c) has been registered by AEMO on or after the STTM commencement date, but prior to the commencement of rule 500A; and

(d) has not expired or been revoked by AEMO prior to the commencement of rule 500A,

is deemed to have been registered by AEMO under rule 500A.

Explanation: *the above provision is intended to preserve the one MAA currently in place.*

~~(1) The following are matched allocation agreements for the purposes of this Part:~~
~~(a) an agreement between Jemena, one or more STTM pipeline operators and one or more STTM Shippers providing for the matched allocation of quantities of natural gas~~

~~purchased by Jemena to meet the operational requirements of its STTM distribution system at the Sydney hub; and~~

~~(b) an agreement between:~~

~~(i) Jemena; and~~

~~(ii) Jemena Eastern Gas Pipeline (1) Pty Ltd and Jemena Eastern Gas Pipeline (2) Pty Ltd, as the STTM pipeline operator for the Eastern Gas Pipeline; and~~

~~(iii) one or more STTM Shippers; and~~

~~(iv) BlueScope Steel Limited (ABN 16 000 011 058) or any of its subsidiaries (BlueScope Steel),~~

~~for the matched allocation of quantities of natural gas delivered to the Sydney hub and supplied under a feedback flow control arrangement to the Port Kembla Steelworks, the Springhill Works and the CRM Works operated by BlueScope Steel in Port Kembla, New South Wales.~~

~~(2) In respect of any matched allocation agreement that the parties wish to be registered under this clause, Jemena must give to AEMO:~~

~~(a) a copy of the matched allocation agreement; and~~

~~(b) for an agreement under subclause (b), details of the quantity of natural gas allocated in accordance with the arrangements contemplated in that agreement for each gas day in a period of not less than 12 months starting on a date no earlier than 1 January 2003 and ending on the latest day for which that allocation information is available,~~

~~at the following times:~~

~~(c) for an agreement entered into before the effective date, no later than 20 business days before the STTM commencement date.; or~~

~~(d) for an agreement under subclause (1)(a) that is entered into after the effective date, as soon as practicable after that agreement is entered into.~~

~~(3) If required by AEMO, any party to a matched allocation agreement given to AEMO under subclause (2) must give to AEMO any additional information AEMO reasonably requires to satisfy itself that:~~

~~(a) the matched allocation agreement provides for an agreed or determinable quantity of natural gas withdrawn from the Sydney hub to be exactly matched with a quantity allocated to one or more facility services, without applying the allocation methodology that is generally applicable to the relevant STTM pipeline or STTM distribution system; and~~

~~(b) any quantity that is:~~

~~(i) withdrawn from the Sydney hub for the purposes of the agreement in excess of the quantity allocated under paragraph (a); or~~

~~(ii) supplied to the Sydney hub for the purposes of the agreement in excess of the quantity withdrawn under that agreement,~~

~~will be allocated to relevant trading rights of the parties in accordance with Division 7, and will not materially affect the allocation of quantities to other Trading Participants; and~~

~~(c) for an agreement under subclause (1)(b), the maximum quantity of natural gas that can be allocated in respect of a gas day under that agreement does not exceed the highest quantity of natural gas allocated on any gas day in the period in respect of which details were provided under subclause (2)(b).~~

~~(4) A registered matched allocation agreement must not be amended or its term extended (whether or not that extension is contemplated in the agreement), without the prior approval of AEMO.~~

~~Note:~~

~~This subrule is classified as a conduct provision under the National Gas (South Australia) Regulations. See clause 7 and Schedule 4 of the National Gas (South Australia) Regulations.~~

~~(5) If AEMO is satisfied that:~~

~~(a) a matched allocation agreement given to it under subclause (2); or~~

~~(b) a proposed amendment or extension of a matched allocation agreement,~~

~~meets the requirements in subclause (3), AEMO must register the matched allocation agreement, or approve the amendment or extension, as applicable.~~

~~Note~~

~~A quantity of natural gas supplied to or withdrawn from a hub cannot be treated as a matched allocation quantity unless the matched allocation agreement is registered by AEMO.~~

~~(6) For the purpose of section 91BRD of the NGL, Jemena is exempted from registration under Part 15A in respect of its withdrawal of matched allocation quantities under an agreement described in subclause (1)(a).~~

~~(7) If:~~

~~(a) BlueScope Steel submits an ex ante bid or price taker bid for a gas day in respect of a quantity of natural gas intended for consumption at the Port Kembla Steelworks, the Springhill Works or the CRM Works; and~~

~~(b) the matched allocation quantity for that gas day is less than the maximum quantity permitted under the registered matched allocation agreement,~~

~~BlueScope Steel must notify AEMO as soon as practicable.~~

~~Note:~~

~~This subrule is classified as a conduct provision under the National Gas (South Australia) Regulations. See clause 7 and Schedule 4 of the National Gas (South Australia) Regulations.~~

~~(8) AEMO may revoke the registration of a registered matched allocation agreement if at any time:~~

~~(a) it receives a notice under subclause (7); or~~

~~(b) a party to that registered matched allocation agreement does not comply with a provision of this clause; or~~

~~(c) AEMO determines that the matched allocation agreement no longer meets the requirements of subclause (3).~~

~~(9) The registration of a matched allocation agreement expires automatically:~~

~~(a) for an agreement under subclause (1)(a) – on 30 June 2015; or~~

~~(b) for an agreement under subclause (1)(b) – on 31 August 2015 or on the last day of any extended period determined by AEMO under subclause (10).~~

~~(10) Before:~~

~~(a) 31 August 2014; and~~

~~(b) the date that is one year before the expiry of any extended period previously determined under this subclause, the parties to a registered matched allocation agreement specified in subclause (1)(b) may apply to AEMO to extend the period of registration of that agreement.~~

~~(11) The application must be made by all parties to the registered matched allocation agreement and must:~~

~~(a) specify the period of the proposed extension sought and the reasons for the extension; and~~

~~(b) address the matters to be considered by AEMO under subclause (12)(c); and~~

~~(c) include a description of any proposed amendments to the matched allocation agreement that will apply during the period of the proposed extension; and~~

~~(d) be accompanied by a copy of the matched allocation agreement that will apply (or is proposed to apply) during the period of the proposed extension; and~~

~~(e) specify any parts of the application that the parties consider to be confidential, with reasons.~~

~~(12) AEMO must:~~

~~(a) publish an application under subclause (10), other than confidential information included in that application;~~

~~(b) determine, in accordance with the standard consultative procedure, whether and on what conditions (if any) to extend the period of registration; and~~

~~(c) in making that determination, take into account:~~

~~(i) whether the requirements of subclause (3) will continue to be met; and~~

~~(ii) whether the operational requirements of the parties could be met through the STTM; and~~

~~(iii) the operation of the arrangements under the matched allocation agreement over the previous period and their impact on other Trading Participants; and~~

~~(iv) the likely impact of the continued registration of the agreement on the STTM and other Trading Participants; and~~

~~(v) any other matter which AEMO has determined to be relevant, in accordance with the standard consultative procedure, 30 business days before the date on which an application under clause (10) is due.~~

In Schedule 1, Part 3:

(a) delete the definitions of **Jemena**, **matched allocation quantity** and **registered matched allocation agreement** from clause 13; and

(b) delete clause 27 in its entirety.

27 [not used]~~Exclusion of Matched Allocation Quantities~~

~~(1) Despite anything in rule 406, a Trading Participant is not required to include an expected matched allocation quantity in any ex ante offer, ex ante bid or price taker bid.~~

~~(2) An STTM facility operator must exclude from a quantity notified to AEMO under rule 414(1) for a gas day, any matched allocation quantity that the STTM facility operator expects to be supplied to the hub using the STTM facility on that gas day.~~

~~(3) An STTM pipeline operator that is a party to a registered matched allocation agreement must ensure that the allocation agent does not include any matched allocation quantity in an STTM facility allocation for the relevant STTM pipeline.~~

~~(4) If requested by AEMO, an STTM facility operator must provide a report to AEMO of the matched allocation quantities used under subclause (2) on a gas day or range of gas days.~~

~~(5) Within 30 business days after the end of each calendar quarter, each allocation agent referred to in subclause (3) must provide a report to AEMO of the matched allocation quantities determined for the relevant STTM pipeline on each gas day during that quarter.~~

