

SUBMISSION TO AEMC ON THE DRAFT DETERMINATION ON CHANGES TO NGR FOR BRISBANE STTM HUB (GRC007)

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FINAL

AEMO welcomes the Commission's draft determination on the rule changes proposed for implementation of the STTM at the Brisbane hub. AEMO notes that the Commission has broadly accepted the proposed changes, with improvements for clarification and greater effectiveness. AEMO also welcomes the Commission's acceptance of the fast tracking of the proposal to allow the rules to be finalised in time for the scheduled market start on 1 December 2011 and delivery of an important policy objective of governments.

In our submission on the Commission's draft determination, AEMO:

- notes three issues with the proposed drafting of changes, one which we draw to the attention of the Commission for a proposed minor drafting change of potentially important consequence;
- responds as requested by the Commission on the matter of gas day start timing, and provides further context on the issues involved;
- provides further elaboration on the context that led the request for a requirement in the rules for the AEMC to review gas day start timing.

1 Rule drafting

AEMO notes the following matters with the rules suggested in the Draft Determination:

- a) **Rule 364** Definition "modified market schedule quantity" – AEMO suggests that the definition in the Draft Determination be further amended. While the proposed further amendment is minor drafting change, not making it could potentially have significant consequences. The definition of modified market schedule quantity provided in the Commission's Draft Determination requires a trading participant's modified market schedule quantity to be calculated for each of the STTM distribution systems, and these may span hubs. A trading participant's modified market schedule quantity is calculated as one number for all the STTM distribution systems at a particular hub. Therefore, AEMO suggests replacing the words "each STTM distribution system" in part (b) with the words "all STTM distribution systems at a hub", as follows:

modified market schedule quantity means, for a Trading Participant and a gas day, the sum of that Trading Participant's market schedule quantities for:

- (a) a direction of flow on an STTM facility; or
- (b) ~~each~~-all STTM distribution systems **at a hub**,

adjusted by AEMO in accordance with this Part to take into account:

- (c) market schedule variations; and
- (d) allocations of MOS and overrun MOS; and
- (e) contingency gas offers and contingency gas bids scheduled by AEMO.

- b) **Rule 364** Definition "distribution contract" – AEMO suggests that the Commission consider a very minor addition to the rule recommended in its Draft Determination, for improved clarity and consistency with other revisions made by the Commission. The term "distribution system" is not a freestanding term in the NGR. It is primarily used as part of the defined terms "declared distribution system" or "STTM distribution system." Therefore, AEMO suggests the inserting the word "STTM" in part (a) as follows:

“**distribution contract** for an STTM distribution system means an agreement, which may consist of one or more instruments:

- (a) between an STTM distributor and another person under which the STTM distributor agrees to provide distribution services for that STTM distribution system to that other person; or
- (b) that is taken to be a distribution contract under rule 372A(3).”

c) **Rule 386** AEMO suggests that the Commission consider a further minor drafting amendment to the rule recommended in its Draft Determination, for improved clarity and ease of understanding. Rule 386 deals with the details of a trading right rather than the details of the underlying distribution or facility services. Information relating to the underlying services is dealt with by rules 381-4. As rules 381-4 deal with the start and end dates of facility and distribution services, AEMO suggests that the drafting of rule 386(b)(ii) and (iii) may be improved by the proposed further minor drafting amendments as shown below (in the conventional change-tracked format):

“386. If AEMO registers a trading right under this Division, AEMO must:

(a) register the contract holder (in the case of a trading right registered under rule 384) or the Trading Participant to whom the trading right has been granted (in the case of a trading right registered under rule 385) as the trading right holder of the trading right; and

(b) register the following details in respect of the trading right:

(i) the identifier for the registered facility service or each of the registered distribution services to which the trading right relates;

and

(ii) ~~if the trading right relates to a registered facility service,~~ the first and last gas days of the period for which the trading right applies; ~~and~~

~~(iii) if the trading right relates to one or more registered distribution services, the first and last gas days of each of the registered~~

~~distribution services to which the trading right relates;~~ and

~~(iv)~~ the capacity limit of that trading right for:

(A) in respect of a trading right that relates to a registered facility service, each gas day in the period referred to in paragraph (b)(ii); or

(B) in respect of a trading right that relates to one or more registered distribution services, each gas day from the earliest gas day registered under paragraph (b)(iii) to the latest gas day registered under paragraph (b)(iii); and

(iv) any other details AEMO considers necessary; and

(c) inform the trading right holder and (if the trading right holder is not the contract holder) the contract holder of the identifier and the registered details of the trading right; and

(d) in the case of an additional trading right registered under rule 385, reduce the registered capacity limit of the contract holder’s registered trading right for each gas day by a quantity equal to the capacity limit of that additional trading right for each such gas day.”

2 Gas Day Starting Time

2.1 Implications of Decision

In its Draft Determination, the Commission accepted the proposed gas day start time of 8:00am for the Brisbane STTM hub. The Commission noted that doing so “would also avoid the cost of uncertainty in delaying the start of the STTM at the Brisbane hub”.

The Commission also determined that “Allowing the STTM at the Brisbane hub to commence operation while retaining the existing time for the start of the Brisbane gas day would be likely to result in price benefits for consumers.”

AEMO welcomes this decision, and confirms that the delay would be costly and have significant implications for policy and reforms. At this time, requiring a gas day start time other than 8:00am would delay market start by nearly a year. This is due to the time that would be needed to undertake extensive changes and rework of various instruments, processes, systems, and contracts, and implementation of new infrastructure.

In addition, AEMO wishes to re-emphasise the point made in its Rule Change Request, that the costs involved in amending the gas day start time are ubiquitous and extend to parties not covered by the Brisbane STTM hub alone. Many members of industry in Queensland will incur costs from changing the gas day start time to other than 8:00am, as parties in the supply chain from production to consumer outside of the coverage of the STTM are also involved.

Retaining the status quo (i.e. gas day begins at 8:00am) minimises impacts on the wider Queensland gas sector for the implementation of the STTM. The direct costs and the value of unrealised benefits would be expected to be passed through to consumers, via contractual negotiations or access arrangement decisions. Therefore, the Proposed Rule Changes are consistent with the long term interest of consumers with regard to the price paid for gas.

2.2 Risk of market inefficiencies

The Commission has requested input on whether having different gas day timings across the STTM hubs is likely to give rise to materially inefficient market outcomes.

- a) AEMO does not believe this to be the case. The STTM is not a NEM, rather, a distinct set of separate gas hubs, governed by common rules and processes but operating independently with commercial and physical limitations to commodity trading between them. The STTM hubs are physically and commercially separated from each other, and further, located at the end of the supply chain in each state. Commercial arrangements on assets outside of the hubs will largely determine whether gas can be transferred between the hubs. Therefore, any analysis of potential trading opportunities between hubs must take into account the costs and requirements for transport of gas between the hubs, including in particular the contractual nature of these arrangements.
- b) Further, the proposed 8:00am gas day start for the Brisbane STTM hub aligns with the majority of gas transportation, production and supply arrangements in Queensland. This makes Brisbane equivalent to Sydney and Adelaide, where in each case, the relevant hub timings are aligned with arrangements in the rest of the state. Amending the Brisbane STTM hub gas day start time to align with southern hubs would therefore create an immediate disjoint between the Brisbane STTM hub and the gas supply arrangements in the rest of Queensland. This would create far greater likelihood of the market inefficiencies than would having different hub times.

AEMO considers that the priority should lie on setting the longer term policy for standardisation of gas timings alignment in the broader context of the entire gas industry in all participating

jurisdictions, as suggested in its rule change request for a review of gas day start and operational timings.

3 Proposed AEMC review of gas day start times

AEMO notes that the Commission recognises the value of the review of gas day start timings in its proposal for rule changes, but takes the view that including a requirement on it in the rules would reduce the flexibility of how it could undertake such a review. The Commission also noted that it would require that the MCE request that it undertake the review before it would be able to commence.

The rule change request was developed by AEMO in response to industry views on this review. The objective sought by industry in seeking to have a review undertaken by the AEMC and placed in the rules was to provide assurance that this important matter would be reviewed by the AEMC in an appropriate timeframe.

AEMO believes that a Final Determination by the Commission along the lines of its Draft Determination should go a long way to meeting this objective. AEMO notes that industry is able to initiate discussion on this matter through other means if it is not satisfied with progress by the AEMC. For example, one potential avenue for industry, if they so desire, could be to use AEMO's existing consultative forums for further discussion of standardised gas day timings.