



Australian Energy Market Commission

## CONSULTATION PAPER

# National Gas Amendment (STTM Data Validation and Price Setting Process) Rule 2011

**Rule Proponent(s)**  
AEMO

24 March 2011

RULE  
CHANGE

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## **Citation**

AEMC 2011, STTM Data Validation and Price Setting Process, Consultation Paper, 24 March 2011, Sydney

## **About the AEMC**

The Council of Australian Governments, through its Ministerial Council on Energy (MCE), established the Australian Energy Market Commission (AEMC) in July 2005. The AEMC has two principal functions. To make and amend the national electricity and gas rules - and to conduct independent reviews of the energy markets for the MCE.

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# 1 Introduction

On 9 February 2011, the Australian Energy Market Operator (AEMO) (Proponent) submitted a Rule change request to the Australian Energy Market Commission (AEMC or Commission) in relation to introducing a process to validate data that has been submitted to AEMO for the setting of schedules and prices in the Short Term Trading Market (STTM). This Rule change request is a response to the high price events in the STTM, which occurred towards the end of 2010.

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

This Consultation Paper:

- sets out a summary of, and a background to, STTM Data Validation and Price Setting Process Rule change request proposed by the Proponent;
- identifies a number of questions and issues to facilitate the consultation on this Rule change request; and
- outlines the process for making submissions.

## 2 Background

Towards the end of 2010, there were two high price events that occurred at the Sydney hub of the STTM. Specifically:

- On 8 October 2010, the ex post imbalance price was set at \$390/GJ leading to \$2.67 million in deviation charges due to erroneous STTM facility allocations submitted by APA for the Moomba to Sydney Pipeline (MSP);
- On 1 November 2010, the ex ante market price and capacity price were set at \$150/GJ respectively and the ex post imbalance price was set at \$400/GJ resulting in ex ante charges and payments of \$34 million, deviation charges of \$335 247, deviation payments of \$4.3 million and Market Operator Services (MOS) commodity payments of \$2 million. This was largely due to erroneous STTM facility operational capacity data submitted by APA for the MSP.

In response to these high price events, AEMO consulted with industry through the STTM- Consultative Forum (STTM-CF) to devise a workable approach to address these problems. On 21 December 2010, the Ministerial Council on Energy (MCE) wrote to AEMO concerning these high price events and sought urgent implementation of appropriate solutions to prevent the recurrence of these types of events.

AEMO initiated this Rule change request as a response to these high price events. In addition, AEMO will be implementing changes to the STTM Procedures and its STTM systems as a suite of responses to prevent the recurrence of these types of events.

## 3 Details of the Rule Change Request

### 3.1 Description and Rationale for the Rule change request

The Rule change request from the Proponent proposes to:

- bring forward the deadline for the submission of STTM facility operational capacity data to AEMO from 11:00am to 9:30am. This will give AEMO more time to validate the data and if the data fails validation, for STTM facility operators to confirm or resubmit this data. AEMO will then take this data as an input into the setting of the provisional and ex ante market schedules; and
- delay the deadline for AEMO to publish the ex post imbalance price from 12:00 noon to 4:00pm in circumstances where AEMO finds that the STTM facility allocation data have not met validation requirements. Where STTM facility allocation data have not met validation requirements, this gives STTM allocation agents the opportunity to confirm this data or resubmit this data back to AEMO.

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

- The problem that gave rise to this Rule change request arose from erroneous STTM pipeline facility data (that is, STTM operational capacity data and STTM facility allocation data). Therefore, this Rule change request is intended to implement a data validation process that minimises the impact of erroneous STTM pipeline facility data on the setting of prices in the STTM (that is, both the ex ante market schedule and the ex post imbalance price);<sup>1</sup>
- By minimising the impact of erroneous STTM pipeline facility data through the implementation of a data validation process, this is a measure that assists in ensuring that prices in the STTM reflect actual market conditions;<sup>2</sup>
- This Rule change request aims to promote investor confidence in the STTM and to minimise the risk of STTM participant failure;
- This Rule change request preserves price certainty while putting in place some protections against the incidence of erroneous STTM pipeline facility data.

The Proponent's Rule change request does include a proposed Rule.

The Proponent has requested that this Rule change request be assessed under an expedited Rule making process in accordance with section 304 of the National Gas Law (NGL) on the basis that it is a request for an urgent Rule. The NGL defines an urgent Rule as a Rule relating to any matter or thing that, if not made as a matter of urgency, will result in that matter or thing imminently prejudicing or threatening the effective

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<sup>1</sup> AEMO, Rule change request, p. 8.

<sup>2</sup> AEMO, Rule change request, p. 12.

operation or administration of a regulated gas market operated and administered by AEMO or the supply of gas. The STTM is defined as a regulated gas market.

The Proponent considers that:<sup>3</sup>

- The Rule change request addresses a material risk to the effective operation of the STTM. Namely, it prevents or minimises the risk of erroneous STTM pipeline facility data being used in the setting of STTM prices and thus promotes investor confidence, prevents inefficient wealth transfers and adverse financial impacts on trading participants, particularly market participant failure; and
- The Rule change request would address the risk of another high price event by ensuring that some protections are in place particularly before the onset of the first winter period in which the STTM will operate.

The Commission has decided to expedite the Rule change request (subject to written objections from stakeholders) under section 304 of the NGL on the basis that the Rule change request relates to an 'urgent Rule', which, if the Rule was not made, would threaten the effective operation or administration of the STTM.

### **3.2 Scope of the Rule change request**

The Commission considers that this Rule change request raises broader approaches on how to comprehensively address the problem of erroneous STTM pipeline facility data. These considerations would affect the requisite scope of this Rule change request.

However, given that this Rule change request is a request for an urgent Rule and the Commission acknowledges the need to put in place appropriate measures before the onset of the first winter period in which the STTM will operate, the scope of this Rule change request should be confined to an assessment of the solution specifically proposed by AEMO. That is, the Commission's assessment will focus on whether the measures proposed by AEMO contribute to the achievement of the National Gas Objective (NGO).

With respect to broader approaches on how to address this problem of erroneous STTM pipeline facility data, the Commission considers that these approaches should be considered by AEMO when it conducts its reviews regarding the identification of any improvements in the operation of the STTM. AEMO must complete its review of the operation of the STTM by 31 March 2012.<sup>4</sup>

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<sup>3</sup> AEMO, Rule change request, p. 11.

<sup>4</sup> Rule 489.

## 4 Assessment framework

The Commission's assessment of this Rule change request must consider whether the proposed Rule promotes the NGO as set out under section 23 of the NGL. The Commission's assessment focuses on whether the proposed Rule will or is likely to contribute to the efficient investment in, and operation of, natural gas services. In particular:

- Does the proposed Rule promote an efficient level of investment in and efficient operation of natural gas services?

## 5 Issues for consultation

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

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

### **Question 1      Effects of high price events**

**What were the effects (and the materiality of these effects) of the high price events on STTM participants?**

### **Question 2      Impact of AEMO's proposed solution**

**What is the impact of AEMO's proposed solution (as expressed in its Rule change request) on the market and on stakeholders? In particular:**

- **When presented with erroneous STTM pipeline facility data, AEMO's proposed solution involves resetting the inputs. Is this approach more preferable and less risky than resetting prices?**
- **AEMO's proposed solution involves changing the timing of setting the ex ante market schedule and ex post imbalance price. Does this adversely impact on any other related or consequential market processes?**
- **What are your views regarding the level of transparency in the proposed Rule in relation to the notification or publication of the information provided to or produced by AEMO?**

### **Question 3      Other measures or options**

**Are there any additional measures or options to the problem identified by this Rule change request?**

**Question 4      Civil penalty and conduct provisions**

**AEMO's proposed Rule proposes to classify some clauses as civil penalty and conduct provisions. Could you provide your view in relation to this classification?**

Civil penalty provisions are Rules for which an individual or organisation who breaches that provision is liable to receive a fine. The fine applies for the actual breach and its duration. The purpose of having a civil penalty is to encourage an individual or organisation to comply with the specific provision. If this is not possible, it will at least deter breaches or minimise their duration. The NGL and its regulations set out lists of provisions in the Rules that have civil penalty consequences.

Conduct provisions are Rules for which any person (including the Australian Energy Regulator (AER)) may institute civil proceedings in respect of a breach (under section 229 of the NGL). A person (other than the AER) who suffers loss or damage by conduct of another person in breach of a conduct provision may recover their loss or damage by action against the other person in a court (under section 233 of the NGL). The purpose of a conduct provision is to encourage compliance with a particular provision and provide a means for a party suffering loss or damage to seek redress.

## **6 Lodging a submission**

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

Written objections (with reasons) not to expedite the Rule making process must be lodged to the Commission by 7 April 2011. Submissions on the content of the Rule change request are to be lodged online or by mail by 21 April 2011.

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

Where practicable, submissions should be prepared in accordance with the Commission's Guidelines for making written submissions on Rule change requests.<sup>5</sup> The Commission publishes all submissions on its website subject to a claim of confidentiality.

All enquiries on this Rule change request should be addressed to Marc Tutaan or Rory Campbell on (02) 8296 7800.

### **6.1 Lodging a submission electronically**

Electronic submissions must be lodged online via the Commission's website, [www.aemc.gov.au](http://www.aemc.gov.au), using the "lodge a submission" function and selecting the project reference code ["GRC0008"]. The submission must be on letterhead (if submitted on behalf of an organisation), signed and dated.

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

### **6.2 Lodging a submission by mail**

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

Australian Energy Market Commission  
PO Box A2449  
Sydney South NSW 1235

Or by Fax to (02) 8296 7899.

The envelope must be clearly marked with the project reference code: GRC0008.

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<sup>5</sup> This guideline is available on the Commission's website.

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

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

## Abbreviations

AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
Commission	See AEMC
MCE	Ministerial Council on Energy
MOS	Market Operator Services
MSP	Moomba to Sydney Pipeline
NGL	National Gas Law
NGO	National Gas Objective
STTM	Short Term Trading Market