

MCE

Ministerial Council on Energy

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CHAIR
STANDING COMMITTEE OF OFFICIALS
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Mr John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Dear Mr ~~Pierce~~ ^{John}

I am writing to you in my capacity as the Chair of the Ministerial Council on Energy (MCE) Standing Committee of Officials (SCO), with regard to the Short Term Trading Market (STTM) for natural gas.

As you would be aware, on 20 May 2010, the Australian Energy Market Operator (AEMO) delayed the start of the STTM from 4 June 2010 to 1 September 2010, in order to resolve some market participant readiness issues. This decision was taken following consultation with the Gas Market Leaders Group (GMLG), market participants and governments. AEMO successfully addressed these issues through extending the Market Readiness Trial and the STTM commenced as planned on 1 September 2010.

During the development of the STTM, industry (through the GMLG) agreed to the prescription of six market reviews in the National Gas Rules (NGR), with the first review to be completed by 31 December 2010. In light of the delay to market start, carrying out these reviews in accordance with the currently-prescribed timetable will not allow sufficient time for AEMO to conduct the required consultation process and adequately review the operation of the market.

In addition, the intent behind the originally prescribed timing of the first review was to ensure that a review of market performance was undertaken following the initial winter peak demand period. With the market commencing on 1 September 2010, the first winter period of operation will now not be completed until August 2011. AEMO has undertaken consultation with industry through the newly established STTM Consultative Forum (STTM-CF) and the GMLG to address this issue.

As a result of this consultation, AEMO proposes that the first three STTM reviews be consolidated for completion by 31 March 2012, allowing sufficient time to collect and analyse market data from a full winter period and two summer periods. The SCO has been advised by AEMO that industry, through consultation undertaken with the STTM-CF and GMLG, supports this proposal.

The SCO reviewed this proposal at its 27 August 2010 meeting and supports AEMO's proposition to combine the first three STTM reviews, to be completed by 31 March 2012. The SCO believes that AEMO's proposal is consistent with the original policy intent that the reviews are designed to evaluate market performance following the initial peak winter period and the subsequent full year of operation. The SCO understands that the absence of a formal review of the Sydney and Adelaide hubs before the implementation of the Brisbane hub will not prevent AEMO from incorporating improvements or lessons learnt from STTM operation

MCE Secretariat

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into the Implementation Plan for the Brisbane hub and has sought a formal undertaking from AEMO to ensure such improvements are included. Additionally, the SCO understands that the consolidation of the first three review dates does not prevent market issues at the Sydney and Adelaide hubs from being addressed through a rule change proposal if they arise.

If you would like to discuss this matter further with my Department, the relevant contact is Dr Chris Locke, General Manager of the National Energy Market Branch (02 6276 1512, chris.locke@ret.gov.au).

Yours sincerely



Drew Clarke
Chair, MCE Standing Committee of Officials

10 September 2010