

Improving competition for Market Operator Services (MOS)

Final rule determination for MOS – Timing and Eligibility

The Australian Energy Market Commission (AEMC) has made a final rule that aims to facilitate greater competition in the provision of MOS in the Short Term Trading Market (STTM) for gas. Competition may be enhanced through lower barriers to entry for potentially a greater number of MOS providers, which also has the potential to increase MOS liquidity in the STTM.

Final rule determination

The AEMC has made a more preferable rule that amends the eligibility requirements for MOS providers, and changes the frequency that MOS offers are sought from the market.

The final rule largely adopts the changes proposed by the Australian Energy Market Operator (AEMO). These include:

- reducing the MOS period to one month in the National Gas Rules (NGR);
- broadening MOS provider eligibility requirements to include trading right holders; and
- maintaining a requirement for AEMO to notify the market of an upcoming MOS period.

The final rule also requires AEMO to determine the time frames associated with the MOS offer process through its STTM Procedures (Procedures) change process.

The final rule will commence on 1 April 2014, with the new monthly MOS period in effect from 1 June 2014.

MOS period

Prior to this rule change, AEMO invite and receive MOS offers from eligible trading participants every three months (the MOS period). AEMO collates all valid MOS offers into a price stack that applies to any MOS required over that period. In order for a trading participant to determine the amount of MOS they can offer, they need to be able to accommodate a range of possible gas demand scenarios for the MOS period. This may limit the volume of pipeline capacity that a trading participant chooses to allocate to MOS.

The final rule, which reduces the MOS period to one month, will allow trading participants to adjust their MOS offers more frequently and in line with their expectations regarding gas demand.

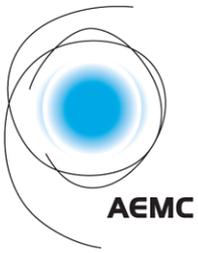
The final rule also specifies that the MOS period is defined in the NGR (previously in the Procedures). This means that any future changes to the MOS period will need to be determined through a rule change process. This reflects the Commission's view that the MOS period is a critical market parameter that has the potential to financially and operationally impact on trading participants.

Broadening eligibility requirements

Prior to this rule change, the provision of MOS is limited to 'eligible contract holders'. These are entities that hold contracts with an STTM pipeline facility operator.

The final rule broadens the eligibility requirements for MOS providers to include 'trading right holders'. Typically, these are gas shippers (or wholesalers) and end-users who, under the new arrangements, will be able to sub-contract with eligible contract holders for pipeline capacity and also provide MOS. This change reflects similar arrangements that are in place in the ex-ante gas market.

Lowering the barriers to entry for trading participants to provide MOS is likely to increase competition between incumbent and new-entrant MOS providers. In combination with a monthly MOS period, these changes to the NGR have the potential to increase liquidity of MOS and place downward pressure on MOS prices.



INFORMATION

What is MOS?

MOS is an on-the-day mechanism to balance pipeline deviations. It is calculated as the difference between the final nominations received by pipeline operators and the actual quantity of gas supplied to the STTM hub by that pipeline operator. If there is a difference between these two, then MOS is deemed to have provided the gas.

MOS is managed by AEMO through supply arrangements established with MOS providers that have the capability to increase/decrease gas flows to manage daily pipeline deviations.

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