



Contingency gas evidentiary changes

Commencement of consultation on draft determination

The AEMC has made a draft rule to provide greater flexibility in how trading participants can structure their bids or offers for providing contingency gas in the Short Term Trading Market (STTM), and to clarify the Australian Energy Market Operator's (AEMO's) ability to request evidence from trading participants following a contingency gas trigger event.

These changes to the National Gas Rules (NGR) would improve incentives for trading participants to efficiently supply and price contingency gas in the STTM.

The Commission's draft determination

Contingency gas can be considered as an emergency mechanism that AEMO may call on to balance physical supply and demand at a STTM hub if normal STTM mechanisms are unlikely to achieve this balance. To date contingency gas has never been scheduled by AEMO.

The Commission's draft rule seeks to provide greater flexibility in how trading participants can structure their bids or offers for providing contingency gas in the STTM, and clarifies AEMO's ability to request evidence from trading participants following a contingency gas trigger event.

The Commission's draft determination has been made in response to a rule change request submitted by AEMO to facilitate changes to the process for confirming and settling contingency gas.

Details of the draft rule

The draft rule is broadly similar to AEMO's proposed rule, but provides greater clarity in relation to the purposes for which AEMO can request evidence from trading participants following a contingency gas trigger event. If the Commission's draft rule is made, AEMO may need to undertake further stakeholder consultation on proposed changes to the STTM Procedures that it has previously considered.

There are three main components to the draft rule:

- The confirmation of price steps for contingency gas;
- Evidentiary requirements following a contingency gas trigger event; and
- Additional issues.

Confirmation of providing contingency gas

Under the NGR, if a contingency gas trigger event occurs indicating that forecast supply and demand are unlikely to be balanced, AEMO may undertake a process to request and confirm bids or offers for providing contingency gas from trading participants. Currently, trading participants can only confirm or revise the total quantity of a contingency gas bid or offer, rather than the quantity at each price step within a bid or offer.

AEMO considered that this creates trading risks for participants as a participant may bear the cost of a lower price if a specific source of gas is linked to a particular price step and that gas is no longer available at the time of the bid or offer confirmation stage. AEMO suggested that to mitigate this risk, the trading participant may inflate its prices for providing contingency gas or not make the gas available.

The draft rule would address this risk by enabling trading participants to confirm or revise the quantity of each price step within a contingency gas bid or offer, and require participants to do so in good faith under existing requirements in the NGR. This would

provide trading participants with greater flexibility to better reflect the prices of different sources of contingency gas, and greater certainty of being paid at least their bid or offer price. This in turn may encourage the efficient provision and pricing of contingency gas to alleviate constraints in times of emergency in the STTM.

Evidentiary requirements following a contingency gas trigger event

Trading participants are currently paid for contingency gas as scheduled. To account for the contingency gas that was delivered, STTM Users are currently required to provide evidence to AEMO of the quantity of contingency gas that they delivered.

AEMO proposed changes to the evidentiary requirements following a contingency gas trigger event to facilitate the resettlement process for contingency gas. In particular, AEMO considered that all trading participants, rather than only STTM Users, should be subject to the evidentiary requirements. AEMO also considered that the evidence currently required is insufficient and unclear for resettlement as AEMO is unable to determine whether a trading participant's contingency gas was provided at the required time to alleviate the contingency gas event.

The draft rule would require all trading participants to be subject to the same evidentiary requirements following a contingency gas trigger event, and require AEMO to include the details of the evidence required in the STTM Procedures. To facilitate the resettlement process, AEMO would be required to determine the amounts payable for contingency gas after considering evidence of the quantity of gas provided by trading participants. The scope of the evidence AEMO could request from trading participants would be limited in the NGR to: evidence AEMO requires to determine whether contingency gas was provided as scheduled to enable AEMO to resettle; and to assist AEMO's reporting on contingency gas trigger events.

The AEMC considers that the draft rule would provide: greater certainty to trading participants in relation to what the evidence will be used for and what can be requested from them; greater transparency in the process for the resettlement of contingency gas; and more confidence for trading participants that they are only paying for contingency gas that has been delivered. This may in turn encourage market participation during contingency gas events and promote the efficient provision and operation of contingency gas.

Additional issues

AEMO is currently required to publish a report on contingency gas trigger events within 30 business days after an event. The draft rule would enable AEMO to extend the timeframe for its contingency gas trigger event reports by up to a further 30 business days if needed to allow it to receive and consider evidence. This would improve the transparency, accountability and comprehensiveness of AEMO's reporting.

The draft rule would also correct minor drafting errors which incorrectly associate "STTM storage facilities" with STTM Users in rules 435 and 436 of the NGR.

Consultation on the draft determination

Stakeholders are invited to provide submissions in response to the draft determination and draft rule by **26 March 2015**.

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