

31 January 2013

Mr John Pierce
Chairman
Australian Energy Market Commission
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FROM THE OFFICE OF THE
CHIEF EXECUTIVE OFFICER

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Dear Mr Pierce

Supplementary Submission – Market Operator Service Timing and Eligibility

On 22 June 2012, AEMO submitted a rule change request to make amendments to the NGR with regards to the timing of when Market Operator Service (MOS) offers are due and who is eligible to offer MOS in the Short Term Trading Market (STTM).

AEMO has conducted further analysis on the current requirements to administer MOS offers and noted that further amendments should be made to NGR 402(1), which manages the additional requirements for MOS stacks. The additional rule amendment proposal is within the scope of the original rule change request and is essential to achieve the intended objective of extending MOS provision to STTM Shippers.

A statement of the issues concerning the original rule change request and how the proposed Rule contributes to the achievement of the National Gas Objective is provided at Attachment A.

AEMO would be pleased if you could have these matters considered by the AEMC. For further details, please do not hesitate to contact Arlyne Yuliana on (03) 9609 8477 or myself on (03) 9609 8520.

Yours sincerely



Terry Grimwade
Group Manager Market Development

Attachment A: Supplementary Submission to STTM MOS Timing and Eligibility

Supplementary Submission to Market Operator Service (MOS) Timing and Eligibility Rule Change Request (AEMC Reference: GRC0016)

1 Summary

On 22 June 2012, the Australian Energy Market Operator (AEMO) submitted a rule change request relating to the MOS timing and eligibility in the Short Term Trading Market (STTM) to enhance efficiency and competition in the delivery of this service.

On 13 September 2012, The Australian Energy Market Commission (AEMC) started a public consultation on the rule change request, and has given notice to extend the period for the making of the draft rule determination to 28 February 2013.

AEMO has conducted further analysis on the current National Gas Rules (NGR) requirements to administer MOS offers and noted that the rule change to extend MOS provision to any STTM shipper may have undesirable implications for AEMO's obligation to manage an invalid MOS offer.

To achieve the intended objective of MOS Timing and Eligibility rule change request, AEMO further proposes that NGR 402(1) should be amended to only remove the affected price-quantity MOS steps from the MOS stack when managing an invalid MOS offer, rather than removing the full MOS offer.

2 Issue with Original Rule Change Request

On 22 June 2012, AEMO submitted a rule change request to make amendment to the NGR to:

- move certain provisions dealing with the timing aspects of the MOS offering process from the NGR to the STTM Procedures, and
- broaden the eligibility for MOS provision in the STTM from eligible contract holders to any STTM Shipper.

Under the proposed rule change, a MOS offer submitted by an STTM Shipper may now consist of various MOS contract arrangements for each of the price-quantity MOS steps. Each of these MOS contract arrangements may be linked to different registered facility services.

AEMO has conducted further analysis on the current requirements to administer MOS offers and noted that, should a registered facility service cease to be available during the MOS period, under NGR 402(1) AEMO would have to remove the full MOS offer that belongs to the STTM Shipper

when revising the MOS stack. This may result in AEMO removing the entire MOS offer which has valid price-quantity MOS steps from the MOS stack, thereby reducing the available amount of MOS quantity for the STTM facility for the remainder of the MOS period.

Therefore, AEMO proposes this supplementary submission as described in the following section.

3 Proposed Solution and Rule

AEMO proposes that further amendments should be made to NGR 402(1) which manages the additional requirements for MOS stacks. The proposed revisions will ensure that only the affected MOS steps are removed from a MOS stack when managing an invalid MOS offer.

The additional rule amendment proposal to manage an invalid MOS offer will align with the intended objective of extending MOS provision to any STTM Shipper, which is to increase the potential numbers of MOS suppliers through extending MOS provision to any STTM shippers and thereby increase the competition for the supply of MOS. This is expected to lead to more efficient pricing of MOS offers and more efficient use of pipeline services, which is likely to contribute to the National Gas Objective (NGO):

... to promote efficient investment in, and efficient operation and use of, natural gas services for the long term interests of consumers of natural gas with respect to price, quality, safety, reliability and security of supply of natural gas.

The proposed solution was presented to the STTM Consultative Forum (STTM-CF) on 18 December 2012 and the STTM-CF supported the proposal to further amend the rule. Furthermore, AEMO circulated the proposed rule change to the STTM-CF on 16 January 2013 for review.

The proposed rule amendment will require changes to AEMO's market systems and there will be an approximate cost of \$5,000 to be added to the initial cost estimation specified in the MOS timing and eligibility rule change request.

A draft of the proposed rule has been included in Appendix A.

Appendix A: Draft Rule

This draft is based on version 12 of the National Gas Rules.

It is noted that strikethroughs in red represent deletions to the NGR as a result of the Rule change and insertions are represented by text in blue underline.

Part 20, Division 6 – Market Operator Service

402 Additional requirements for MOS stacks

(1) If AEMO is notified:

- (a) ~~by an eligible contract holder~~ under rule 399(5) that the condition set out in rule 399(2) is no longer satisfied in relation to a MOS increase offer or MOS decrease offer;
- (b) ~~by a contract issuer~~ under rule 395(2) that a registered facility service referred to in a MOS increase offer or MOS decrease offer has ceased or will cease to be available to the relevant contract holder during the MOS period; or
- (c) ~~by an allocation agent~~ under rule 421(6) that an allocation agent ~~it~~ has not allocated MOS to the contract holder associated with a registered facility service referred to in a price step of a MOS increase offer or MOS decrease offer ~~submitted by the relevant contract holder,~~

AEMO must:

- (d) if ~~the a~~ notification is received prior to the publication of the MOS stack for the MOS period in respect of which the relevant ~~contract holder~~ STTM Shipper submitted the MOS increase offer or MOS decrease offer:
 - (i) in the case of a notification received under paragraph (a) - disregard that MOS increase offer or MOS decrease offer and not include it in any MOS stack; or
 - (ii) in the case of a notification received under paragraph (b) - disregard the MOS quantities associated with the relevant registered facility service; and
- (e) if ~~the a~~ notification is received after the publication of the MOS stack that includes the MOS increase offer or MOS decrease offer:
 - (i) in the case of a notification received under paragraph (a) ~~or (e)~~ – promptly determine a revised MOS stack in accordance with rule 401(1), but disregarding ~~any MOS quantity previously included in respect of~~ that MOS increase offer or MOS decrease offer; or
 - (ii) in the case of a notification received under paragraph (b) – before the gas day on which the relevant registered facility service ceases to be available, determine a revised MOS stack in accordance with rule 401(1), to be effective from the gas day on which that registered facility service ceases to be available, but disregarding the MOS quantities any MOS quantity previously included in respect of ~~associated with that registered facility service; or MOS increase offer or MOS decrease offer.~~
 - (iii) in the case of a notification received under paragraph (c) – promptly determine a revised MOS stack in accordance with rule 401(1), but disregarding the MOS quantities associated with that registered facility service.

Appendix B: Current NGR Requirements

Rule 396 defines MOS increase offer, MOS decrease offer and MOS quantity as follows:

- **MOS increase offer** means an offer made by an eligible contract holder in accordance with rule 400 to provide MOS by increasing the quantity of natural gas supplied or decreasing the quantity of natural gas withdrawn by that eligible contract holder.
- **MOS decrease offer** means an offer made by an eligible contract holder in accordance with rule 400 to provide MOS by decreasing the quantity of natural gas supplied or increasing the quantity of natural gas withdrawn by that eligible contract holder.
- **MOS quantity** means the maximum quantity of MOS, as specified in a price step of a MOS increase offer or MOS decrease offer, which the person who submitted that MOS increase offer or MOS decrease offer is willing to provide at the price specified in that price step.

Rule 400(4) requires a MOS increase offer or a MOS decrease offer to comply with the requirements set out in the STTM Procedures.

STTM Procedures section 5.4 defines a MOS increase offer or a MOS decrease offer as a set of (at least one and up to ten) price-quantity steps submitted by a trading participant for an STTM pipeline for a MOS period.

Rule 402 sets the additional requirements for AEMO to manage and determine a revised MOS stack if AEMO is notified by:

- by an eligible contract holder under rule 399(5) that they do not meet the conditions set out in rule 399(2) to offer MOS under rule 402(1a);
- by a contract issuer under rule 395 that a registered facility service referred to in a MOS increase offer or a MOS decrease offer has ceased or will cease to be available to the relevant contract holder during the MOS period under rule 402(1b); or
- by an allocation agent under rule 421(6) that it has not allocated MOS to a price step of a MOS increase offer or MOS decrease offer submitted by a relevant contract holder under rule 402(1c).

If the notification is received prior to the publication of MOS stack for the MOS period in respect of which the relevant contract holder submitted the MOS increase offer or MOS decrease offer, rule 402(1d) requires AEMO to disregard that MOS increase offer or MOS decrease offer and not include it in any MOS stack.

If the notification is received after the publication of the MOS stack that includes the MOS increase offer or MOS decrease offer, rule 402(1e) requires AEMO to:

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- in the case of a notification received under rule 402(1a) or 402(1c) above, determine a revised MOS stack by disregarding any MOS quantity previously included in respect of that MOS increase offer or MOS decrease offer; or
 - in the case of a notification received under rule 402(1b) before the gas day on which the relevant registered facility service ceases to be available, determine a revised MOS stack to be effective from the gas day on which that registered facility service ceases to be available, by disregarding any MOS quantity previously included in respect of that MOS increase offer or MOS decrease offer.

Glossary

Term or Abbreviation	Explanation
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
DWGM	Declared Wholesale Gas Market
GWCF	Gas Wholesale Consultative Forum
MCE	Ministerial Council on Energy
MMS	Metering Management System
MSOR	Market and System Operations Rules
NGL	National Gas Law
NGO	The National Gas Objective as stated in section 23 of the NGL
NGR	National Gas Rules
STTM	Short Term Trading Market